PARTICIPANTS

Corporate Participants

Neal H. Goldner – Vice President-Investor Relations, Avis Budget Group, Inc.
Ronald L. Nelson – Chairman, President, Chief Executive Officer & COO, Avis Budget Group, Inc.
David B. Wyshner – Chief Financial Officer and Senior Executive Vice President, Avis Budget Group, Inc.

Other Participants

John M. Healy – Analyst, Northcoast Research Partners LLC
Christopher Agnew – Analyst, MKM Partners LLC
Afua A. Ahwoi – Analyst, Goldman Sachs & Co.
Adam Jonas – Analyst, Morgan Stanley & Co. LLC
Michael Millman – Analyst, Millman Research Associates
Brian Arthur Johnson – Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

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

Neal H. Goldner, Vice President-Investor Relations

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

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

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

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

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

Ronald L. Nelson, Chairman, President, Chief Executive Officer & COO

Thank you, Neal and good morning. Well, we had a busy, but successful quarter. Results came in a little better than expected highlighted by positive demand in most markets, challenging economic conditions in Europe, and year-over-year pricing gains in North America that helped to offset increased fleet costs. We also repurchased an additional $50 million of our outstanding convertible debt reducing our diluted share count by more than 3 million shares. Today, we've reduced our diluted share count by over 16 million shares or 13% through our convertible debt repurchases and we announced and completed the acquisition of Zipcar, which makes us the leading provider of car sharing services, but more about Zip in a moment.

It should go without saying that the one highlight that was particularly encouraging was the positive pricing trends we discussed on our last earnings call. The trends we talked about in February continued throughout the balance of the quarter. To put a final point on it, North America pricing increased 4% year-over-year and we got there with leisure pricing up 8% and commercial pricing flat. This is even more impressive when you consider the roughly 60% of our commercial volume that as contracted business had pricing that was down 1% year-over-year.

I think the price increases we experienced in the quarter reflect several factors. First, we were aggressive in our approach to pricing, leading rate increases on six different occasions in the first quarter. Second, fleet levels industry-wide appeared to be generally in line with demand in North America. Third, with Hertz's acquisition of Dollar Thrifty, the basis of competition in our industry has become better balanced between service and price than it has been in recent years. And fourth, our strategic initiatives to grow volumes in more profitable segments and to de-emphasize less profitable channels positively impacted our pricing.

More important is that we continue to be encouraged by the direction of pricing. We've continued to implement price increases throughout April and May in both brands for daily, weekend, and weekly rentals and we're continuing to deliver against our strategies to grow our higher priced, higher margin business.

However, if history is a guide the entire industry will likely be somewhat over-fleeted relative demand in the second quarter as we all in-fleet cars to meet the summer demand peak. As a result, I don't expect the 4% year-over-year increase we saw in the first quarter to repeat itself in the second. But I am cautiously optimistic that we will see some year-over-year increase.

Our average pricing in April was unchanged and would have been up over 1% if you exclude the Easter volume that shifted into March this year. And pricing for reservations we're currently holding for the balance of the quarter is in the higher end of 1% to 2% range which is encouraging. As we move toward late June we expect that fleet levels will tighten up as demand catches up to the seasonal up-fleeting in the industry. It's too soon to say how summer pricing will shape up, but we are hopeful that the four factors that drove our pricing in the first quarter will be evident during the summer.

But while leisure pricing appears to be trending in the right direction, we also need some rate relief on our contracted commercial business, which is compounded now for the last four years at minus 2%. Getting to flat this quarter was driven by small business in mid-market channels since they tend to reflect more of what's happening at leisure pricing. The contracted commercial was still showing a decline and to turn this around we are looking at tweaking our approach in the hope of achieving more balance. First, for as long as I can remember we've been touting our 98% to 99%

commercial renewal success, yet for the last three years that success has come with a price, that of contracting for a lower rate for a multiyear period.

As you've heard me say in the past, that begs the question of whether 99% retention really should be the goal, or whether the modestly lower retention rate will drive higher renewal pricing and in turn lead to better margins profitability. So we're looking for the right opportunities to test that theory this year.

Second, where new commercial accounts come up for bid, we're going to ask ourselves why we're being invited to submit a proposal. Clearly, when the answer is an issue with the competitor's service that's a situation where there may be a good opportunity for us. But in situations where we feel like the proposal is unlikely to yield profitable business, we'll be taking a pass.

And third, we've adjusted our incentive plans for our commercial sales force with profitability now playing a greater role in their bonus calculations. Thus far we think the change is paying off. Of the more than 100 commercial accounts that we've renewed in the month of March 60% did sell at the same or higher rates, a significant improvement from prior periods. As a result, we're optimistic that these changes we've made with respect to commercial pricing will further support our price growth objectives.

In short, we need to take greater advantage of the value of incumbency in our commercial account base, especially in cases where the service proposition we deliver is at odds with the profits we earn.

As encouraging as these recent price trends are, our North America segment had several other bright spots in the first quarter. Revenue increased 6% with our strategic focus on faster growing, more profitable segments once again paying dividends. To list a few, our focus on driving cross border travel led to a 10% increase in international inbound revenue. The customer acquisition model we implemented in 2009 drove a 7% increase in small business revenue. Our revenue from high margin specialty and premium vehicles grew 20% in the quarter and our sales in ancillary products and services once again increased faster than volume.

We also saw good growth in our local market operations. Off-airport general-use rental revenue increased 7% in the quarter. There's no question that having dual branded more than 50% of our local market footprint into combined Avis Budget stores have substantially increased contribution margin from these rentals, well beyond what it was just a few short years ago.

In our International segment, volume increased 2%, reflecting 8% growth in Latin America, Asia-Pacific, and flat year-over-year growth in EMEA. Volume in Europe would have increased 3% excluding our decision to walk away from certain non-profitable insurance replacement transactions. Meanwhile, our initiative to expand our presence in the value segment of the European market continued to bear fruit with Budget volumes up over 60%.

Avis volume declined 4%, but was unchanged when you factor out the insurance replacement business we jettisoned reflecting modest growth in leisure volumes offset by soft corporate demand. Pricing in Europe declined 3% in part due to the strong growth at Budget at its lower price points and in part due to the soft corporate demand at Avis. This was partially offset by increased sales of high margin ancillary products. Interestingly the markets that were weak last year Italy and Spain seemed to have stabilized thus far in 2013, while France and the UK continued to show some signs of weakness. Germany, which was the lone moderately strong performer last year, has softened this year in line with its softening economy.

We continue to execute on those items we can control in Europe and took important steps that will enable us to hit our goal of generating an incremental $55 million to $75 million in synergies by 2015. These include opening our new Budapest shared service center in the first quarter, which doubled our capacity there and enabled us to move more back office functions to this lower cost location over time.

Moving to a consolidated outsourced European data center, which will enable us to better leverage of scale to lower costs as well as improve productivity. Consolidating our operations in France, Belgium, Luxembourg, and Holland into a new western region and combining our operations in Italy, Spain, and Portugal into a new southern region. We're gaining efficiencies in the process while increasing the spans of control of some of our best managers. Training over 1400 of our European counter-sales reps to more effectively sell ancillary products and services, which in the first quarter helped drive nearly 20% growth in vehicle upsells on the ancillary revenue per rental day.

As a side, we also launched roadside safety net in Spain during the quarter, a product we've had considerable success with in North America. And consistent with our strategic initiative to expand our global footprint, we acquired Budget licensees in Belgium and Luxembourg, countries where we previously operated only the Avis brand directly.

Switching to our operations in Latin America and the Asia Pacific region, we saw 8% volume growth driven by the acquisition of Apex Car Rentals. As a reminder, we acquired Apex late last year giving us the leadership position in New Zealand's deep value car rental market. At the time of the acquisition, Apex's only Australian location was Brisbane. Since then we've expanded the brand to Melbourne and Cairns, and we plan to open in the Gold Coast and Sydney by the end of the year.

So, let me segue to Zipcar and talk a little bit about some of our plans as well as the important strides we have already made towards further enhancing the member experience. Within five days of closing the transaction, we made Zipcar available at the three major New York City airports, JFK, LaGuardia, and Newark. Based on member feedback, we'll be expanding Zipcar to an additional eight airport locations this month with plans to add additional airports by the end of the year.

We're also expanding Zipcar to new markets with plans to add several more cities by the end of the year. We've started equipping some Avis Budget fleet with Zipcar's technology and should have more than 1,000 cars outfitted by the summer. This will allow us to deploy Avis vehicles that are underutilized on the weekend to fulfill previously unmet demand of Zipcar. We also plan to begin testing one-way rentals in the summer a benefit Zipcar doesn't currently offer their members. And finally, based on the inquiries we received from commercial customers about putting Zipcar on their corporate campuses, we think there maybe even more opportunity to naturally extend the brand beyond what was originally envisioned.

These opportunities all add revenue and profits while enhancing the Zipcar experience and the ones that we're particularly excited about. We have already begun to reduce Zipcar's non-customer facing cost base and to integrate fleet acquisition and disposition activities to allow Zipcar to leverage our scale. As a result of all these opportunities, we remain confident with the $50 million to $70 million of annual synergies is achievable within two years.

Looking ahead, in North America we continue to expect year-over-year volume growth to be in the same range as the last few years either in line with or a few points ahead of enplanements. We'll maintain our focus on the fastest growing and most profitable segments particularly international inbound, small business, specialty and premium car classes, and general-use off-airport rentals. And we'll also continue to drive reservations to our most profitable booking channels, expand our prepaid rentals, and increase the availability of our Avis Select & Go vehicle choice service.

At our International segment, we continue to expect EMEA rental volumes to increase this year benefiting from the rapid growth of the Budget brand and the new corporate accounts we signed last year. Easter travel trends have often been a meaningful predictor of the summer and we saw encouraging results this year with pricing up 5% as we took the opportunity to yield up during the strong travel demand period.

We also know that we took too many low priced early reservations last summer especially with the Budget brand and expect to take full advantage of the opportunity to capture a greater portion of the higher yielding summer volume. But it's equally clear that our progress in Europe will continue to be masked to some extent by the economic weakness there, as well as by the costs that we have elected to incur in order to enhance not only our competitive position in the market, but the operational leverage of our business when the economy turns.

In our Latin America, Asia-Pacific region, with the year's seasonal peak already behind us in most markets, we'll focus on mitigating some of the pricing challenges we experienced especially in Australia and on delivering against our strategic objectives. We continue to look to broaden Apex's presence in Australia, add resources to accelerate our growth in China, and rollout initiatives to drive high margin international inbound and outbound revenue throughout the region.

So for these reasons and more, I feel very good about our ability to continue to grow rental volumes and revenue this year. In addition, we continue to have confidence in our ability to achieve the $1 billion or more in adjusted EBITDA by 2015. A projection to which you can now add the growing contribution that we expect Zipcar to provide over time.

Finally, just a moment on cash flow. Over the last five years, we've generated $1.3 billion of free cash flow and we expect to generate around $300 million of free cash flow this year. We frequently get the question from many of you about what we plan to do with this cash, so let me reiterate our strategy.

One, we would like to see our net leverage move back down to around three times. We ended the first quarter at 3.4 times but we have little ambition at this juncture to see it get much below the 2.5 times to 3 times level on anything other than an interim basis.

Two, we will continue to look for tuck-in acquisitions that will improve our strategic position, have meaning synergy opportunities, and can be done at attractive valuations. The acquisition of Zipcar, Apex, and our Budget licensees in Belgium and Luxembourg are examples of acquisitions that meet these criteria.

And three, since we believe strongly in our growth prospects, share repurchases represent an attractive use of our cash flow. We will continue to weigh these opportunities relative to one another considering both market conditions and our cash flow as the year progresses.

And with that, I'll turn the call over to David.

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

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

The first quarter marked our 11th consecutive quarter of year-over-year revenue growth with our top line increasing 4% to $1.7 billion principally as a result of higher volume, improved year-over-year pricing in North America. Adjusted EBITDA declined to $93 million primarily due to the difficult operating environment in Europe and our ongoing efforts to reposition our truck rental business. Trailing 12-months adjusted EBITDA now stands at $814 million. For those analysts who calculate

EBITDA before deferred financing fees and stock-based compensation, our trailing 12-month adjusted EBITDA would be $39 million higher or more than $850 million.

In the quarter, revenue in our North American segment increased 6% driven by 4% growth in pricing and 1% growth in volume. I should also note that the first quarter had one less day compared to the prior year due to 2012 being a leap year and this had a negative impact on volume comparisons of just over a point. Zipcar contributed $14 million to revenue and $1 million to adjusted EBITDA in the first quarter. Excluding Zipcar, leisure pricing increased 8% in the quarter, the strongest year-over-year improvement since the recession while leisure rental days were unchanged. As a reminder leisure rental volume increased 13% in first quarter 2012, so this year's volume comparison was very difficult.

We also saw good growth in our commercial business in the quarter with volume up 3% and pricing unchanged. Growth in small business rentals helped offset declines in contracted commercial pricing as we continued to focus our efforts on growing in the most profitable segment. North America adjusted EBITDA of $93 million was unchanged from the prior year despite a 28% increase in per unit fleet cost that was consistent with our expectations. Adjusted EBITDA benefited from positive pricing and volume growth, higher ancillary revenues, a more than 200 basis point decline in direct operating and SG&A expenses as a percentage of revenue and significantly lower vehicle interest cost.

In our International segment, revenue increased 1% in the first quarter driven by an 11% increase in ancillary revenues. Ron already covered our international volume and pricing trends by region. International adjusted EBITDA declined $12 million from the first quarter. Apex contributed $5 million to adjusted EBITDA in its seasonally strong first quarter and synergies in our European operations also made a significant contribution year-over-year. But these positives were not enough to offset the effects of lower pricing, and temporary duplicative staffing related to integration activities, and bad debt expense resulting from a significant travel agency bankruptcy in Spain.

As we discussed in our last call, the economic backdrop in Europe remains inordinately weak, which is impacting rental volumes, price, and vehicle residual values. We have been moving aggressively to try to mitigate the effects of these challenges and amid all of this the integration of Avis Europe continues to proceed well.

Just as much of the substantial progress we're making with our European business continues to be overshadowed by the macro economic climate. We firmly believe that the work we are doing to reduce Avis Budget EMEA's fixed cost base into streamline operations will put us in position to drive substantially higher profits from our European operations when the economy there ultimately does recover.

Revenue in our Truck Rental segment was up 1% as a 4% increase in pricing and higher ancillary revenues more than offset a 3% decline in volume. Adjusted EBITDA declined $6 million primarily due to higher maintenance, insurance, and fleet cost. As we've previously discussed the results in our Truck Rental segment will reflect costs we're incurring to reposition this business, which over time will include a reduction in our fleet size. This strategic repositioning will impact reported results for this segment for much of 2013 as well.

I should also note that costs reported in corporate and other increased this quarter. This increase primarily represents a better segmenting of our corporate level costs that benefit multiple regions in segments not new costs. We expect to see $4 million to $6 million in year-over-year increases in corporate and other expense in each of the quarters of 2013.

Moving now to Zipcar, as Ron discussed we acquired Zipcar, the world's leading car sharing network on March 14. On a pro forma basis Zipcar generated revenue of $65 million an increase of 10% compared to the prior year. Zipcar had 792,000 members at quarter end, a 12% increase versus the prior year. In the 10 weeks between announcement and closing of the acquisition we focused on integration planning and on March 14 we hit the ground running.

For example, we've already integrated Zipcar's fleet acquisition and disposal activities with Avis Budgets, which is providing immediate benefits. We began in-sourcing a portion of Zipcar's maintenance and damage functions, where our scale enables us to handle these activities at a substantially lower cost. We've also moved to eliminate Zipcar's public company cost and to allow Zipcar to take advantage of Avis Budget's procurement scale for everything from office supplies to tires. Zipcar's customer facing, marketing, and technology activities on the other hand continue to remain separate and independent.

As Ron touched on, we remain confident in our ability to achieve $50 million to $70 million of synergies within two years including achieving an annual run rate of $40 million of synergies within one year. We put together slide 18 to help you better understand the arithmetic of how we expect the synergies to be realized. As you can see, we expect to record approximately $11 million of benefits in calendar year 2013, and roughly $45 million in 2014 as we move to an annual run rate of $60 million or more by the first quarter of 2015. And to be clear these synergies are above and beyond growth we believe Zipcar would have achieved on a standalone basis.

Performance Excellence, our process improvement and productivity enhancement initiative continues to deliver solid results and we expect PEx to generate $50 million in incremental benefits in 2013 compared to 2012 including $10 million in our European operations.

In the first quarter, we developed a process to prioritize preventive maintenance to get the number and types of vehicles our customers need back into our rental fleet sooner. We implemented a new procedure to automate and review gas charges in our local market operations, the increased gasoline revenues. We are implementing a new process to more effectively manage our e-Toll transponder inventory to both increase revenue and reduce our cost, particularly when units are driven out of the regions where they can be used. And in Europe we are standardizing and strengthening our processes for the collection of traffic volumes.

Importantly, our PEx pipeline remains full, so we expect process improvement savings will continue to help us offset inflationary pressures in our operating costs for many years to come. Our rental fleet represents our single largest expense. We continue to expect per unit fleet cost in North America to increase approximately 15% to 20% this year to $275 to $290 per unit per month, consistent with our prior guidance.

As we've discussed previously, roughly 13 points of the expected increase is related to fleet cost gains and depreciation timing adjustments we recorded last year. Absent these gains, we would be projecting an increase of 2% to 7%, which reflects normal inflation on new cars, our initiative to increase our mix of specialty and premium vehicles, and the used car market which while remaining healthy by historical standards is unlikely to return to last spring's peak. New car incentives remain in check and credit for used cars is readily available. Factors we believe will continue to support strong demand for late model used cars.

In addition, our own efforts to increase the diversification of our fleet sales into online direct-to-dealer and direct-to-consumer channels should also give us options for maximizing residual values. We expect the risk component of our fleet to remain around 65% which is a few points higher than last year, which still allows us to retain our ability to de-fleet quickly following the summer peak. While the full year of 2013 increase in per unit fleet costs is expected to be 15% to 20%, this increase will be significantly concentrated in the first half of 2013.

Our per unit fleet costs were only $188 per month in second quarter 2012 but were $280 per month in first quarter 2013. As a result, you should not be surprised to see an increase in the range of 50% in per unit fleet costs in the second quarter with more modest increases expected in the second half of the year. In Europe, we've been able to negotiate better terms for our 2013 fleet purchases and we expect our per unit fleet there to decline modestly in 2013 compared to 2012. We expect program cars to continue to represent more than 70% of our European fleet this year, which should help us mitigate a large part of the softness in the used car market there.

Turning to the balance sheet, our liquidity position remained strong with $4 billion of available liquidity worldwide. We ended the quarter with $569 million of cash, no borrowings under our $1.5 billion corporate revolver and roughly $750 million of availability under that facility. We had unused capacity under various vehicle backed funding programs of $2.7 billion. Our ratio of net corporate debt to LTM adjusted EBITDA at the end of the quarter was 3.4 times. This figure includes the debt incurred to acquire Zipcar but virtually no contribution to our LTM adjusted EBITDA from Zipcar since it was just acquired.

So far this year, we've taken advantage of the strengthened credit markets globally to better our debt profile. We completed approximately $525 million in debt financing at an average rate of 5.1% to fund the acquisition of Zipcar. We reduced the interest rate on $700 million of existing term loan borrowings by 50 basis points, which will generate $3.5 million of annual savings. We completed a five-year $750 million asset-backed financing in the United States at a weighted average interest rate of 2%. We finalized a three-year €500 million European securitization, which replaced our €350 million interim fleet facility and increased our borrowing capacity in Germany, Italy and Spain at better terms.

We issued $500 million of 10-year corporate debt at a rate of 5.5% and moved 80% of the proceeds to repurchase corporate debt with an average rate of 9.6%. In the first quarter we bought back $50 million of our outstanding convertible debt. Combined with our repurchases in 2012 we retired $268 million of our convertible notes, which is equivalent to us having repurchased 16 million shares of our common stock over the last 14 months. As a result of these actions we've lowered both our vehicle and corporate borrowing rates while positioning our balance sheet to have no significant corporate debt maturities over the next five years.

Over the last few weeks we've received a few questions from investors about our tax position. We elected to take bonus depreciation with respect to our 2011 tax year. We expect to elect to take it with respect to 2012 as well. As a result, we have more than $3 billion in federal net operating loss carry forwards as well as the significant related deferred tax liability tied to our fleet.

We would expect that most of these NOLs will reverse over the next decade as our taxable income will likely exceed our GAAP pre-tax income in future years. The net result is that we believe our NOL balance has a significant cash flow benefit to us. Our future cash taxes are difficult to estimate as they depend not only on how much income we earn, but also on where we generate that income. We previously estimated our 2013 cash taxes to be around $75 million globally. And at this point, that's as good an estimate as any of our cash taxes in each of 2014 and 2015.

Even after 2015 we'd not expect to be a full federal cash taxpayer due to our NOLs. When you put this in the context of our intermediate term adjusted EBITDA goal of more than $1 billion not only should you expect us to be generating substantially higher earnings in 2015, but substantially higher pre-cash flow as well.

Now lastly, I'd like to spend a few minutes on our 2013 outlook. The changes to our projections from February reflect the inclusion of Zipcar in the financing activities I discussed. There are no significant changes to our underlying numbers.

As we announced last night we expect our 2013 revenues to be approximately $7.8 to $8.0 billiondollarys, a 6% to 9% increase compared to 2012. We expect adjusted EBITDA excluding items to be approximately $750 million to $855 million. We estimate that our full year corporate interest expense will be approximately $240 million, a decline of $28 million compared to 2012.

Non-vehicle depreciation and amortization expense should be $130 million to $135 million excluding purchase accounting effects and as a result we expect that our 2013 pre-tax income will be $375 million to $485 million. We expect our effective tax rate in 2013 will be 37% to 38% and our diluted share count will be approximately $118 million. Based on these expectations we estimate that our 2013 diluted earnings per share excluding certain items would be approximately $2.00 to $2.60. We expect our capital expenditures to be around $160 million this year and finally we expect our free cash flow to be in the $300 million range absent any significant timing differences.

So to wrap up, we had a solid first quarter and we remain enthusiastic about all of the positive developments we see across our businesses around the world even with the difficult operating environment in Europe. From a funding perspective, we've seized the opportunity to lock-in attractive term financing and to position our European operations to fund their fleet more efficiently.

We've had Zipcar under our belt for a little more than a month now and even more optimistic about this business than I was back in February as we look to unleash Zipcar's global growth potential and to leverage our respective strengths.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from John Healy with Northcoast Research. You may ask your questions.

<Q – John Healy – Northcoast Research Partners LLC>: Hi, good morning guys. I wanted to ask a little bit about the international business. It sounded like in the quarter there was probably some duplicative costs associated with getting the company with where you want it to be longer term and I was wondering if you could give us maybe some thoughts in terms of what the headwind was there as well as how that might kind of fall out of the P&L as we move throughout the year and into next year?

<A – Ron Nelson – Avis Budget Group, Inc.>: Good morning, John. It's Ron. The real headwind as you know is it's just not quite as easy to take people out in Europe as it is here. You have to file social plans with the worker's councils and they have to be voted on, approved. And so those take a little more time than you would otherwise expect. In the meantime, we felt it necessary to staff up the functions and move them to the shared service center. And so what you have is sort of an element of caution in the sense that we actually do want some of these people around to make sure that the transition to Budapest goes well and an element of just the sociopolitical issues that are in Europe that we don't have here. And so that causes the results and the ability to take people out not quite as quickly as you would like to not be there.

<Q – John Healy – Northcoast Research Partners LLC>: Great, and then kind of when I heard you made some comments about the U.S. business and talk about the international business. I couldn't help but think about what you've done with the business domestically over the last few years in terms of walking away from low margin or unprofitable business. When you think about the European business, do you see the opportunities there? I know you've mentioned the insurance replacement business you walked away from, but is there that same type of philosophy that once you get things kind of situated over there, you might look to purge some of the business you're doing there and that would be overall accretive to the margin of the business?

<A – Ron Nelson – Avis Budget Group, Inc.>: Yes, there's no question that that's on the list of things to do and first up was the insurance replacement business predominantly in the UK and frankly, I think as we've said in the script that was part of the volume flatness in Q1. I think as we get better at integrating the sort of our by-channel by-market profitability tool and understanding exactly how profitable certain channels are and certain customers are in that marketplace, we'll do exactly the same thing there that we did here. It's a little more challenging just because the volume there is very peaky and you can't always time your fleet to correspond exactly to the peakiness. So in the shoulder seasons where you probably do have fleet you'll take some business that may not be as profitable as you like, but actually contributes to the carry cost to the fleet. So the short answer is yes, it's a little more complicated, but we've already started and as I said in the script you'll see it in our flat volume for the quarter.

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

Operator: Our next question, Chris Agnew with MKM Partners. You may ask your questions.

<Q – Chris Agnew – MKM Partners LLC>: Thanks very much, good morning. First question, how important is June relative to April and May in terms of volume for the second quarter. And is the second quarter more of a commercial or leisure quarter in terms of demand? Thanks.

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, it's really a tale of two time periods, the last two to three weeks of June are important that's when you get both commercial and you start to see the ramp up in leisure volume. So as we start to book June reservations, we'll start to see where pricing is going to come in, we'll have a good sense of where pricing is going to come in for the summer by what gets booked in the last two or three weeks of June. For the most part of April and May are pure commercial quarters. Obviously, there's leisure volume, but the skew is more heavily towards commercial than it is leisure.

<Q – Chris Agnew – MKM Partners LLC>: Great. And a follow...

<A – David Wyshner – Avis Budget Group, Inc.>: Hey, Chris. It's David.

<Q – Chris Agnew – MKM Partners LLC>: Sure.

<A – David Wyshner – Avis Budget Group, Inc.>: June rental days end up being probably about 14% higher than what we see in April, so June is a bigger month, but not hugely so in the scheme of things.

<Q – Chris Agnew – MKM Partners LLC>: Great, thank you. And then a follow up question on free cash flow. First of all presumably free cash flow is not going to run smoothly through the year. So is there in terms of expectation a slow quarter-by-quarter and I'm not looking for specific guidance, but do we expect cash flow, the free cash flow to be more backend loaded and potentially negative in the second quarter as you're fleeting up? And then also can you give us some indication the size of tuck-ins I mean is – are these typically $5 million to $10 million transactions and what's the sort of largest tuck-in that you would conceivably look at? Thanks.

<A – Ron Nelson – Avis Budget Group, Inc.>: Sure, Chris. I do expect that our free cash flow this year will be backend loaded. Over the course of the year, we would generally expect pre-tax income to be a proxy for free cash flow, but the timing of the cash flow may even trail a month or two behind the pre-tax income. So you know our split of pre-tax income and if you skew that backward even a couple months or so, it is probably a good way to estimate the timing of free cash flow and clearly that pushes a fair amount of it into the August to November, August to December period. And then from a tuck-in perspective, the acquisition of the Budget licensee in Belgium and Luxembourg was about a €3 million transaction excluding the fleet. The Apex transaction was close to the $30 million range excluding fleet and as a result I certainly think tuck-in acquisitions could fall in the range from very small up to the $30 million, $50 million range perhaps a bit larger.

<Q – Chris Agnew – MKM Partners LLC>: Excellent, that's all from me, thank you.

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

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Thank you, I have two questions. First, I'm sorry if I missed this, but I think you mentioned that you expect the back half volume growth in North America to be similar to sort of the run rate we've seen historically which would suggest an acceleration from the 1Q levels, so maybe you can talk a little bit about why the 1Q book was a little below what you've historically run at? And then separately on Zipcar, I noticed that the membership growth of 13.5% I believe by the end of the quarter was a little – was below the mid-teens range, the company had been running that as a standalone, so maybe you can address some of the dynamics going on in that business? Thank you.

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, let me deal with the volume first. In the first quarter we took about 500,000 fewer opaque rentals than we did last year, which amounted to about 3% of our total volume during the quarter. We were perfectly fine with that because you make little if any money on the opaque rentals and as you've heard me say before I don't think they're particularly good for our brands. So that was really the sum and substance of what could be softer volume growth than maybe the rest of the industry in the first quarter. I do think volume will increase as the year goes on. We pay careful attention to the airline capacity increases going forward and in [indiscernible] (40:43) not all areas of the country, but in the most of the areas of the country there are capacity increases in the 1% to 2% range and we tend to get a multiple of that in terms of volume. So I think as we've said, we think it's going to be consistent, growth is going to be consistent with last year and some of the dynamic of who it's going to be where pricing comes in. If we see an opportunity to trade price for volume we're likely to take advantage of it, but I think it all depends on how things unfold over the course of the summer.

<A – David Wyshner – Avis Budget Group, Inc.>: Then on the Zipcar front we did have 12% member growth from the end of first quarter 2012 to the end of the first quarter of 2013 which was generally consistent with our expectations for the business. With the transaction just having closed on March 14, none of the membership related synergies is that we expect to bring to the table had any effect on the first quarter number. So our ability to improve member satisfaction and reduce member churn by having more vehicles available on weekends is something that had no effect in the first quarter, and will ramp up over time. We think actions we're taking along those lines will be helpful to membership retention and therefore to membership growth going forward. But I would look at the first quarter number of about 12% as being consistent with our expectations on a standalone basis for the business, but not yet being reflective of things we can do to help membership retention and growth.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: All right, thank you.

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

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Hey, thanks, Ron and David. First, I was wondering if you could comment on as you're raising your rental rate six times during the past quarter, what was the reaction you were seeing from your competitors, can you just give general comments there? And then also could you comment on the tightness of the fleet from an industry perspective and where you kind of see that heading into 2Q? Thanks.

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, I think that over the course of the first quarter with all the price increases that we took, the more consistent fast follower was the [ph] Enterprise complex, but Hertz was there on most of them. It was a little choppier. I think what we saw was that Hertz was very quick to follow on weekly rates and a little slower on daily and weekend and Enterprise was much quicker across the board in all three segments with all three brands. I think in the first quarter fleet was fairly tight. It was in line with the demand. I don't think anybody had any fleet imbalances. And I think generally looking forward to the second quarter, everybody is going to be as slightly over fleeted because you start to ramp up your fleet in the middle of May with deliveries to meet the summer peak and that does create some imbalances that puts some pressure on pricing, but what encourages me is the fact that as we look towards May and June our pricing that we're holding, reservations that we're holding is up in the upper end of the 1% to 2% range. So, you don't ever want to declare victory prematurely, but it does seem like there is more discipline particularly in a quarter where there is a modest amount of where we're fleeting, so we continue to be encouraged by that.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: And Ron, do you think that what's driving that is just a shared industry view that fleet costs like – it's not a matter of whether they go down – whether they rise, but kind of how much they rise, it's just a bit more of a collective kind of sense for that to offset the fleet cost headwinds?

<A – Ron Nelson – Avis Budget Group, Inc.>: Yes, I think there's no question that everybody last year had a view that fleet costs were going to regress to the mean and that means that residual values are going to drop and fleet costs were going to go up. And nobody likes to give back to the margin that they had and so with increasing costs I think everybody decided that it was time that this industry got some price. And I think that that was one occasion that I mean historically the industry has always gotten price when costs risen and so this quarter hasn't been any exception. But it does feel like now, we've had call it four or five months of consistent price increases, increasing price, and hopefully that's a harbinger of good things to come.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Great, Ron. Thank you.

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

<Q – Michael Millman – Millman Research Associates>: Thank you. Regarding the U.S. market with leisure up 8% what kind of things you can do to increase your leisure volume? Are tuck-ins in the U.S. a possibility? And then I think last call you indicated that should you be optimistic on pricing there was an opportunity to raise you guidance. And just following what you just said seems certainly to show some optimism and so could you talk about raising your guidance or why you didn't?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure, with respect to leisure volume and the growth there. I think in achieving the growth there we did in the first quarter, we continued to optimize the channels that we're using to drive not only volume, but also profitable volume. And whether it's through the marketing relationships and partnerships that we have how we use various travel agencies and then the intense focus on driving inbound leisure business and small business. They're all activities that I think we'll continue to pursue and can help us continue to drive volume and pricing on the leisure side. I think in addition, we would look at opaque rentals carefully over time and we continue to curtail our use of them.

So our reported volume in the first quarter was certainly a few points weaker than it would have been had we not stepped away to some extent from opaque rentals. We think it's a profit optimizing in profit maximizing decision to do that and that's reflected in our numbers as well. I think we clearly are encouraged by the strength we're seeing on the pricing front for all the reasons Ron discussed. At this point in time we felt that it was most appropriate to keep our guidance range, which we know is relatively wide intact rather than adjusting it in any way.

Operator: Our final question comes from Brian Johnson with Barclays. Sir, you may ask your questions.

<Q – Brian Johnson – Barclays Capital, Inc.>: Yes, couple questions both on North America. First, the Manheim risk rental auction actually trended more positive in this quarter, did you see that in any of your disposals and would you just not adjust depreciation schedules accordingly? And then my second question will be on corporate pricing.

<A – Ron Nelson – Avis Budget Group, Inc.>: I think as you went through the quarter, our disposals actually did trend positive from January to February to March. And in April they've actually tailed-off a little bit. So – but our experience I think was consistent with the direction of the Manheim Index. Mix plays an important part in how accurately you track to that index and so we don't always sell the mix of cars that Manheim measures, but I think generally, Brian, we did track the index directionally.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay and second, it's a very impressive corporate strategy laid out, it seem to address some of the weak points that lead to frankly your computer driven leisure algorithms doing a far better job of pricing than the human being sitting down at the poker table with corporate procurement officers. When did those go into effect? Have you been through a few renewal discussions with corporate clients, and what's your sense of how it's going and similar to question earlier kind of are your competitors paying attention to being paid for the value you add to corporate accounts?

<A – Ron Nelson – Avis Budget Group, Inc.>: Yes, I think we're in the early innings in this strategy. We've been talking about it now for a long time and I think we started acting on it in the first quarter. I think as I said in the script with 60 of the 100 renewals that we've had are at the same or better pricing in the month of March. Whether the competitors are going to follow us, I don't know, you'll have to ask them. We're going to do what we think is in the best interest of our business. And I think part of it does come down to where you have accounts that where you're the incumbent and you're doing a great job service wise. If you're not making any money, you just have to go in and get some spine and ask for a rate increase that delivers a profitable account.

And in those accounts where your competitor is doing a great job and the procurement guy asks you to come in and make a bid. You don't really want to be a stocking horse, because all it does is bring pricing down across the entire industry. So I think that we're going to think pretty carefully about how we participate in RFPs and in those accounts where we're not making much money how we go about approving our profitability. But we'll see over the course of this year how well we execute on this strategy, but you can't be minus 2% compounded for four years and look forward and think that's a great business strategy and so we're going to do something about it.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay, look forward to seeing the results.

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

Ronald L. Nelson, Chairman, President, Chief Executive Officer & COO

Okay, before we say good bye, what I'd like to do is reiterate what I believe are the key points from today's call.

One, the North America pricing environment has improved considerably. Two, our strategic initiatives continue to drive our organic results. Three, we're doing all the right things to position our European operations to achieve higher levels of profitability once the economy settles. And four, the integration of Zipcar is now moving into high gear.

As I look forward, not only am I optimistic about what we can achieve this year, I'm also very optimistic about the opportunities that lay ahead of us over the next few years. And I'm excited about the pace at which our colleagues are moving to capture these opportunities.

With that, let me thank you for your time and your interest in our company and we'll see you over the course of the quarter.

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