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CAR - Q2 2014 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Co. reported 2Q14 diluted EPS excluding certain items of $0.68. Expects 2014 revenues of $8.6-8.7b, and 2014 diluted EPS excluding certain items of $2.75-3.05.

CORPORATE PARTICIPANTS

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

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PRESENTATION

Operator

Good morning and welcome to the Avis Budget Group's second-quarter 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, IR*

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

Before we discuss our second-quarter results, I 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 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 on 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*

Thank you, Neal and good morning. Needless to say, we are pleased with our second-quarter results. Increased pricing and disciplined execution on our strategic initiatives allowed us to grow revenue by 10% and our earnings per share by 36%. As you could see in our earnings release, both volume and pricing trends in North America not only maintained the momentum from the first quarter, but actually accelerated throughout the second. We achieved incremental synergies from our EMEA integration efforts, continued the exponential growth of the Budget brand in Europe and further expanded the footprint of our Zipcar brand, all of which ultimately resulted in margin expansion of 80 basis points. And all of this was achieved against the background of record levels of recalls in North America that played havoc with fleet and operational logistics.

The driving element of our performance, however, was North American pricing, so let me spend a few minutes on that. As we exit the second quarter, I am probably more enthusiastic about our business than I have ever been and one of the reasons is the meaningful change in pricing that we have now seen play out over the past six quarters. The strong pricing trends we experienced in the first quarter accelerated into the spring with price increasing 5% year over year, excluding Payless and the effects of currency movements. It also represented the second straight quarter of positive pricing in North America, not only across all three of our car rental brands, but in on and off-airport locations and in both leisure and commercial segments.

As many of you know, we have been quite vocal about our need to drive improved pricing in order to strengthen our return on capital. Pricing hasn't been the only tool we've used. We have taken numerous actions to improve the efficiency of our operations and we have taken advantage of opportunities to expand the business profitably. But those alone were not enough. Pricing had to play a role and in particular pricing in our commercial segment. We are making progress. Our commercial pricing was up 2% in the second quarter led by growth in our small business segment, a richer mix of cars and historically low levels of contracted commercial customer flipping largely due to the impact of higher leisure pricing. And the more difficult task, that of improving our large commercial pricing, is showing a hint of progress. In both July and August, large commercial has flipped from modestly negative pricing in the second quarter to reflect modestly positive pricing gains.

An important part of our pricing gains this quarter is the benefits our demand fleet pricing initiative is generating. We have now implemented the first phase of this integrated yield management program in over 100 markets and it is exceeding our expectations. This tool is allowing us to be more nimble in these markets by being able to shift prices multiple times a day based on competitive factors at the individual airport level. By automating many elements of our pricing processes, our pricing team can now spend more of their time making strategic decisions as opposed to manually implementing price changes into our reservation system. And while we continue to refine the tool, its impact has been significant, helping to drive a 6% increase in leisure pricing and an 8% increase in leisure revenue in the second quarter.

But while the impacts on our North American pricing from this initiative have already been impressive, we are equally excited about the next steps. Later in the year, we will begin to implement the second phase, which involves integrating a sophisticated new demand forecasting model with the yield manager. Once integrated, this enhanced toolset will serve as the foundation for the final phase, which will optimize fleet and pricing decisions in a very granular manner. When fully operational next year, this system will literally integrate billions of demand, fleet and pricing data points to help us better optimize our fleet pricing and revenue management decisions to deliver maximum profitability.

And while our North American team is focused on completing the rollout of this system, our early success in the first phase of this project has us looking to deploy this system in our international markets sooner than we had previously planned. We also generated our pricing growth amid a reasonably healthy demand environment in North America. We grew our rental volume 8% in North America driven by 5 points of organic growth at both Avis and Budget and 3 points of incremental volume from the acquisition and subsequent growth of Payless.

To break it down a little bit, international inbound revenue, our single most profitable customer segment, increased 17%. Small business revenue increased 10% with pricing that was more than $10 per day higher than our average large commercial rates. Revenue from our higher-margin specialty and premium vehicles increased 10% as we continue to expand the size of our noncore and signature fleet, as well as expand availability to more rental locations. We have also made our selection of these vehicles much more prominent on our websites and mobile apps resulting in a significant uptick in the clickthrough on these models.

And finally, revenue in our local market operations increased 11% with pricing up 4%. We continue to be pleased with our local market strategy of focusing on higher-margin general use leisure and commercial rentals and deemphasizing low-priced insurance replacement business. And to put a little finer point on it, not only is the type of business we get important, but so is how we generate that business. Over the past year, we have shifted almost 300 basis points more volume toward our proprietary websites. Besides driving higher profitability, it is a critically important initiative for supporting and building Avis and Budget's brand strength.

Notwithstanding our strong results, not everything was great in the second quarter. We had an unprecedented number of vehicle recalls this year. Even though we achieved 7% volume growth throughout the first half of the year, the recalls were not without impact. Because it was our policy to ground a car immediately when we receive a safety recall, our supply chain group was continuously shifting cars from one area to another and holding both program and risk cars instead of sending them to auction so as to minimize the impact on volume.

In addition, our maintenance teams were literally working around the clock to correct the issue necessitating the recall in order to return the cars to service. The toll that was exacted was a hit to utilization, along with increased labor costs and the inability to take advantage of the peak used-car selling season to the maximum extent possible. The operational difficulties associated with this extra work are significant and have continued into the third quarter.

Moving to Zipcar, total revenue in the quarter grew nearly 10% with usage revenue, pricing and membership all increasing. We also made further progress on achieving the integration synergies we laid out in our acquisition plan more than a year ago. So far this year, we have expanded Zipcar to 18 new universities in five new markets, including Houston, in the second quarter. Zipcar is now available at over 325 colleges and universities and in 28 markets. We began to make Zipcar available to AARP members under our exclusive partnership with AARP. We expanded Zipcar on-airport by adding more fleet to existing airport locations and introducing Zipcar at six additional airports. Zipcar is now available at 38 different airports.

We moved more than 1,000 vehicles from Avis and Budget locations to Zipcar pods for the summer months to capture more of the summer surge in demand and we added Zipcar to six of our corporate contracts this year. This is an important step towards providing an industry-leading array of mobility solutions for our corporate customers. And finally, we have started to roll out one-way rentals beginning in Zipcar's hometown of Boston, Mass.

More broadly, we continue to believe that our business generally, but in particular Zipcar, is in a unique position to benefit from the emergence of a sharing economy and what that may imply for car ownership. To the extent that that phenomenon manifests itself in a more meaningful way, the strength of the Zipcar brand is a meaningful competitive advantage for us driven by our obsession with the member experience that has led to world-class customer satisfaction scores.

Shifting gears, revenue in our international segment increased 7% in the quarter, 4.5% in constant currency driven by growth in Europe. Our European operations had a good quarter led by the continued growth of Budget while Avis revenue, which is probably more indicative of overall industry trends, was largely unchanged. The current rental demand environment we are seeing in Europe can best be described as a mixed bag. It is difficult to discern any real trends as one month has been different from the next even in the same country. In general though, the second quarter saw continued softness in Germany and Southern Italy, while Spain and Portugal were pretty good. In total, however, our results were reflective of a growing business. Excluding currency effects, EMEA revenue increased 4% driven primarily by a 3% increase in volume and a 1% increase in total revenue per rental day.

More importantly, as with North America, the pricing increase is only part of the story for Europe as we continue to make progress in capturing the $100 million plus of annual synergies we outlined at our recent Investor Day. First, our aggressive expansion of the Budget brand continued with revenue up nearly 30% year over year. The benefits of our consolidated fleet management activities continued with another record quarter of utilization gains of over 100 basis points. We launched our new Avis website and mobile application in the UK in June, which we expect to drive more reservations through this channel, particularly as we roll it out across Europe in the coming months. We launched the first ever pan-European Avis TV campaign in June and saw an immediate increase in traffic to our website and then followed with a new targeted Budget advertising campaign across the region.

Our counter sales initiative is gaining further traction. Ancillary revenue increased 13% per rental day, excluding currency effects. And finally, Zipcar is making good progress. We are positioned to expand its global footprint by bringing it to Paris in the fall with Madrid and Istanbul to follow shortly thereafter. In the UK, we will flip from a loss to a profit this year as part of its normal evolution as a startup.

Total revenue growth in our Latin America/Asia-Pacific region was 5% in constant currency driven by higher pricing and ancillary revenue gains, as well as a 60% volume growth at our Apex brand. New Zealand was the standout performer in the region. Between Avis, Budget and Apex, we have a strong market position in the Asia-Pacific region, which unfortunately doesn't insulate us from the macro challenges that we have been highlighting for the last few quarters in Australia, which is our largest market in the region. Australia continues to experience the effect of the slowdown in the mining sector, which is impacting government and corporate demand. Our decision to remain firm on pricing is clearly impacting our leisure volumes, but we have managed through the weakness by pricing for profitability, growing ancillary sales and managing our costs.

Moving to our outlook, here is the good news. The positive demand and the pricing environment we experienced in North America in the first half of the year has continued into the summer. Pricing was up 4% in July and with roughly 40% of our expected reservations for August already booked, all indications are that August will follow suit. However, expectations should be tempered due to recalls. Despite the fact that we are expecting a record third quarter, recalls have continued to affect labor costs and utilization and will impact overall fleet costs. Holding cars instead of sending them to the auction to satisfy peak demand has a cost as we will wind up selling those cars in the seasonally weaker used-car pricing environment.

And recalls are still occurring. Our maintenance staffs are still working around the clock to return cars to service. By way of perspective, through July 31, we have had close to 125,000 recalls, approximately one-third of our peak fleet, compared to approximately 70,000 for all of last year. David will provide some additional color on this in a minute.

In our international segment, our sense is that the economic recovery in Europe continues on a somewhat uneven trajectory depending on the country. Demand in EMEA was okay in July, though softer than what we and the industry had anticipated, judging by the looseness of fleets across the region. As a result, the demand environment in July was a challenge and was no doubt affected by the World Cup, which extended over most of the month. The August picture is brighter with our existing reservations currently up year over year. So despite the soft July and our increased spending on advertising campaigns to support our brands, we are still hoping to exceed last year's record third-quarter results in our international segment.

Our full-year outlook is summarized in the press release, so I won't go through it except to point out the obvious. There are two important parts. One, we expect the third quarter ultimately to deliver record results and two, we have raised both the top and bottom of our guidance. The takeaway from all this is the following. The principal driver for the increase in our projected earnings is clearly the strength we have seen in North American pricing, but it is not the whole story. Across the globe, we have grown ancillary revenues, enhanced our car class mix, reduced vehicle-related and corporate interest expense, increased our use of alternative disposition channels to hold fleet cost increases to a minimum and delivered on an array of productivity initiatives. This work has allowed us to overcome the effects of manufacturer recalls, a severe winter, softer than expected European demand in July and the macroeconomic challenges in Australia.

Lastly, I want to give you an update on capital allocation. Since last August, our Board has authorized a share repurchase program totaling $435 million and we have been actively executing on it. Through June, we have repurchased more than 4.5 million shares at a cost of approximately $200 million, including $150 million this year alone and we now expect to spend between $225 million and $300 million on repurchases in 2014.

The other principal use of our free cash flow continues to be tuck-in acquisitions. Year to date, we have spent $50 million on tuck-ins, including the acquisitions of Budget Portugal, Budget Edmonton and 11 airport locations from Advantage. We have a couple of tuck-in acquisitions in our pipeline that we expect to close before year-end and they are similar in size to our recently completed deals. But, at this point, we continue to believe it is unlikely we will spend much more than $100 million on acquisitions in 2014. 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 would like to discuss our second-quarter results, our fleet costs, our continuing investment in technology, 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.

Revenue increased 10% in the second quarter and adjusted EBITDA grew 19% to $213 million. Margins expanded by 80 basis points and diluted earnings per share increased 36% to $0.68. Our results represent the second highest second-quarter adjusted EBITDA in our history behind only 2012 when we were still experiencing historically low per-unit fleet costs. Currency effects were a $7 million headwind for us, so our local currency results were even stronger than our 19% EBITDA growth would suggest. Our trailing 12-months adjusted EBITDA now stands at $827 million and for those analysts who compare company margins and valuations based on adjusted EBITDA before deferred financing fees and stock-based compensation, our trailing 12-month adjusted EBITDA would be $874 million.

Revenue in our North America segment grew 12%, making it our second best quarter of revenue growth since 2007. Excluding Payless, which we acquired last July, revenue increased 9%. Total volume grew 8% in the second quarter while pricing was up 3% and excluding the acquisition of Payless, volume grew 5% and pricing was up 5% in constant currency.

Ancillary revenue per day also increased 5% as our in-car SiriusXM satellite radio product continues to expand at growth rates reminiscent of when we launched GPS rentals. Leisure revenues increased 8% in the quarter with volume up 2% and pricing up 6%, both excluding Payless. Commercial revenue was also strong. It grew 9% in the quarter, including a 7% increase in volume and a 2% increase in pricing.

North America adjusted EBITDA grew 37% year over year primarily due to increased pricing and higher volume partially offset by a 1% rise in per-unit fleet costs. Margins improved by more than 200 basis points as our strategy to focus on the most profitable segments and channels continues to bear fruit.

Our Payless acquisition, while small, is also delivering strong returns. Our $50 million investment contributed $5 million to adjusted EBITDA in the quarter and $12 million since being acquired almost a year ago. In the second quarter, Payless' revenue was $31 million, driven by both volume growth and increased pricing.

Revenue in our international segment grew 7% in the second quarter primarily due to 23% volume growth for Budget in Europe, increased pricing and ancillary revenue growth. International adjusted EBITDA declined $1 million as increased revenue was offset by a $5 million negative impact on adjusted EBITDA due to currency exchange movements. Excluding foreign exchange impacts, adjusted EBITDA grew 7%.

Revenue in our truck rental segment declined 2% in the quarter due to the planned decline in our average number of vehicles. Adjusted EBITDA declined $4 million in the second quarter driven by higher per unit fleet costs as we refreshed a portion of our fleet. Over time, we expect these newly acquired trucks to improve customer loyalty and lower our operating costs. Importantly, the core statistics of the business, pricing and utilization, remain a highlight. In the quarter, pricing increased 4% and utilization increased over 250 basis points, putting us in a position to drive increased profitability in the future.

Turning to fleet costs, North America per-unit fleet cost increased approximately 1% in the quarter. The used-car market thus far in 2014 has generally behaved in line with our expectations. As anticipated, the strength we saw in the first quarter due to lower supply levels at the auctions reversed in the second quarter causing prices to come in a bit, but still within our expectations for full-year per-unit fleet costs to be flat to up modestly.

As Ron mentioned, the industry has had to contend with an unprecedented number of vehicle recalls this year, but despite that, we've been successfully implementing our strategies to combat the decline in residual values we anticipated coming into the year. First, we have been actively disposing of more of our fleet using alternative disposition channels such as online auctions, direct-to-dealer sales and our direct-to-consumer partnership with AutoNation. Our use of alternative channels is important because we are looking for vehicles sold through these channels to provide a benefit of $250 or more per car. So far this year, we have sold about a quarter of our risk vehicles using alternative channels, an increase of more than 50% from the same period in 2013.

Second, we have been cascading fleet to Payless and we expect the majority of Payless' fleet to be comprised of cars from Avis and Budget locations by the end of this year. And finally, we are seeing significant benefits from our fleet optimization system. We are increasingly taking advantage of the seasonal ups and downs in the used-car market and using manufacturer repurchase programs wisely to manage fleet availability during our peak periods.

On a separate topic, I want to update you on an area that I believe is integral to the future of our business and that is increasingly become a focal point for us as a management team. Technology. We will invest more in IT this year than we ever have. Of our expected $200 million in capital expenditures this year, over half will be spent on improving our technology platforms. Ron already discussed the positive impacts our yield management technologies are having and will have.

In addition, we are investing in modernizing our core Wizard reservation and operations system allowing us to standardize across brands and geographies, add functionality, capitalize on profit opportunities more quickly and provide more customer information to our counter sales agents. And the best part is that we expect the savings in maintenance alone to provide a positive return on this investment.

We are upgrading our mobility platforms. Using Zipcar as a guide, the new Avis and Budget apps will allow our customers to have full functionality from their mobile device from reservation to rental to customer service. We are updating and upgrading our websites throughout the world. In addition to launching the new Avis website in the UK, we will also be rolling out the new website to France, Germany, Italy and Spain later this year.

Separately, to help handle the summer peak in locations where there are just not enough counter positions to prevent lines from building, we've introduced linebuster tablets where agents can initiate rental transactions (technical difficulty) while they are in line, improving the customer experience without a large capital equipment outlay. We believe we are currently the only company in the industry doing this.

We are also investing in standardizing our fleet management systems in Europe, making Wizard available in China, building one way and fleet-sharing technologies for Zipcar, implementing a new customer service system and redesigning our truck rental website. We believe strongly that technology is critical to our business and that the investments we are making today will position Avis Budget Group to be an industry leader in this regard. At the same time, we expect these projects to generate attractive returns on investment for us.

Turning to the balance sheet, our liquidity position remains strong with $2.4 billion of available liquidity worldwide. We ended the quarter with $537 million of cash, no borrowings under our corporate revolver and $750 million of availability under that facility. We had unused capacity of $1.1 billion under various vehicle-backed funding programs and our ratio of net corporate debt to LTM adjusted EBITDA at the end of the quarter was 3.4 times.

We took advantage of attractive financing available to us during the quarter, completing a $400 million offering of eight-year debt with a yield of just over 5%. We used the proceeds from this offering to redeem the remaining $395 million of 8.25% senior notes due 2019. The opportunity to reduce our corporate borrowing costs is still not exhausted. We have on our balance sheet roughly $225 million of debt with a 9.75% interest rate. These notes become callable next year.

Before I wrap up, I'd like to discuss our expectations for the remainder of this year. As Ron mentioned, we are happy to have achieved significant pricing growth in North America in the first half of the year and to be realizing benefits from our strategic initiatives throughout the world. We are seeing some uneven economic conditions outside North America, but the growth of our Budget brand in Europe and of Apex in Australia and New Zealand and the incremental synergies from our acquisitions are contributing to our profitability. Therefore, as we announced last night, we now expect our 2014 revenues to be $8.6 billion to $8.7 billion, an 8% to 10% increase compared to 2013.

We continue to expect total Company per-unit fleet costs to be $295 to $305 per month in 2014. In North America, per-unit fleet costs are expected to be approximately $300 to $310 or flat to up 3% compared to 2013. Given our experience with recalls in the first half of 2014, we have held extra cars to try to ensure we can satisfy our customer commitments. These costs will impact our third-quarter results. While this effect is embedded in our updated full-year guidance, it will make our year-over-year third-quarter comp tougher than it otherwise would have been. We now expect full-year adjusted EBITDA to be approximately $860 million to $910 million, an increase of 12% to 18% compared to 2013. Our year-over-year increases in adjusted EBITDA have been around $20 million to $40 million a quarter lately and I expect that to continue to be the case in the second half of the year.

Our 2014 pretax income, excluding items, is expected to be $500 million to $550 million. We expect our effective tax rate in 2014 will be approximately 38% and our diluted share count will be between 111 million and 112 million, including the effect of repurchasing $225 million to $300 million of outstanding shares this year. Based on these new expectations, we now estimate that our 2014 diluted earnings per share will be $2.75 to $3.05, an increase of 25% to 39% compared to 2013. We are still expecting our performance excellence efforts to contribute $40 million to $50 million of incremental benefits again this year. We expect our cash taxes to be approximately $70 million and finally, we now expect our free cash flow to be approximately $425 million this year, absent any significant timing differences.

So to wrap up, North America reported its second fastest revenue growth quarter since 2007 due to growth in volume and pricing. Our international operations are seeing reasonable constant currency profit growth despite challenges in certain markets and our investments in technology are already generating results and more importantly are positioning us for the future.

On the capital allocation front, we are pleased to have returned $150 million of free cash flow to our shareholders this year in the form of share repurchases and we expect to repurchase a total of $225 million to $300 million of stock this year. And finally, due to the progress we have seen so far this year in achieving higher pricing, we are raising our expectations for the year for revenue, adjusted EBITDA and earnings per share. With that, Ron and I would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Thank you and congrats on the great results, guys. I wanted to ask a big-picture question for you, Ron. When I listened to your prepared remarks, three things really jumped out at me -- just your confidence in the business, the description of what seems to be a really good operating environment and the continued focus on returns. And I wanted to ask a couple of follow-ups to that. Meaning do you feel like the trends in the business that you are seeing are unique to you? Do you feel like the trends in the industry are widespread? Do you feel like that your competitors are also approaching the business with the same focus on returns? And then how sustainable do you think this kind of period of success is for you guys barring any shakes in the economy?

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

Well, it's hard for me to answer what's in our competitor's head, John, but I think part of the reason for my optimism is that we have now had six quarters of consistent pricing growth. As you know, I've been loath to say one quarter or two quarters constitutes a trend, but I think six quarters does constitute a trend. We all have similar cost structures, we all have similar business models, we all have similar business mixes and we all have to raise an awful lot of capital to finance our businesses. And so the focus on maintaining and achieving a strong return on capital I think has to be consistent for everyone.

I think if you look across the industry, the only way you get pricing is if everybody is acting in similar ways. Fleets have been tight over the course of the second quarter. They have been tight moving into July and August and I would say that is true across everybody in the industry and particularly in North America. I do think that, based on the fundamentals of our business and the metrics that we look at, that everybody analyzes what the necessities of the business are in a similar fashion.

John Healy - *Northcoast Research - Analyst*

Great, I appreciate that. And a follow-up question, it's pretty clear that the recall is impacting the cost structure. Is there any thoughts to what that might have cost you in the second quarter and what that may cost you in the third and fourth quarter?

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

Well, we are just pulling the numbers together now because it is a constantly evolving issue and some cars have been grounded for literally months because of an inability to get parts and some cars we can fix overnight because it is just a flash to the car computer. But I would say at least through the first -- at least through July, let's put it at that, it is an eight digit number.

John Healy - *Northcoast Research - Analyst*

Great, thank you.

Operator

Chris Agnew, MKM Partners.

Chris Agnew - *MKM Partners - Analyst*

Thanks very much. Good morning. As a follow-up to the previous question, I just wonder, if you exclude the vehicle recalls, would your fleet cost guidance for the full year be lower this year?

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

Certainly the costs would be lower. Probably the two impacts that the recalls are having on fleet costs are one doesn't impact per-unit costs but it's utilization and that will show up in the fleet cost line in terms of increased cost as a result of holding the cars. The second impact is still playing out and that is that we have had to adjust our fleet plans because of the recalls. Holding onto cars in April and May and June and even July and not selling some of the cars we plan to in what are typically stronger months for selling cars and so there is a suboptimization associated with holding onto those cars until late summer or fall to meet the summer peak. And there are costs associated with that. At this point, we are still comfortable with the range we started the year with of $300 to $310 per month, but clearly the recalls are having an impact that we are looking to mitigate in other ways, including the use of alternative disposition channels and other activities we have been undertaking.

Chris Agnew - *MKM Partners - Analyst*

Thanks. And then if I switch to local market, you had another good quarter of growth. Can I ask are you taking share in the local market or is the local market off-airport generally growing faster than on-airport and if so, what is driving that trend and how sustainable do you think it is? Thanks.

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

Yes, I think historically the local market has grown faster than the airport market, at least going back to 2006 when we started collecting this data. And whether or not we are taking share, I don't know. I think because we've shifted our emphasis and are deemphasizing insurance replacement, our percentage growth in the general market is actually higher than it would otherwise be in a normal state. But if you look at the first half of this year, I think volume in local market was up 5, pricing was up 4. So it wasn't too far out of sync with what we saw at the airport. So I don't know that we are taking a lot of share, but I am sure we are certainly giving up share in the insurance replacement business.

Chris Agnew - *MKM Partners - Analyst*

Good. Thank you.

Operator

Brian Johnson.

Unidentified Participant

This is Dan (technical difficulty) for you. Just trying to get a sense, first of all, in 2Q what the impact of the Easter holiday was on volume and price and also whether you think the fact that you had the GM recall and you had a bunch of fleet grounded, the extent to which that positively impacted pricing by withholding supply?

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

I think our sense is Easter probably added 2 points to April volume and maybe a point to pricing. It wasn't affected very much by the GM recalls because the big recall was the Cruze and that actually didn't occur until after the Easter session. I think one of the things that we did see from the Easter break this year is that it actually extended the Easter season. Usually Easter is about a week and out, but, for this year, we were still getting check-ins into early May. And so I think it actually did help propel some of the May pricing and May volume that we saw.

Unidentified Participant

Got you. And just a follow-up, if we look at your 2014 price guidance, you were pacing up 3% ex-Payless in the first half and you are up 4% in July. So it seems like unless you have a deceleration in the pace of pricing, it seems like your guidance of 2% may be conservative. So is it possible that there is upside to that number or is it possible that -- are you looking for a deceleration of pricing in sort of the later months of the year? And then also just to confirm, your 2014 guidance assumes price of plus 2%, correct?

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

That's correct. If there is one thing I've learned in the time that I've been involved in this business, it is never get out over your skis on pricing guidance. So we always tend to err on the conservative side. Do I think there is an opportunity for upside? Sure, but you have got to remember that we are moving into our seasonally lowest quarter. There is a lot of defleeting that goes on in the September, October, November period. And so it's just -- it's always an uncertain environment over how quickly people can defleet and how much impact that can have on pricing. So I think we feel comfortable with our guidance of 2%. If I had to take the over and under, I would probably take the over. But, again, you really don't know until you see how the defleeting goes in the fourth quarter.

Unidentified Participant

Okay. Thank you very much.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Hey, good morning, guys and nice quarter. I don't know if you gave out this data point, but with the pricing power accelerating, are you guys reducing your reliance on some of the opaque discount channels?

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

Well, we have been reducing our reliance on opaque for probably the last 18 months. I think sequentially every quarter since fourth quarter of 2012 our opaque volume has been down and I think we are satisfied with the level at which we participate in that channel.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, very good. And then on the stock repurchase, you did $75 million both quarters and obviously, a few less shares this past quarter with the higher price. How do you guys approach in terms of price sensitivity on the stock buybacks? Is it more about you want to return a certain level of capital to shareholders and the price of the stock is not everything and then there are other factors or is there some price sensitivity in terms of the timing of the repurchase?

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

This is David. I think it really is, at this point, primarily about returning capital to shareholders and doing so in a relatively consistent fashion over time. We certainly think about the stock price and are aware that it has moved up, but I think among a number of different metrics, including our cash earnings per share, it's still quite attractive to us. And as a result, I don't see our plans over the intermediate term being impacted a lot by the stock price. It really is about consistently returning capital to shareholders as we said when we announced the program.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, very good. Thanks, guys.

Operator

Afua Ahwoi, Goldman Sachs.

Afua Ahwoi - *Goldman Sachs - Analyst*

Thank you, good morning. So two questions from me. First, on the international segment, the sequential volume deceleration we've been seeing, I know in the top points you called out Australia and you mentioned some other markets are uneven. Is Australia the only market that is seeing the sequential deceleration because of the economy or are there any other markets you would highlight and if that is it, maybe are you seeing any signs of a turnaround or how should we think about volume trends there?

And then I guess just going back to the question that has been asked in a different form, just on the fleet costs, I guess given that your guidance is unchanged from what you said at the beginning of the year, is it fair to say either your expectations coming into the year were conservative or has the used-car market or fleet cost sort of surprised to the upside and barring the recalls, you would have been better than expected? Thanks.

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

Hi, Afua. With respect to your first question, I think the only other market we'd probably call out is Germany. The irony is it's the strongest economy I think across the European continent. Volumes were down in the first quarter. They were down modestly in the second quarter. We actually think that they will pick up moving into July and August, but it is a little surprising that that market, which is economically doing okay, is the one where the volume reductions are most pronounced.

The other volumes that we are seeing trending down, Switzerland, I mean the exchange rate between anything and the Swiss dollar has gotten pretty pricey. And so while it is not a big market, we are seeing some erosion in volume there. And I would say the other market is probably the UK and a lot of the UK volume declines that we've experienced in the first half of this year have been self-inflicted. There is a practice of deliver and collect that is prevalent in the UK and it makes for a lot of unprofitable business. And so we have been pulling back from the insurance replacement market where we have had to do deliver and collect in order to secure the business. I think the slowdown in mining in Australia and whatever is the retrenching that is going on with German consumers are probably the only two that are meaningful that stand out.

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

Let me try to clarify a little bit with respect to fleet costs. Holding onto cars, having more cars in our fleet doesn't really change our per-unit cost, but it does increase fleet cost as a percentage of revenue. And so the principal issue we've seen so far this year, needing to have more cars in our overall fleet because some are unavailable due to recalls, really doesn't show up in the per-unit number, but does show up in our fleet cost.

With respect to the issue of suboptimizing some of our dispositions, that will show up in fleet costs and I think we are in a situation where it is probably pushing our per-unit costs up more likely to the upper half of the range rather than potentially having been in the lower half of the range. I don't think we were particularly conservative or aggressive when we set up our expectations for the year. We are really managing this and working it as much as we possibly can to keep it in the $300 to $310 range. And I think what you are seeing as a result of everything that has been going on is more likely ending up in the upper half of the range rather than in the lower half.

Afua Ahwoi - *Goldman Sachs - Analyst*

Okay, great, thank you.

Operator

Kevin Milota, JPMorgan Chase.

Kevin Milota - *JPMorgan Chase - Analyst*

Hey, good morning, guys. Obviously, you have been very much the price leader for the industry. I was hoping you could talk about follow-through rates by the different brands, so at the Avis level and then Budget and Payless, to see what the follow-through has been with your price increases by the competition.

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

Well, the last price increase that we put in that was followed almost universally was back in January. I think there have been periodic price increases over the course of the ensuing five or six months. I think it has been erratic as to who follows. What I would say is that there has been fairly consistent pricing amongst the premium brands, particularly over the course of the last couple, three months. On-airport premium pricing has actually held pretty good. Budget has done very well pricing against Alamo and its other counterparts. And I think we've been fairly successful at trying to drive up pricing at Payless.

I don't know if that answers your question, Kevin, but I guess the answer is that -- I would say in the last couple of months, it is more based on fleet tightness that we have gotten incremental pricing than it's been on our throwing out price increases and having people follow.

Kevin Milota - *JPMorgan Chase - Analyst*

Okay, thanks a lot, guys.

Operator

And 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*

Thank you. So before we close today, I just think it is important to reiterate what I believe are the key points from today's call. We had an excellent first half of the year driven by strong volume and pricing in North America, which has continued into the summer months. We are achieving incremental synergies from our acquisitions of Avis Europe, Zipcar and Payless and we are continuing to return cash to shareholders through our share repurchases. We have a very full investor calendar this quarter and I hope to see many of you during our travels and with that, I want to thank you for your time and interest in our Company.

Operator

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