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Corporate Participants

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David B. Wyshner – Chief Financial Officer & Senior EVP
John Healy – Analyst, Northcoast Research Holdings LLC

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Afua A. Ahwoi – Analyst, Goldman Sachs & Co.
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MANAGEMENT DISCUSSION SECTION

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

Neal H. Goldner, Vice President-Investor Relations

Thank you, Tonya. 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 results for the second quarter, I would like to remind everyone that the company will be making statements about its 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 and 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, our most recent Form 10-Q 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 have also provided slides to accompany this morning's conference call which can accessed on our website as well. Also, certain non-GAAP financial measures will be discussed on 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, CEO & COO

Thanks, Neal. Good morning and thanks to all of you for joining us. I want to spend just a few minutes discussing some of the highlights of our quarter, our current outlook and then perhaps anticipating some of the issues that are foremost on your mind a bit about vehicle residual values, pricing and trends in Europe.

Starting with the quarter, volume was positive across all of our regions, generally driven by strong leisure demand across both brands. We grew our margins in the quarter in large part due to lower per unit fleet costs in North America, our integration and cost saving efforts in Europe and benefits derived from the numerous strategic initiatives we discusses during our Investor Day in May. As a result, we reported our highest ever second quarter adjusted EBITDA.

In North America, we saw volume growth that was, again, several points stronger than airline passenger volumes. And our strategic focus on the fastest growing and most profitable channels continues to drive our results. In fact, for the quarter, small business volume increased 7%, well above overall corporate demand.

Our inbound volume grew 9%, including more than 10% growth from our Latin America and Asia Pacific regions. Importantly, inbound volume growth from Europe increased 20% for Budget. This is important for two reasons: one, it attests to the visibility of the brand in the European market, which further strengthens our resolve to expand Budget in Europe; and two, it is clearly a meaningful contributor to our initiative to increase our share of this business.

In our local market operations, we increased the number of co-branded stores to nearly 550 this quarter, more than a 15% increase from the end of the year and we grew our off-airport rental volume 6% in the quarter.

Our local market RPD averaged over $42 during the quarter, including ancillaries, and was generally flat on a year-over-year basis, trending better than the overall market. As a reminder this was a $750 million business that four years ago contributed zero to our P&L. Today it's a solid contributor to our North American profitability.

During the quarter, we launched Avis Preferred Select & Go, a new vehicle choice service which we unveiled at our Investor Day. We fully expect vehicle choice will boost customer loyalty and provide incremental upgrade opportunities, most notably with all of our counter-bypass customers.

With Select & Go, Preferred customers have the option to keep their pre-assigned vehicle, select a different vehicle at no additional cost or upgrade to a different vehicle for an additional fee, all without having to visit the rental counter. We currently launched Select & Go in 25 airports and expect to have it in 50 of the largest airports by the end of the year.

We also continue to expand our use of alternate channels for vehicle dispositions. We sold approximately 40% of our risk vehicles through alternate channels in Q2 and formally launched a direct-to-consumer fleet disposition program that leverages the retail experience and infrastructure of AutoNation, a leading national auto retailer.

Not only does this channel require no incremental investment from us, but allows to keep the car in service much longer than the other channels, thereby minimizing the cost of time to market. For our fleet disposition activities, we don't really have any arbitrary targets for one sale method versus another, rather it's all about maximizing our net proceeds from vehicle sales usually through a combination of traditional auction, online, direct-to-dealer and direct- to-consumer channels, and frequently it's dependent on the region of the country where the vehicle is located.

More generally, what we saw in the second quarter was a normalizing of used vehicle residual values which we expected to occur at some point. At quarter end, even with the depreciation adjustments taken in the first quarter, we were still recognizing gains on the average vehicle sale, but the amount of such gain was considerably smaller than what we had seen earlier in the year. Nevertheless, the used car market in North America continues to be healthy and in line with our earlier expectations.

Moving to International: Our pre-existing business consisting primarily of owned operations in Australia, New Zealand, Argentina and licensees throughout Central and South America continued its trend of solid revenue growth and industry leading margins.

EBITDA grew 25% and we signed co-marketing partnerships with airlines, credit card companies and others that will help to us continue to attract customers to our brands throughout the world. In fact, less than two years after announcing an exclusive car rental partnership with Qantas Frequent Flyer program, we're now capturing well in excess of 80% of their customers' car rental business. So we're optimistic about the potential with these new other agreements.

In our largest legacy market, Australia, as in the rest of the world, pricing was somewhat challenged, but the growth of our special use commercial business, combined with the healthy used car environment and the Qantas agreement, allowed not only Avis Budget to be the number one company in the market but Avis to be the number one brand.

In our Europe, Middle East and Africa, or EMEA, operations our second quarter results were slightly better than last year with positive volume growth and positive EBITDA growth amid a challenging economic backdrop. Our leisure volume was particularly strong in the quarter with France, Germany, Spain and the UK each reporting leisure volume growth in excess of 15%.

This growth, in large part, reflected our initiative to expand the Budget brand, partially offset by weakness in corporate and leasing demand. In fact, Budget's volume more than doubled in the second quarter, and those trends are continuing into the summer.

As you heard me say in the past, we believe Budget is significantly under penetrated in the European market. It is the only Pan-European vehicle rental brand focused squarely on the value segment, yet its European share pales in comparison to its presence in the rest of the world.

There are several reasons why we are succeeding where Avis Europe did not. For starters, we've changed the mindset within our European operations away from the view that a Budget reservation is a lost Avis reservation.

Second, we instituted a new sales approach selling both brands with an integrated team along with tapping channels that were previously under served. In the last quarter alone, we signed agreements with American Express, Expedia and several other major and discount airlines.

Third, we've adjusted the price point for Budget to where it belongs, which is at the higher end of the value segment, not competing with Avis, Hertz or Europcar, but more generally with the 35% of the market that the independents comprise. This is a significant point, because in a perverse kind of way, the economic challenges in Europe may actually help Budget in the long run, as we expect the smaller independents will find it increasingly hard to secure access to capital to refleet.

We've also substantially expanded Budget's presence in Europe by launching it in Spain, reacquiring the rights and re-launching the brand in Italy and adding new locations in France, Germany and the UK, all in some measure taking advantage of our existing Avis infrastructure. And then, finally, we are aggressively promoting the brand through our online channels.

As you might imagine, we're encouraged by the growth we're seeing with Budget, but Budget's not the only thing that is providing momentum. We believe that owning Avis Europe would allow us to call on multinational accounts more effectively, and we're experiencing early validation of that view.

We signed and/or expanded a number of multinational agreements which we believe are directly attributable to be able to – being able to call on accounts with one voice. For example, with the European based global food company, we expanded our contract to include Europe where we previously only had North America.

They've also won the single largest car rental account in Europe and several other significant corporate account wins along with several successes in signing new airline partnerships. All-in, in the first six months of this year, we have secured over $50 million of new commercial business, providing early confirmation that bringing our brands back under a common ownership structure globally is beneficial to us.

You may recall that our projected year one synergies were almost entirely derived from cost savings, so these revenue synergies represent incremental upside for us as they come online in the back half of 2012 and into 2013.

But before getting too far ahead of myself, let me focus on our nearer term outlook for EMEA as I know that's a topic of interest and concern for all of us. In Europe, items that we control: matching our fleet sized to rental volumes, achieving significant synergies from integration, expanding the budget brand, and aggressively going after corporate sales are all going after very well. Items that we can't control are a mixed bag: from reasonably good summer demand to a difficult pricing environment, soft demand for used vehicles, to uncertainty about post-holiday demand for car rentals.

At this point, we estimate in July and August we will see our rental volumes increase approximately 6% to 8% across Europe, including 30% in Spain and 15% in Italy. While the growth is coming from Budget, Avis' volume is roughly even with last years and obviously more reflective of the economic challenges. Fortunately, our push to drive more ancillary revenues is bearing fruit and we expect Avis' total revenue per rental data to decline one to two percentage points on a constant currency basis.

The European used car market is difficult, and we are concerned about what that will mean as we move to defleet risk cars at the end of the summer. We are able to shift disposals around the European continent to take advantage of stronger markets and pockets of demand, and so is everyone else, limiting somewhat the opportunity.

Fortunately, with our European fleet being approximately 75% program, we're somewhat insulated from the softness in the used car market, but we're not completely immune as we're looking to sell approximately 17,000 risk cars between now and the end of the year. While we've tried to adequately prepare for used car softness in our depreciation assumptions, the piece that is harder for us to predict is what volumes and pricing will look like from September to December, the period in which demand is traditionally driven by commercial travel.

Our earnings guidance does assume some continued softness in commercial demand. It is roughly consistent with prior periods. But we are keeping a laser-like focus on managing our fleet levels, our staffing and our costs carefully, at the same time accelerating our efforts to realize integration efficiencies to offset any potential further softening.

The net result is that we think summer will turn out to be okay, not great, but certainly not a disaster and that's important since our earnings are concentrated in the summer months. Beyond the summer peak, while our visibility remains limited, our base case assumption is for car rental demand to continue to experience the manageable and modest declines we saw over the course of the first half of the year.

Our outlook for North America does not involve a lot of drama. We expect year-over-year demand in pricing trends in the third quarter to be consistent with second quarter trends with leisure growth outpacing commercial and pricing down year-over-year. With respect to pricing, higher rates in this industry have historically been driven by rising fleet costs as opposed to increased demand due to the variable nature of our inventory.

So as we see fleet cost rise, we're hopeful that that will engender an uptick in overall pricing trends. It goes without saying that we continue to believe our pricing levels don't accurately reflect the value we bring to consumers and we move quickly to support and/or initiate price increases whenever possible. As you're well aware, industry pricing is highly competitive.

In the meantime, we'll manage this competitiveness by continuing to focus our strategy in faster growing segments that have above average pricing levels and are, therefore, more profitable.

Another important issue is fleet costs. We're currently projecting 2012 fleet costs of $240 to $255 per unit per month in North America versus $262 in 2011 in $324 in 2010. While we will almost certainly have some regression back towards historical levels in 2013, we're not ready to give an estimate for fleet cost beyond calendar year 2012 at this point.

The good news is that a number of things are working in our favor. The car rental industry has extended vehicle hold periods over the past two years which has significantly reduced the number of late model used cars coming into the market each year, providing a continuing boost to residual values.

The number of cars coming off-lease is hitting the multi-year trough in which the increase in 2013 is only expected to be in the mid-single digit, still some 35% below the peak. The SAAR will likely continue to be nearly 2.5 million cars lower this year than before the last recession.

And the domestic OEMs are operating differently than in the past with actions that demonstrate a focus on profitability not solely on vehicle production. Among other things, retail incentives remain well below pre-recession levels and new vehicle CPI is at a 15-year high. All of that is good for us as those dynamic should support an already healthy residual market.

And lastly, based on the deals we've been negotiating with manufactures for model year 2013, we do not expect to see anything more than an inflationary increase in the per-unit per month cost to program cars next year, and incentives on risk cars are remaining fairly consistent year to year.

The upshot is that while the longer-term trajectory of fleet costs is likely to be upward, there are a number of reasons why the incline should be gradual. And the silver lining of a modest fleet decline in residual market should be better industry pricing over time, especially since all of our major competitors have substantially higher risk fleets than we do and the fastest and most effective way to offset rising fleet costs is by increasing prices.

So these are the factors that we consider in our fleet cost calculus. Meanwhile, we continue to do a lot of work to lower our fleet cost to various efficiency programs as well as expanding our use of lower cost disposition channels.

So to wrap up, we feel very good about our second quarter results. We're obviously more comfortable reiterating our guidance of $825 million to $875 million of Adjusted EBITDA than increasing it. But before anyone reads too much into that, it's important to know that our second quarter results were consistent with our own expectations, therefore, you can't look at our second quarter out performance versus consensus as being available to potentially increase our estimates.

It's important to remember that our first half results reflect the benefit of artificially low fleet costs, resulting from the adjustments we made earlier in the year when we prospectively revised the depreciation rates on many of our vehicles.

As we look ahead, the low fleet cost we've experienced in the first half as a result of reduced depreciation rates and gains on disposition will normalize, which is reflected in our full year fleet cost estimates as well as in our EBITDA guidance. The economic risks related to Europe are real, but they feel manageable relative to the overall scope of our company. And in areas that we as a management team can control or material influence results, not only in Europe but throughout the world, we believe we are hitting on all cylinders.

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

David B. Wyshner, Chief Financial Officer & Senior EVP

Thanks, Ron, and good morning everyone. Today I'd like to discuss our second quarter results, our fleet, 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 the earnings call presentation on our website.

In the second quarter, revenue increased more than 30% to $1.9 billion, primarily due to the acquisition of Avis Europe. Excluding the acquisition, revenue was up 3% and up 4% on a constant currency basis. Adjusted EBITDA increased nearly 40% to $266 million, a second quarter record. Excluding Avis Europe, adjusted EBITDA increased 15%.

We continue to control our costs carefully. Direct operating costs declined 20 basis points as a percentage of revenue and were consistent with last year, excluding the acquisition. SG&A expense increased 50 basis points as a percentage of revenue, but most of the increase was due to the acquisition.

Over the last 12 months, we've generated $721 million of adjusted EBITDA, excluding items. Our margin is over 10.5%. Our diluted earnings per share are $2.02. For analysts who calculate EBITDA before financing fees and stock-based compensation, or LTM, adjusted EBITDA would be $44 million higher with $765 million.

Since we acquired Avis Europe in October 2011, all of these figures do not include the results of Avis Europe for the third quarter, which is usually by far the most profitable quarter for these operations.

In the second quarter, North America revenue increased 3%, reflecting a 6% increase in volume, 5% growth in the high margin ancillary products and services, partially offset by a 3% decline in pricing. Excluding currency movements, pricing declined 2%.

Leisure volume increased 8% in the quarter, a significant achievement on top of last year's 12% growth. Leisure pricing declined 4%. Commercial volume increased 2% in the quarter, with pricing down about 1.5%. Growth in small business and commercial inbound rentals helped to offset declines in insurance replacement and government business as we continue to focus our energies growing in our most profitable channels.

North America adjusted EBITDA increased 18% year-over-year to $184 million, margins expanded 200 basis points. Earnings benefited from the growth in rental volumes as well as 13% decline in per-unit fleet costs.

In our International segment, revenue more than tripled in the second quarter primarily due to the acquisition of Avis Europe. Excluding the acquisition, volume increased 3%. Pricing increased 1% on a constant currency basis. Adjusted EBITDA more than doubled, primarily due to the inclusion of Avis Europe. Excluding the acquisition, adjusted EBITDA increased 25% to $25 million driven by higher revenue and lower fleet costs.

Our rental volumes in Europe were better in the second quarter than economic headlines would have suggested with volume increasing 2%. Growth in ancillary revenues largely offset at constant currency price decline, which in turn was primarily due to the growth of Budget rental volume. As a result, the 2% increase in rental days translated into a 2% increase in revenue excluding currency effects. Foreign exchange negatively impacted reported revenue by 11 points. In total, adjusted EBITDA in our acquired operations increased $2 million compared to last year.

The integration of Avis Europe continues to proceed well. In the quarter, we began to move positions to our shared service center in Budapest with more than 200 positions expected to be transitioned by the end of the year.

We started to rollout ancillary product sales training across Europe, starting in Spain. We made significant strides with centralizing management activity, which should both drive cost savings, improve decision making.

Looking forward, we continue to aggressively pursue the cost savings and revenue opportunities that we believe exist in Europe, and we remain confident in our ability to reach a run rate of more than $35 million of annual savings by the fourth quarter.

Revenue and adjusted EBITDA in our Truck rental segment remained consistent with last year, as lower fleet costs were offset by increased maintenance costs. Performance Excellence, our process improvement and productivity enhancement initiative, continues to deliver benefits throughout our P&L. We're better managing the scheduling of our vehicle maintenance teams to minimize the costs associated with fleet being idle. We're also saving money by optimizing which vehicle should be worked on next. We're reducing the amount of time it takes to dispose the vehicles, and thereby reducing fleet cost. And we're increasing ancillary sales penetration in local market location and among prepaid customer.

We expect PEx to generate $45 million in benefits in 2012. Importantly, the process that we have developed to identify new projects should keep our pipeline of opportunities full for many years.

We also believe Europe is largely an untapped opportunity for Performance Excellence. Enthusiasm for this initiative has surpassed our expectation. We've already initiated 60 projects across Europe, through which we're reducing infleeting and defleeting downtime, reducing maintenance and damaged downtime, standardizing fuel collection procedures, improving damage recovery and optimizing cleaning and shuttling schedules, just to name a few projects.

Our efforts to focus on the customer experience we provide have been equally intense. In addition to the launch at Select & Go, which Ron discussed, we've recently launched new mobile apps for Budget, lifted location and date blackout restrictions for members of our Avis loyalty program, positioned ourselves to implement the first part of our new CRM system by the end of this quarter.

Negotiations for model year 2013 vehicle purchases in North America are nearing completion. In general, we expect to see manageable increases and the monthly holding costs for program cars and the purchase prices for risk cars.

The mix of manufacturers will be broadly similar to prior years with cars not only from Chrysler, Ford, GM, Nissan and Toyota, but also from BMW, Hyundai, Kia, Mazda, and Volkswagen. We expect risk vehicles to represent approximately 60% of our North American fleet for 2012. We expect the percentage to increase to approximately 65% next year, providing a positive impact on fleet costs.

Turning to the balance sheet, our liquidity position remains strong with more than $2 billion of available liquidity worldwide. We ended the quarter with over $450 million of cash, no borrowings under our $1.4 billion corporate revolver, roughly $400 million of availability under that facility. We had unused capacity under various vehicle-backed funding programs of $1.3 billion.

Used available cash to repurchase and retire more than $200 million of our outstanding convertible debt this year, including $100 million in the second quarter. These repurchases have reduced the potential dilution from our outstanding convertible debt by 12 million shares, or nearly 10% of our diluted share account.

We've made significant progress in reducing our leverage. Our net corporate debt to LTM adjusted EBITDA at the end of June was just 3.0 times on a pro forma basis, which is at the low end of our target range of 3 to 4 times.

In the near term, our primary use of free cash flow will most likely be corporate debt reduction. We will be redeeming $50 million of our 7.75% notes in 2016 September. In addition, as we discussed at our Investor Day, we will look at tuck-in acquisitions of licensees and other businesses when we see a good strategic and geographic fit- the potential for an attractive return on capital.

Our access to the asset-backed debt market remains excellent. We announced Tuesday we completed a $690 million offering of vehicle-backed debt, a blended interest rate of 2.2%. Not bad for five-year fixed rate paper.

As we announced in our press release yesterday, we expect revenues to be between $7.2 billion and $7.5 billion this year, increase of 22% to 27% versus 2011. This is slightly lower than our previous guidance of $7.3 billion to $7.6 billion, but the downtick is due to movements in exchange rate.

We expect adjusted EBITDA of $825 million to $875 million, excluding certain items, an increase of roughly 40%, consistent with our previous guidance.

Fleet costs in North America are projected to decline 3% to 8% on a per-unit basis compared to 2011 consistent with our prior estimate. For modeling purposes, we expect our third quarter North American fleet costs to be up 4% to 6% on per unit basis.

We now estimate that our full year corporate interest expense will be $260 million to $265 million. That's quite an increase from our previous estimate due to year-to-date hedging costs.

The tweak to our interest expense forecast means that we now estimate that our 2012 pre-tax income will be $450 million to $505 million, excluding certain items.

With the repurchase of additional convertible debt in the second quarter, we now estimate that our diluted share count will be around 122 million this year. As a result, we continue to estimate that our 2012 diluted earnings per share, excluding items, will be approximately $2.35 to $2.65, increase of 40% to 60% from 2011.

We expect our capital expenditures to be around $125 million in 2012. We do not expect to be a U.S. federal cash taxpayer with respect to our 2012 earnings. We continue to target more than $300 million of corporate debt repayment this year, which includes the $200 million of convertible notes repurchased in the first half of the year.

Two other items worth mentioning: First, in third quarter 2011, we had pro forma EBITDA of $157 million in our International segment. It looks as movements in currency exchange rates are going to have an unfavorable impact at $15 million to $20 million on third quarter EBITDA this year. Other than the exchange rate impact, we currently expect that any decline in International EBITDA will be no more than $10 million.

Second, for what it's worth, all of the calendar issues that we would typically look at in the second half, the 4th of July falling on a Wednesday, Halloween on Wednesday, the presidential election year and early Thanksgiving, a Tuesday Christmas and so forth, are usually aligned against us. In total, the impact on fourth quarter volume could easily be a point or more. Our hope is that these calendar items can all be overcome by further progress on our near and intermediate term strategic initiatives.

In closing, Ron and I and the entire senior leadership team remain enthusiastic about how our business is performing, the continued success of our strategic initiative, our summer volume trends and the consolidation of our European operations.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we are ready for the question-and-answer session. [Operator Instructions] Our first question comes from Afua Ahwoi with Goldman Sachs. You may ask your question.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Thank you. Good morning. Just a quick – two quick questions. First on price, and I know you indicated that it would be still be down year-on-year in North America in 3Q, but I was wondering if you could give us an idea whether it will be sequentially better versus 2Q or sort of in line?

And then, secondly, on your volume growth and fleet growth in North America as well, I noticed that for the first time in about four or five quarters, volume actually grew more than fleet. And I know you had indicated a couple of quarters ago that you were strategically growing fleet more than volume, so can you maybe elaborate on how you're thinking about those two metrics going forward now? Thank you.

<A – Ron Nelson – Avis Budget Group, Inc.>: Hi, Afua. It's Ron. I think that pricing does get better on an absolute basis, clearly, sequentially. On a percentage – year-over-year percentage basis, I think it's actually probably going to end up being fairly consistent. My sense is that July is going to be roughly in the same range as the second quarter, and September probably will as well and August will be up a little bit. But when you average it all together, I think it's going to look a lot like the second quarter.

In terms of fleet growth, I think we're trying to keep fleet right in sync with demand. I believe in the second quarter, we actually improved utilization a little bit. Demand was – or growth in rental days was higher than the growth in the fleet. And my sense is that going into the third quarter, we're probably going to be right in sync with demand and we actually might get a little bit of a utilization pickup. Of course, a lot of this all depends on how quickly and how effectively you defleet in September because that's obviously a big defleeting month not only for us, but for the entire industry, so it can have an impact on those utilization numbers.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Thank you.

Operator: Our next question, John Healy with Northcoast Research. You may ask your question. John Healey, you may ask your question.

<A – John Healy – Northcoast Research Holdings LLC>: Thanks. Thanks. David, a question about financing a bit. David, I know you guys have gone to the bank a number of times over the last six months or so. I was hoping you could maybe try to size for us, maybe the benefit that you could see in 2013 from some of the different refinancing you guys have done regarding the fleet interest expense for next year?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure, John. Good morning. The – and clearly refinancing some of the fleet debt at 2.2% recently and around 3% in our prior transaction and having debt that's replacing maturing vehicle debt at a 5%, 6% and sometimes higher – 5% or 6% and sometimes higher rate is going to have an incremental benefit in 2013. At this point, I think it could easily be another $20 million, $25 million improvement year-over-year in 2013.

<A – John Healy – Northcoast Research Holdings LLC>: Great. And then I had a question for you Ron. You made some comments about the European market and how some of the independents out there have a little – may have a problem securing financing longer term. Can you talk to maybe some of the things that you're hearing on the ground level there? Are you seeing any independents on the ropes? Would that be an acquisition opportunity? Do you see some of those players going away as well?

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, John, I think the ones that are going to have trouble are going to be the ones that probably aren't terribly interesting to us from an M&A standpoint. I think they're the smaller mom and pop operations that you see around the southern coast of Spain or in Italy. And what you see is that they're hanging on to their fleet longer and longer and eventually they're going to have to try and refleet.

And just our sense of the banking situation, particularly in Spain, is that it's going to be difficult for smaller operators to get the capital that they need to refleet. They might get some capital, but it'll be – it'll probably be less capital than they would have otherwise gotten in a better market. And I think that Budget is a couple hundred percent in Spain, and that's – it's – that isn't – that isn't new demand coming in the market. That's taking share away from these guys, so. I think there are lot of elements all around that are just going to come together to make it difficult for independents to get capital.

<A – John Healy – Northcoast Research Holdings LLC>: Great. Thank you.

Operator: Our next question comes from Adam Jonas with Morgan Stanley. You may ask your question.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Hey Ron. Hey David. Question on European pricing, how has that developed in July and August compared with the underlying 1% that you saw in 2Q?

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning, Adam.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Hi, David.

<A – David Wyshner – Avis Budget Group, Inc.>: The pricing environment in Europe continues to be pretty competitive, and I think it's always hard to draw conclusions from the second quarter for the summer. Generally speaking, I think the summer is going to be a little bit tougher from a pricing comparison standpoint, and obviously, we have the issue of our mix shifting a little bit more toward Budget.

As we look at the environment, we think some of the economic challenges in Europe are expressing themselves to an extent in pricing. But we've factored that into our view that any decline in International EBITDA, excluding currency effects, should be limited to less than $10 million this third quarter.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Great. If I could just be allowed one more brief one. Assuming the opportunity presented itself, can you unequivocally rule out participating in further industry consolidation in North America assuming, of course, the price was right and you felt that it fit with your long-term strategy. Thank you.

<A – Ron Nelson – Avis Budget Group, Inc.>: Would you like to try another second question, Adam?

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: No. You can – if you want to ignore the question, I respect that.

<A – Ron Nelson – Avis Budget Group, Inc.>: Yeah. I don't think I'm going to answer that question, Adam. I mean, our disclosures on Dollar Thrifty have – are all out in the market and we've told people where we stand on it. And we're watching what happens very carefully, so.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Then you've answered my question. You're not unequivocally ruling it out.

<A – Ron Nelson – Avis Budget Group, Inc.>: No, you answered your question.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Then I answered my question.

<A – Ron Nelson – Avis Budget Group, Inc.>: Thanks, Adam.

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

Operator: Our next question comes from Christopher Agnew with MKM Partners. You may ask your question.

<Q – Chris Agnew – MKM Partners LLC>: Thanks very much. Good morning. I just want to ask a question on your thought process about increasing the risk mix just when used vehicle prices are moderating. I know you mentioned the risk vehicles are cheaper at the moment, but is it more to do with your confidence in the factors you outlined for relatively stable used car market, or is it more increased confidence in your various remarketing initiatives. And I just would be interested if you could share some examples of your experience, maybe with the direct-to-consumer initiative that you highlighted today. Thanks.

<A – Ron Nelson – Avis Budget Group, Inc.>: I don't – our goal of increasing the risk percentage, Chris, doesn't have much to do with our ability to access alternative disposition channels. I think we've taken a hard look and actually spent a fair amount of time looking at the volatility in the used car market and what the likelihood is of being long on risk can hurt you in terms of getting an imbalance in your fleet. And I think we've been fairly conservative over the years, but I think we're – we feel very comfortable given our outlook for the used car market over at least the next 18 to 24 months. But moving it up another five points is not going to – is only going to benefit us.

I think in terms of alternate distribution channels, the direct-to-retail program is still fairly young. I mean, we – I mean, the number of cars we've sold are not a valid sample to be able to say that this is going to be a meaningful benefit to us. But clearly, the biggest opportunity we have in fleet cost is the spread between wholesale and retail. And with our deal with AutoNation, we are capturing a share of that spread. So ramping it up and being able to roll more cars out on that will have a beneficial effect, all other things equal, on our flight fleet costs.

I think in our direct-to-dealer and online auctions, in the direct-to-dealer market, I think that the immediate benefit we're seeing is much shorter time to market. You can keep the car in service much longer. It's – on average it's probably a two-week pickup from an auction. So you think about fleet costs over the course of a month, a two-week pickup is not inconsequential.

And I think on the online auctions, it really all depends on what the volatility in the auction market is. I mean, there are times when getting in the auction market, particularly an auction market like we had in the first quarter and the early part of the second quarter, it's probably better to be in the auction, because the volatility was all on the high side.

Now, it can go both ways. And so my view is that it's the direct-to-dealer program, you pick up some shipping efficiencies and you probably pick up some time-to-market efficiencies, and it does provide some increase – some incremental benefits. But it all depends on timing in the auction market because the upside in a volatile auction market can be fairly significant.

<Q – Chris Agnew – MKM Partners LLC>: That's great. Thanks. And if I could ask just one more, the top end of your free cash flow guidance is in the middle of your pre-tax forecast range. So I was just wondering what would cause to you come in to low end of your free cash flow range?

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning Chris. I think there are two issues. We are a taxpayer in certain foreign jurisdictions and that has the potential to reduce our cash flow a bit compared to pre-tax, and obviously we work to offset that elsewhere such as in working capital but that – that's certainly one item that could have an impact. I think the second would primarily be the timing issues.

<Q – Chris Agnew – MKM Partners LLC>: Got you. And then just a quick follow-up, can you give us an estimation of when you sort of cash- how you'll become a cash taxpayer over the next several years? I gather it will start to increase?

<A – David Wyshner – Avis Budget Group, Inc.>: I think that's right. We're actively working on completing our 2011 tax return right now, and that will help shape our – what our plans are for 2012, 2013, and 2014 as well. But most likely at some point in 2013, we'll move into the position of being a partial cash taxpayer. And I'd consider that to be – at a rate that's well below the statutory rate of 35%. But beyond that, I don't think we're ready to go out with more of a forecast than that.

<Q – Chris Agnew – MKM Partners LLC>: Great. Thank you.

Operator: Our next question comes from Brian Johnson with Barclays. You may ask your question.

<Q – Brian Johnson – Barclays Capital, Inc.>: Yes. Good morning, Ron and Dan (sic) [David] (42:43). A lot of my questions have been answered so I'll ask a more strategic one. You made this successful foray into Avis Europe. I think I told Neal I was actually impressed with the integration that I witnessed when I did an outbound – well, I don't know if you call it inbound or outbound – when I reserved a car in Europe for next week. Coming the other way though, we see Sixt with about seven or eight locations in Florida, one in Georgia. How do you see, now that you've demonstrated the success of a combined model, the impact on the U.S. market from some of the Europeans coming over here?

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, I think we still have an advantage, Brian, in the sense that we have far of a greater airport penetration then Sixt. And I think when you think about all of the rest of the world that can come inbound to North America, there really are only three brands that have the footprint that can capture that business. And obviously, we have two of them.

So, look, I firmly believe that Sixt is going to come into this market to do everything they can to position themselves in those markets that are going to drive inbound business for them. But I think it's probably a fairly long ramp for them. And in the meantime, we're doing everything we can to secure our fair share that business and develop the customer experience and increase customer loyalty and do all the things that will make that business as sticky as we can possibly make it over the next few years while we have that advantage.

So I guess it's a long way of saying, I'm not too terribly worried about it, but we obviously do watch it carefully and we're doing all the things that I think we should do to secure our position.

<Q – Brian Johnson – Barclays Capital, Inc.>: Any evidence that when they shop to the Florida airports, which you flagged as having some weak pricing over Christmas due to weather, that they're at all disrupting the pricing level or is it so competitive you don't really notice? Or are they roughly staying within a niche of Germans and Dutch flying over and not really affecting the people flying down from the Northeast and Midwest?

<A – Ron Nelson – Avis Budget Group, Inc.>: I don't know the answer to that question, Brian, but I would tell you that most of the business that comes in – the majority of the business that comes into the Florida markets comes from Latin America. And I don't know what Sixt's footprint is in South America. And what I'm reasonably sure is that between us and Hertz and, to a lesser extent, National and Alamo, we get the lion's share of that business in Florida.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay. Thank you.

Operator: Our next question comes from Steve O'Hara with Sidoti & Company. You may ask your question.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Hi. Good morning. And I apologize if you already went over this, but I mean, obviously, I know you talked about used car pricing and what the impact might be, and Hertz and a couple other companies are – commentary in regards to used costs and pricing. I guess I was wondering what would the argument be for you not to raise price in the face of rising costs?

<A – Ron Nelson – Avis Budget Group, Inc.>: Hopefully none, other than competitive. I mean, I think that when you look back over periods of rising fleet costs, there's clearly a trend of rising prices. And it's such a big cost element in your P&L and that's the one that you actually have the least amount of control over. I mean, you can always cut jobs and cut marketing and improve your productivity, but fleet costs what it costs. And if it goes up, your quickest remedy is to raise prices. So I think that's why you see that relationship.

But this – as I said, this is a very competitive market, and if your competitors are not raising prices in the face of fleet costs, it's harder for one company to raise their prices to capture it. But history would suggest that that isn't what happens. I mean – and history would suggest that people do raise prices in the face of rising fleet costs.

<Q – Steve O'Hara – Sidoti & Co. LLC>: And I mean is it fair to say that, I mean, nobody's getting any significant enough discount on fleet between one company or another to justify not raising prices? Is that – I mean, that's fair, right?

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, I don't know what others fleet deals are, but I think you can at least look around to the other public companies and look at their fleet costs and fleet purchases. And you need to look at them over time, because a lot of it depends on when you sell cars and when you adjust your depreciation. But I think over time, fleet costs are – vary amongst the public companies, more based on mix between risk and programs than they do on getting better deals.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Okay. All right. Thank you.

<A – David Wyshner – Avis Budget Group, Inc.>: That's right. We're all buying our cars from essentially the same group of manufacturers, and in some ways, I think even the mix among manufacturers tends to be more similar than different. So I would agree with the view that no one is in a substantially different position that would cause them to look at rising fleet costs in a significantly different way from someone else in the industry.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Okay. All right. Thank you very much.

Operator: Our next question comes from Yilma Abebe with JPMC. You may your question.

<Q – Yilma Abebe – JPMC, Inc.>: Thank you. Good morning. I apologize if you gave this. But what were the gains on disposed cars in the quarter?

<A – David Wyshner – Avis Budget Group, Inc.>: Hi, Yilma. The gain in Q2 is about $59 million in total. Most of that was in North America and obviously that was down considerably from the prior year second quarter.

<Q – Yilma Abebe – JPMC, Inc.>: Great. Thank you. And then my second question is, if my math is right – if based on the midpoint of your guidance, on a year-over-year basis in the second half of 2012 versus the second half of 2011, it looks like it's implying revenue and EBITDA growth in the 1% to 2% area. Is there – are you being overly conservative here? If so, where is the caution coming from given first half performance?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. I think the key issue is that clearly our fleet costs were down considerably in the first half of the year, but our view for the year as a whole is that they're going to be down 3% to 8%. And in the math associated with that is that the decline in fleet costs that we've had in the first half of the year, won't be quite the same. And as I mentioned earlier, we're actually looking at an increase in fleet costs of 4% to 6% in the third quarter, while pricing has continued to be pretty competitive. And I think it's a combination of those two factors that drive the math that you're looking at.

<Q – Yilma Abebe – JPMC, Inc.>: Great. Thank you.

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

Ronald L. Nelson, Chairman, President, CEO & COO

So before we close, I want to reiterate a few thoughts. We tend to wrap a lot of words around a number of important issues – all well intended in the pursuit of providing color and transparency to our business. But just in case our intentions clouded the facts, let me share with you what we feel the important takeaways from today.

First, results were strong, consistent with our expectations and we are reiterating our $825 million to $875 million EBITDA guidance. Two, the used car market is healthy and should remain so for the foreseeable future. So while our fleet costs have been artificially low for the first half of this year due to depreciation adjustments, our back half costs into 2013 will start to normalize, but the upward slope should be gradual.

The weak European economy appears manageable thus far and we are currently offsetting much of the weakness with successful launch of the Budget brand, new global account relationships and accelerating synergies. Four, the strategic initiatives we discussed on Investor Day are bearing fruit and position us for growth in revenue and earnings beyond demand growth.

And finally, we continue to use our available cash to reduce debt and have repurchased 200 million of our converts through June 30, eliminating 12 million shares or 10% of potential dilution.

So with that, I thank you for your time and we look forward to seeing you in the near future.

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