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CAR - Avis Budget Group Inc at Deutsche Bank Leveraged Finance Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Javier A. Diaz** *Deutsche Bank Securities - Leveraged Finance*

## PRESENTATION

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Good morning, everyone, and thank you for attending the session for Avis Budget Group. We're going to have a Q&A session primarily. But before that, I'd like to introduce David Wyshner, Chief Financial Officer and President of the Company. He will start with some opening remarks, and then we'll start with Q&A. And then obviously we will open it up for questions from the audience.

David, please go ahead.

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

Good morning. And thanks very much for joining us, and thank you to Deutsche Bank for having us once again at this conference.

I will be making forward-looking statements this morning, and the usual cautions apply.

Avis Budget Group operates the Avis and Budget vehicle rental brands directly in 25 countries around the world, and licenses our brands in roughly 150 other countries.

We also own Zipcar, which continues to be the leading car sharing company in the world, with nearly 1 million members and a brand that's well recognized for providing new mobility solutions, particularly in large cities and at universities.

Key themes around our business include the increased use of technology to improve the customer experience we offer and drive efficiency at the same time, as well as our generation of significant amounts of free cash flow, again this year as we have in the past.

As our third quarter comes to a close, the trends for the summer have become clear. Internationally, we saw a strong summer rental volumes in Continental Europe that slightly exceeded our projections for robust growth. We saw strength in Italy, Spain, Germany, France, and many smaller markets. And our recently acquired Maggiore business in Italy performed very well.

We've had positive volume growth in the Americas that was consistent with first-half trends and with a modestly growing economy. We've seen real progress in terms of the car rental industry being right-fleeted in the US, for the first time in almost a year. The used car market has been healthy, providing us with stable residual values and per unit fleet costs that were actually lower this summer than last.

Pricing in the Americas this quarter faced a tough year-over-year comp. It was up 4% to 5% in July and August 2014. And our Americas pricing has been largely unchanged in constant currency this quarter. Pricing for our Avis and Budget brands in the US was up a fraction of a point during this summer, consistent with what we said previously about July. Our performance excellence process improvement initiatives and our T15 global consolidation initiative continue to make positive contributions to our earnings.

We've known for a long time that our PEx initiative is doing a lot of things right. But based on conversations I've had with other executives recently, I believe we're delivering more value, year in and year out, from our Lean Six Sigma work than most companies, who often have neither the savings nor the sustainability that we have.

With our stock price having pulled back, we've been aggressive in repurchasing shares recently. Our third-quarter share repurchases will total more than $150 million, which is nearly double what we spent in the second quarter, and 5 times what we spent in the first quarter. We also have a trading plan in place under which we will continue to repurchase shares throughout October. We will have more to say about all of these topics when we report our third-quarter results in a few weeks.

Before we start our chat, I also want to take this opportunity to provide a few facts that may be helpful in thinking about our pricing this year. Namely, that in a rental business it makes sense to look at pricing in the context of the cost of goods sold, our fleet costs. Clearly, pricing this year has been less than we had anticipated. And the 2 point change in our projections from February to August negatively impacts us by around $0.80 per rental day. At the same time, though, we've had a 5 point reduction in our estimate of per unit fleet costs. This works out to a savings of about $0.75 per rental day.

As a result, our net pricing variants this year is only about $0.05 per day. We do believe it's helpful to look at these two items in the context of each other, particularly since fleet costs are our largest single expense. And changes in fleet costs impact all competitors, not just Avis Budget; and, therefore, also affect the pricing environment.

On the balance sheet front, we have no corporate debt maturities until late 2017, and therefore don't need to be in the markets other than to issue highly rated, asset-backed debt.

Lastly, and perhaps most importantly, I hope everyone heard the message that we shared on our last earnings call: that we're still looking to deliver record earnings in 2015, despite more than $40 million of currency headwinds.

With that, be happy to take some questions.

## QUESTIONS AND ANSWERS

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Excellent. Thanks, David. Starting with pricing and the pricing environment, as we know that's a focus area for investors. I know that last year there was a significant increase in pricing, which makes this year, the comparable figures a little bit difficult. But could you elaborate a little bit more on what trends are you seeing, both in North America and Europe, through Q3 for what you can discuss, and then your outlook for the rest of the year?

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

Sure. I think, as I mentioned, we are definitely up against a tough pricing comp in July and August. And I think we're reasonably pleased to see that the quarter is coming out relatively flat year-over-year, even with that tough comp. As we moved into September, and as we move into the fourth quarter, the comp is easier for us. And that's part of the reason, as we mentioned at the beginning of August, that we expect the second half as a whole to be a little bit stronger than the first half was.

In Europe, the summer was solid from a pricing perspective. We saw pricing that was relatively consistent, maybe up slightly in our legacy brands, excluding our acquisition. And that was coupled with a good demand environment as well, so I think we're seeing a stability of pricing in most of the markets where we operate.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Great. And we've heard you talk about the demand fleet pricing tool a lot. Do you expect -- and that, I think, is intended to be fully rolled out by the end of the year. Do you expect a significant help from pricing, as it relates to that new system?

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

I do think it will provide benefits really as we move into 2016. Our demand fleet pricing initiative is a great example of using technology to drive efficiency in our business and win more customers. And I think we're already delivering significant benefits from that in the US.

We're rolling out that tool in Australia and New Zealand now, and the early results have been quite positive. We're preparing to have the pricing robotic available late this year or early next in Europe. And the second and third phases -- the movement from a pricing robotic to an integrated forecast and yield manager that includes fleet movements and fleet optimization -- should be ready for use late this year, or early next, in North America. And we expect to roll that out judiciously next year, but it will have a significant benefit in 2016.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Okay. Are there any questions on pricing from the audience? Or any other?

**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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

Sure. The question is about the competitive pricing environment in North America. I think we're seeing a continuation of the trends we saw in the first half, and that's what gave rise to the stability of pricing during the summer. I think that's coupled with a right-fleeting in the industry, as I mentioned, we haven't seen in a while. And I think that's a very encouraging sign, to feel as if the industry -- all the major players in the industry had their fleet in line with demand, and, as a result, are not in a position where there's over-fleeting and the downward pressures on pricing associated with that.

We'll see how it plays out during the shoulder period that we're in right now. And then as we move into the holiday period, where that difference is between at leisure markets and the commercial markets typically become starker.

**Unidentified Participant**

Okay. Talking about volumes, we have heard you talk about having a strong summer in Europe particularly. Just curious about your perspective on any particular drivers for that, as well as where do you see that going forward from a long-term standpoint?

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

Yes, it's a really interesting question. When we look at the US, we see -- in North America, we see a normalized economic environment; modest but stable growth over the most of the last two or three years. And there's no particular reason to feel that we are at a high point or low point in the cycle. When we look at Europe, we see something very different. We see volumes that are just now getting back to 2008 levels in many markets. And as a result, we look at the period that we've been in for the last several years, and that we're still in, as being one where volumes are low by historical standards; below the longer-term growth trend.

And as a result, we see the opportunity for a beneficial mean reversion over time, over the next several years. So I think there are opportunities for somewhat greater growth in Europe than what we've seen over the last several years.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Okay. The Company has made a lot of progress on cost reduction, and it's a key focus for you. How much more opportunity do you see on that front, going forward?

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

Yes. Thanks for noticing that. I think we have made a significant amount of progress on cost, and have used that to drive our margins up from the 7% range to the 10% range -- a little bit north of 10% -- over the last several years. And I think we're on a path to drive another point or two, maybe more, of margin improvement through cost takeouts, assuming that we can be in an environment where pricing offsets inflationary pressures. If we can get some additional pricing, which continues to be a goal of us, we have the opportunity to improve margins even more.

But I think we're -- just by managing costs, by taking advantage of efficiencies that we can continue to wring out of the business through process improvement and through global consolidation of certain activities, and leveraging our regional and global scale -- there are opportunities to drive a couple of points of margin improvement from the path we're already on. And I see opportunities to drive even more benefits than that over the next several years.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

So obviously cost is one of the levers for margin improvement. Are there any levers? Where do you see EBITDA margins going in the long term? And how do you get there, really?

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

Yes, the keys for us clearly starts with pricing. The opportunity to continue to operate where we are will benefit from pricing, at least keeping up with inflationary pressures. And then what we look to do is overlay on that a couple of points through process improvement, maybe a little bit more. And if we can get a little bit of pricing, that gives us an opportunity to not only be in the 12-ish range but to even move up to the, call it, the 12 to 14 range.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Switching gears a little bit to the competitive environment, just curious about your perspective today, looking at what your competitors are doing relative to 12 months ago. If you could provide some perspective on that, and any changes that you think that are relevant that are happening in the landscape.

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

Sure. We continue to operate in a highly competitive environment, which has been true for a long time, and I think will continue to be the case. What we saw a little over a year ago was one of our competitors was making some decisions that were very aggressive, and we felt difficult to justify from a financial return perspective. Where they were potential moves of some desperation by a team that was under a lot of pressure, or not, we saw the moves as being very aggressive.

And what we've seen over the course of this year is much more stability and predictability in the competitive environment. It's still highly competitive, but we're not seeing as many -- we're not seeing the things that we were seeing that were very aggressive and a little bit surprising to us. And I think that creates a healthier environment, particularly here in the US, where once again we're seeing our competitors generally make decisions that, whether we agree with or not, we can at least understand.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

A question that always comes up in the context of competition is also the potential impact -- maybe it's very small today, and certainly I think you've made comments around that, for Avis, in prior presentations. But just curious about your latest perspective on any potentially [back] to the future from car sharing companies like Uber, Lyft, FlightCar?

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

Sure. I think we do more than 20 million rental transactions a year in the US. So, of course, there are anecdotal examples of situations where someone has taken Uber cars rather than renting a car from us. But we've looked closely at markets such as New York and Boston and San Francisco, where ride hailing companies would be most likely to have an impact on car rental, and we're just not seeing a significant impact.

We continue to watch it. But the short, midweek commercial transactions, where someone might view taxi replacement as a substitute for Avis, are really a small portion of our rental base, and actually not very profitable for us. So we see the risk on this front as being somewhat limited.

We do believe that Uber and Zipcar compete for a small portion of each other's trips. Picture a run from a city center to the nearest Costco, as an example. But in Zipcar, we've got the lower-cost alternative and an ability to provide it profitably. So what we're really focused on is the fact that the combination of ride hailing companies and Zipcar, in providing mobility solutions to city dwellers, can allow them to live happily without owning a car; which, over time, makes a population at these companies and Zipcar serve, larger. And that's the opportunity for us.

In addition, our launch of one-way availability is going to make Zipcar's service offering even stronger. And so we're looking to continue to leverage Zipcar's capabilities and strength and brand recognition, and the customer satisfaction that it has, into continuing to grow in this space.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

I have a couple of more questions on the business, and then we can open it up for questions from the audience. Recently there's been a lot of focus in the automotive sector around the Volkswagen recall, and [some of the] recalls is a concept and an important factor that is watched by the Company. Could you comment on any expected or potential impact from that to Avis, or the space in general?

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

Yes, I think we're certainly watching it carefully. We've got no current impact. But we are going to watch for any impacts on residual values associated with the Volkswagen recall, particularly on the diesel vehicles, of which we have a few thousand in Europe. So, we're watching it right now. Obviously it's playing out in a very, very public and very significant way. So we're preparing for the fact it could have a modest impact on us if residual values come under some pressure. But it's a few thousand cars, so we don't, at this point, see it as being significant.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

And you said that's primarily in Europe, as opposed to North America?

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

That's correct.

**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

I guess my last question on the business side is generally about the recent acquisitions that you have done, which some of them have felt certainly with margins, but your perspective on where you are on the integration process. And if you could comment also on future M&A activity.

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

Sure. There's a lot to talk about there, and I was hoping you'd ask that question. In our acquisition of a Scandinavian licensee, everything has gone, I would say, very smoothly. And we made good progress there, as expected. In Italy, where we acquired Maggiore, the fourth-largest player in that market, the operation of the business during the summer peak went very well. And our real focus in the first few months of ownership was on preparing for and managing through that summer peak. And as I said, that really went quite well.

With that behind us, we will now turn to more of the harder integration work, including the integration of systems between Avis Budget and Maggiore. And that will occur over the coming quarters in order to provide incremental benefits for us in 2016, as a result of the integration.

As we think about potential acquisitions going forward, the ones that are generally most attractive to us, of greatest interest to us, are businesses that look like our recent acquisitions. So those are licensees in areas either in or near where we currently operate. And it's independent operators in markets that we already serve.

The one other thing I think we'll definitely look at is opportunities to supplement Zipcar's growth. If we can find a local operator that does a good job and has a nice position in a given market, it can present a buy and expand strategy opportunity for us, rather than a build from scratch, and that can be attractive. What these transactions -- whether it's a bolt-on for Zipcar, or a licensee, or an independent operator in a market that we already serve -- tend to have in common is that most of these transactions are -- all these transactions provide significant synergies for us. Most of them tend to be relatively small. A lot of them are $50 million and less. So a lot of our activity is focused on true tuck-in acquisitions.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Are there any particular regions that you are looking at more than others?

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

From a regional perspective, I think the European periphery is an opportunity for us, as well as some smaller in-market players there. But we're looking in other areas that we serve. There continue to be a few licensees in North America that we'd -- sort of legacy Budget licensees in North America that we'd like to tuck in, if we could. And we're going to look in certain parts of Latin America, as well, when we see opportunities.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Okay. Before we talk about capital structure and use of free cash flow, any questions from the audience on the business and financial?

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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

Sure. The question, for folks on the webcast, relates to elements of the competitive environment, both how that's played out over the last nine months or so, and what it means for the future. And the issue associated with the competitor that was being very aggressive and a few of the moves it made, particularly for some partnerships or affiliations, is that its fleet was out of line, by its own admission. It was off cycle, and not necessarily right-sized. And I do think, in hindsight, that had a more significant impact on pricing over the first six months of the year than we had anticipated going into the year.

So even though management changed over quite a while ago at that competitor, the right-sizing of the fleet did not get resolved, or resolved quickly. And as a result, I think that impacted industry-wide pricing dynamics, industry-wide fleeting dynamics, throughout the first half of the year, even with a little bit of what I would call a spillover effect on the pricing environment into the third quarter. Realistically, we need to see fleet levels be in line with demand for more than one week or more than one month in order to have a sustainable move upward in pricing.

I think we are moving into a situation where that can happen. We'll see how it develops going forward. But we're more enthusiastic about the current fleeting environment, relative to demand, than we have been over the last several months. And we don't want to get out ahead of ourselves as we think through the remainder of this year and into 2016. But I do think it is, right now, a healthier environment than it was six months ago.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Okay, moving to capital structure and share repurchases, which is a topic that has been a focus also of recent earnings calls. And the Company had stated the intention to step up the focus on share repurchases in the second half of the year, and had talked about it target for this year of $285 million, at some point $300 million. Could you comment on the latest thoughts on that, and if you are tracking to that, and if you are perhaps going to exceed that target?

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

Absolutely. As I mentioned at the outset, we're going to end the third quarter with more than $150 million of share repurchases in the quarter. And so when you combine that with $30 million in the first quarter, a little over $80 million in the second, we'll be in the $260 million, maybe $270 million range, just over the first nine months of the year. So I think that's consistent with what we said about doing at least or more than $300 million -- doing at least $300 million of share repurchases this year.

And we clearly do view the pullback that we've had in our stock price as providing an opportunity for us. We will continue to look at tuck-in acquisitions, as I mentioned. But, clearly, our stock has become relatively more attractive over the last several months, and even over the last several days. So we do look to take advantage of that, and we have in terms of how we've ramped up our share repurchases in third quarter.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

And in that context, where do you see -- what's your view on long-term -- in a long-term perspective, the leverage for the Company? You're obviously at a very comfortable level today.

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

Yes, we're fortunate in -- and we work hard to generate the amount of cash flow that we do. And that gives us the opportunity to be buying back stock, as well as pursuing some tuck-in acquisitions. And the result is that we can be doing these things and continue to have our leverage in the range that we previously talked about, which is 3 to 4 times net debt to EBITDA.

Our preference is definitely to be in the lower half of that range, other than times when we've recently completed an acquisition and it pushes up toward the higher end. That's sort of where we've been running for the last few quarters. And I think the lower half of that range is a good and appropriate place to be as we move forward, so there's no real change there.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

As it relates to specifically the capital structure there, a couple of notes that become due in 2017 -- those are attractively priced today at 4 7/8%, and the floating-rate notes are similarly attractively priced. In addition, today you have European notes, 6% notes, that become callable in March of next year. Any near-term plans to address those notes, or are you planning to keep them for a little longer?

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

I think we're comfortable with them. We do have some maturities in late 2017, as you mentioned. They are not large in the context of our overall balance sheet. So I think what we'll do is look for an opportunistic time to refinance probably one of them, either the 4 7/8 or the floaters, over the next year to year and a half. But we're not in any rush.

And, similarly, there are no current plans to do anything with respect to the euro denominated notes. We will re-look at it as they become callable, but I don't see any near-term push to do anything. And certainly there's no need, as I mentioned, for us to be in the markets near-term.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Any other questions from the audience on capital structure or related matters? If not, we can move to broader-picture questions. We have seen the recent announcements on the management team. So just looking to get your perspective on any potential changes that may come on strategy or anything else from Larry De Shon assuming his CEO position, and also from your recent expanded role?

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

Yes, I really don't expect to see significant changes. Larry and I both like to point out that we've been involved in developing and executing our strategies for many years, and I think we're comfortable with them. At the same time, we clearly see opportunities to leverage technology to expand and grow our business, opportunities to grow our margins and our footprint, and we're going to be aggressive in seizing those opportunities. But I don't view it as a change in the strategy or the approach that we've taken over the last several years.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Okay. Then I guess my final question would be a catch-all question. What keeps you up at night? What gets you excited about the Company and the prospects?

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

Sure. I think in terms of the first part, and what keeps me up at night, it is the fact that we are in a highly competitive industry, globally. And thinking about how to compete and how to succeed in that the environment is something that merits constant attention, and we do provide that.

At the same time, I'm enthusiastic about the opportunities I see for us as a business and as a company; leveraging emerging technology, and using it in neat and compelling and customer-benefiting ways is a key priority for us. And I think it will allow us not only to improve the customer experience, but also to drive efficiency in our business.

Our T15 global effectiveness and global integration strategy is better allowing us to leverage the scale that we have, and will continue to provide benefits. And, boy, we have a great workforce who are passionate about our customers and our brands. And that's always a great way to -- remembering that is always a great way to start the day.

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**Javier A. Diaz** - *Deutsche Bank Securities - Leveraged Finance*

Any final questions from the audience? If not, I think this will conclude the presentation.

Thank you very much, David, and I don't know if you have any closing remarks.

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

No, thank you very much.

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