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Ronald L. Nelson – Chairman and Chief Executive Officer
David B. Wyshner – Chief Financial Officer and Senior Executive Vice President

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John M. Healy – Analyst, Northcoast Research Partners LLC
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MANAGEMENT DISCUSSION SECTION

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

Neal H. Goldner, Vice President, Investor Relations

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

Before we discuss our results for the fourth quarter, I would like to remind everyone that the company will be making statements about the 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've also provided slides to accompany this morning's conference call, which can be accessed on our website as well. Also, certain non-GAAP financial measures will be discussed in this call and these measures are reconciled to the GAAP numbers in our press release.

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

Ronald L. Nelson, Chairman and Chief Executive Officer

Thanks, Neal., and good morning to all of you. Let me start with the headline. We delivered record results in 2012 with strong revenue growth, continued margin expansion and record earnings per share. We capped the year by delivering a strong fourth quarter highlighted by positive volume growth in all segments, further margin expansion and a significant improvement in North American pricing trends. Let's talk about how we got there.

We said in our last earnings call that we were going to take an aggressive posture on pricing. That's exactly what we did. In North America, we instituted four price increases in the fourth quarter alone, all with good effect. Pricing in North America declined less than 1% in the fourth quarter, which is a significant improvement compared to the prior three quarters. For the month of December alone, pricing increased over 100 basis points.

But we didn't stop there. We instituted two price increases for January, two for February and two effective for March rentals. The results of these actions continue to be encouraging. January pricing was up year over year, more, in fact, than December was, and our existing reservations give us a measure of confidence that pricing could end the quarter being positive. Don't forget that our reported pricing includes a contracted commercial pricing component that continues to track down in the 2% range.

Most of the price increases were the typical $5.00-a-day, $30-a-week variety and they primarily impact leisure rentals. For those on the call who don't follow the industry closely, these price increases are generally not cumulative and directly only impact a portion of our overall rental volume.

There are a couple of reasons for this. One, price increases tend to atrophy over time as competitive fleets get out of balance with demand. And two, only a portion of the rentals are booked at the quoted undiscounted rates that serves the reference rates for measuring price increases. With that said, our increased ability to sustain price increases over the last several months, without sacrificing rental volumes, is encouraging.

As encouraging as these recent price trends are, our North American segment had many other accomplishments in 2012. Just to note a few, we increased volume over 5%, despite tepid employment growth. That included a 9% increase in high-margin international inbound volume and 8% growth in higher-priced small business volume.

We implemented Avis Preferred Select & Go in more than 40 airports. Not only does Select & Go give customers the opportunity to choose their vehicle, but it also gives us the opportunity to upsell customers that traditionally bypass the counter. We continued with robust advertising and marketing initiatives, particularly for the Avis brand, and while advertising success is always difficult to measure, it would appear to be working. Leisure volume growth at Avis strongly outpaced commercial for 10 months of the year with over 9% growth in the fourth quarter alone. And late last year, we signed a new commercial account that is expected to generate more than one million rental days annually.

We also had a solid year in our International segment despite the weak economic conditions across Europe. Total volume increased 4% on a pro-forma basis including a 3% increase in EMEA and 7% growth in Latin America, Asia-Pacific. EMEA's growth was driven by our initiative to expand the Budget brand. Budget ended the year with volumes up 150% across the territory, while Avis's volume declined approximately 2%, which more closely tracked economic conditions in Europe. Pricing in EMEA declined, but virtually all of that was by design as we repositioned Budget to compete the value end of the spectrum. On a total revenue basis, Avis pricing was largely unchanged for the year.

Our integration of Avis Europe remains on track. Phase 1 synergies came in at $45 million annual rate, 50% above our initial plan, by delivering as expected in some areas and over-delivering in others including: reorganizing, de-layering and strengthening our European management team; ramping up our Performance Excellence initiative by running and replicating over 120 projects accounting for approximately $6 million of the $45 million synergy run rate; and adding over $50 million of new commercial contracts, including the single largest account in Europe.

Our legacy international operations in Latin America and the Asia-Pacific region also achieved a number of milestones in 2012. During the year, we acquired Apex Car Rentals, giving us the leadership position in New Zealand's deep-value car rental market and providing a platform to expand further in Australia and the Asia-Pacific region. We opened over 50 new stores and service points in China, we launched Avis in Taiwan, and we expanded our presence in Singapore by introducing Budget and adding new Avis locations.

So in sum, 2012 was a busy year across our entire company. But we continue to believe that the best is yet to come. Starting with Zipcar, we're extremely enthusiastic about our pending acquisition of Zipcar, which is not only the world's leading car-sharing company, but just as important, is a very formidable brand. This past Tuesday, we achieved U.S. regulatory clearance for the transaction, and Zipcar has scheduled its shareholder vote for March 7. Assuming a favorable outcome, we would expect to close in March or April.

We've already begun discussions with Zipcar management about how best to realize the significant synergies that will be available as a result of this transaction. Those discussions have gone well, and we remain confident that $50 million to $70 million of annual synergies is achievable within two years.

Let me be clear, though. We completely understand that the integration dynamics of combining with Zipcar is much different than combining with a traditional car rental company like Avis Europe. And just to put a finer point on it, our first priority is to maintain all the elements of the Zipcar experience that make customers love it and form the basis of their brand proposition.

From our perspective, the Zipcar acquisition is all about providing the infrastructure to enable their management team to leverage their unique market position and brand strength more profitably across their current and future customer base.

Beyond Zipcar, I don't think our views about 2013 are much different today than they were a few months ago with the possible exception of pricing, which I'll get back to in a moment. However, before we get into some detail about 2013, I want to make a couple of comments about the guidance that we gave last night in our release.

First, I want to remind everyone that we have identified for several months now the fact that in 2012, we had fleet cost depreciation adjustments and vehicle sales gains that we expected would provide a benefit of over $100 million to our earnings and actually wound up adding approximately $125 million to 2012's results. Second, while the earnings guidance range is admittedly large, it reflects normal uncertainties about two fairly significant critical dependencies that will affect where on that spectrum we end up. One is pricing. The other is residual values.

Sitting here today with about six weeks of results under our belt, less the 25% of the quarter's remaining res billed in-house, the best we can say is that we are encouraged with the direction of pricing and it's too early to know with any certainty what will happen to used car values.

Pricing was up over 5% in January, it was tracking up over 3% in February and the March reservations in-house are up 4%. On the other hand, used car values are down a couple of percentage points. But to draw any conclusions about the full year from those numbers, with 46 weeks left to go, was more than premature especially given that small changes, particularly in those drivers, can have big impacts. But what we can say is were it not for the fleet cost benefit we realized in 2012, we would be projecting an increase in earnings for 2013.

So moving onto 2013 trends, in North America, we expect demand trends will be similar to last year and we plan to grow our rental volumes a few points more than the low single-digit projection for enplanements. Our pricing assumption is significantly more conservative than we are currently experiencing, but I want to caution, again, there is a lot of road still in front of us.

We'll maintain our focus on the fastest growing and most profitable segments, particularly International Inbound and Small Business, along with Specialty and Premium Car classes. You should also expect us to leverage marketing technology and mobility to drive reservations to our most profitable booking channels and to continue to expand our prepaid rentals. Our prepaid rentals grew over 40% last year and can only be booked through our proprietary websites.

We're also projecting further profitable growth off-airport where our strategy is clearly working. In fact, of the more than $800 million of off-airport revenue we generated last year, a substantial majority of it was from general-use rentals, which we grew 9% in 2012. This means that we've been able to displace low-price, low-profit insurance rentals with higher-yielding general-use business.

In our International segment, EMEA rental volumes should continue to benefit from the rapid growth of the Budget brand and the new corporate accounts we signed last year. We should also see more than $20 million of earnings pick up this year as a result of having a full year of Phase I synergies in 2013 compared to just a part year in 2012. In addition, we should see some early benefits from the second phase of our integration work.

All things considered, we've enhanced the earnings power of our EMEA operation this year considerably. However, our progress will be masked for sure by the continuing economic weakness in Europe and by the investments we've decided to make in order to enhance our competitive position when the European economy turns around. For example, we're increasing our brand investment by over $10 million in 2013. We're investing in a new pan-European e-commerce site since our web conversion trails industry standards and the profit leverage from small improvements in web conversion is significant.

We're making other investments in technology and training. We'll temporarily have some duplicate head count costs as we centralize more activity into our shared service centers, but we believe the long-term return on this spending is compelling. In our Latin America, Asia-Pacific region, the theme for 2013 will continue to be broadening our footprint while maintaining strong margins. This year, we'll be expanding Apex's presence from two Australian airports to five, adding resources to accelerate our growth in China and, across all our territories, rolling out initiatives to drive International Inbound and Outbound revenue. So for these reasons, I feel very good about our ability to continue to grow rental volumes and revenue this year.

Beyond 2013, we've laid the foundation for continued growth; growth which we believe will allow us to reach the $1 billion level in adjusted EBITDA by 2015. But step back for a minute. In 2011, we laid out our strategic plan to drive sustained profitable growth. Since that time a lot has changed. There's been further consolidation in the industry. We've seen increased globalization, not just in car rental, but in procurement priorities and the integration of technology into our business has accelerated at a breakneck speed.

Closer to home, we've had our own combination with Avis Europe, growth in our earnings and further strengthening of our balance sheet. But even with all that changed, the four pillars of our strategy are as relevant today as they were then. Our long-term plan continues to be centered around strategically and profitably accelerating growth, expanding our global footprint, putting the customer first and driving efficiency throughout the organization.

And while we've made tremendous progress on these forefronts over the last two years, I thought it would be valuable if I focused my comments on what we believe we can accomplish in the next three years and giving you a glimpse as to why we believe our $1 billion adjusted EBITDA target is achievable.

As we look forward, strategically accelerating our growth will be achieved by continuing to focus on faster-growing segments in our developed markets, viewing the world not from a U.S.-centric perspective, but from a global one and leveraging our scale and establish position in relatively unclaimed territories with significant potential. In North America, that means continuing to focus our efforts on growing International Inbound, and Small Business volume as well as increasing our penetration of high margin ancillary products and services. It also means expanding our specialty and premium fleet and other initiatives.

In Europe, we expect to see significant growth of the Budget brand, greater ancillary, upsell and walk-up revenues and higher conversion rates in our highest-margin booking channel. And in our Asia-Pacific region, you should see us not only capitalized on Avis's leading international brand position in China to ensure we capture a greater share of the rapidly growing daily rental business, but we will have laid the foundation in other emerging markets in that region to accomplish the same task.

We made a major move in 2011 to expand our global footprint by acquiring Avis Europe. For our EMEA region, 2012 was primarily about getting our structure right, driving cost savings and developing a foundation that will support substantially higher profits and expansion. For starters, there's the opportunity to move Budget to at least a 5% share in the EMEA territory. Some of that will come from expanding the new countries through owned and licensed operations, and some will come from acquiring and reflagging smaller competitors at attractive multiples. And while Budget won't grow at the 150% level it grew this year, we see several years of growth in front of us in the 20% to 50% range.

In our Asia-Pacific region, we'll be expanding the Apex brand in the new airports in Australia and believe the Apex model could be applicable in other markets across the region. There are also substantial opportunities for us to expand our global footprint under the Avis and Budget brands. For example, with the exception of our Argentina, South America is completely a licensing territory for us and Avis and Budget are underpenetrated in several markets.

We see opportunities in both in helping independent licensees grow and potentially in joint venture arrangements with certain licensees. In the Asia-Pacific region, where Avis has more than three times the number of locations than Budget, there are opportunities to expand into new countries where Avis is already present.

With respect to the third pillar, we'll continue the path we started down a few years ago to be a customer-led, service-driven organization assuring everything we do has the customer in mind. Over the next few years, we will expand Select & Go to more airport locations and introduce a similar program for Budget customers.

We'll redevelop and strengthen our loyalty programs throughout the world. We'll leverage our new CRM system, which we'll be launching this year, through which we will use customer-specific insights to improve customer satisfaction and increase our share of wallet and continue to reengineer our customer touch points to be easy, efficient and pain-free. We expect that our customer-centric initiatives will not only pay for themselves but also generate a return on investment with the added benefit of improved customer retention and increased brand strength.

We also have substantial opportunities to drive further efficiencies throughout the organization. In North America, we're building the industry's first integrated demand fleet pricing system, which we continue to expect will provide more than $50 million of yield management benefits.

We've moved towards a supply chain management concept focusing on all aspects of fleet management and expect that will deliver significant benefits over time. Through continued use of fleet optimization software, we'll keep our fleet costs in North America in check by lowering our acquisition cost, optimizing the use of our vehicles while they are a part of our active fleet and increasing our use of alternative disposition channels as economics dictate. And we'll continue to drive productivity savings through our performance excellence efforts.

In Europe, we made excellent progress in integrating Avis Europe's business with ours, but we continue to believe there are still substantial benefits from this combination yet to be captured, and we remain committed to achieving an incremental $55 million to $75 million of synergies over the next three years.

Among the projects driving those benefits are: expanding on our early successes with performance excellence efforts by training more people and taking on more projects; further streamlining our IT systems and processes; and continue to look for opportunities to leverage our shared service centers in Barcelona, Budapest, Tulsa and Virginia Beach to drive further savings.

So to summarize, from a strategic perspective, here's how you should expect us to look by the end of 2015. You should expect our revenue to be growing faster than the industry rate. This will be accomplished by ensuring that our brands are available to more renters and more places and that our international operations will become increasingly important for our overall results.

You should expect our margins to improve by at least a full point over that implied in our 2013 guidance as we derive an even greater percentage of our revenue and earnings from faster-growing, higher-margin segments. You should expect us to improve our Net Promoter Score and customer retention by continually improving the rental experience we offer to customers worldwide from reservation to rental to return to recovery, if necessary. And you should expect us to drive further efficiencies in our operations to offset the impact of inflation often through the increased use of technology.

I'm enthusiastic about this vision of the future and so is our entire management team. And remember, everything I've discussed this morning excludes the benefits we expect to derive from the Zipcar acquisition.

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

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

Thanks Ron, and good morning, everyone.

Today, I'd like to discuss our full year and fourth quarter results, our balance sheet and our outlook. My comments will focus on our results excluding certain items. As Neal mentioned, these results are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

The fourth quarter marked our 10th consecutive quarter of year-over-year revenue and adjusted EBITDA growth with our top line increasing 4% to $1.7 billion primarily due to higher volumes and adjusted EBITDA growing by 22% to $78 million. For the full year, revenue increased 25% to $7.4 billion primarily due to the acquisition of Avis Europe.

Adjusted EBITDA grew 38% to $840 million, a company record. Margins expanded by 110 basis points to 11.4%, and diluted earnings per share grew 47% to $2.43. For analysts who calculate EBITDA before deferred financing fees and stock-based compensation, our 2012 adjusted EBITDA would be $39 million higher, or $879 million.

In the fourth quarter, revenue in our North America segment increased 5% driven by commercial and leisure volume growth, while pricing declined 0.5 point. Leisure volume increased 6% in the quarter, a significant achievement on top of a 9% growth we achieved last year in Q4 and leisure pricing was unchanged. We also saw good growth in our Commercial business with volume up 5% in the quarter, while pricing declined 1 point.

Growth in small business rentals helped both our volume and price metrics as we continue to focus our efforts on growing in our most profitable segments. North America adjusted EBITDA more than doubled to $47 million, and margins expanded 270 basis points. Results benefited from volume growth, higher ancillary revenues, lower fleet costs and lower vehicle interest expense.

Our per unit fleet costs declined 4% compared to fourth quarter 2011 and the used car market was solid, particularly in the Northeast following Hurricane Sandy. In our International segment, revenue increased 3% in the fourth quarter primarily due to 6% volume growth and higher ancillary revenues. This was partially offset by a 4% decline in pricing on a constant currency basis.

Volume in our EMEA region increased 4% primarily due to the expansion of our Budget brand, where volume rose 90% year over year. Pricing in Europe declined 3% excluding currency effects, but the decline in reported pricing entirely reflects the growth in Budget as Avis pricing in Europe was flat on a constant-currency basis.

Volume in our Latin America, Asia-Pacific region increased 14%, or 4% excluding Apex which we acquired in October 2012. Excluding currency effects and the acquisition, pricing in the region declined 2%. High-margin ancillary revenue increased by more than 12% in our International segment and 7% per rental day largely offsetting the decline in pricing.

International adjusted EBITDA declined $5 million in the fourth quarter but increased $2 million on a constant-currency basis. Given the macroeconomic challenges in Europe, which remain significant, we're pleased to be reporting positive volume growth in Europe and we're even more pleased to be reporting an increase in fourth quarter International adjusted EBITDA excluding currency effects.

One of the drivers of these results is that the integration of Avis Europe continues to proceed well. In the quarter, we completed the outsourcing of IT support for most of Europe's standalone applications and terminated the use of dozens of applications in the process. We began transitioning our European telesales operation into our Barcelona call center with the migration of France and Spain completed already. We further de-layered the organization, centralizing four European country teams into a single Western region, and we launched 30 PEx projects including additional ancillary revenue initiatives, dual branding for several large locations and other cost reduction efforts.

We still have a lot more work to do to realize the full potential of our European business. They can be frustrating for all of us, but the substantial progress we're making is largely mitigating continuing macro challenges rather than producing more readily visible growth in margins. Nonetheless, I am confident that our efforts will result in streamlined operations and a substantially lower fixed cost base, putting us in position to drive profitable growth when the European economy ultimately starts to recover.

Revenue in our Truck Rental segment increased 1% as a 2% increase in volume and higher ancillary revenues were largely offset by a 4% decline in price. Adjusted EBITDA declined $7 million primarily due to higher maintenance, insurance and fleet costs. As we discussed on last quarter's call, the results for Truck Rental reflect a repositioning of this business which, over time, will include a reduction in our fleet size. This strategic repositioning will impact reported results for this segment for much of 2013 as well.

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

In 2012, Performance Excellence helped us institute processes to win highly profitable walk-up business, reduce the time it takes to dispose the vehicles, accelerate vehicle maintenance turnaround time to get our cars back on rent faster and capture registration refunds in Europe that are due to us on vehicles sold prior to the registration end date. Importantly, our PEx pipeline remains full, so we expect process improvement savings will continue to help us offset inflationary pressures in our operating costs year after year.

Turning to the balance sheet, our liquidity position remains strong with more than $4 billion of available liquidity worldwide. We ended the quarter with $600 million of cash, no borrowings under our $1.5 billion corporate revolver and roughly $870 million of availability under that facility. We had unused capacity under various vehicle-backed funding programs of $2.5 billion.

We made significant progress in 2012 to further strengthen our balance sheet. We retired $300 million of corporate debt including more than $215 million of our outstanding convertible notes. In the process, we've reduced the potential equity dilution related to the convert by 13 million shares, or more than 10% of our diluted share count.

We generated $518 million of free cash flow in 2012. Although to be fair, we look at about $100 million of this as being the result of some favorable timing variances that could impact our reported free cash flow in 2013. We significantly reduced our leverage in 2012. Our ratio of net corporate debt to LTM-adjusted EBITDA at year end was 2.7 times.

Going forward, we will continue to consider using free cash flow for corporate debt reduction as well as for tuck-in acquisitions of licensees and other businesses when we see a good strategic and geographic fit and the potential for an attractive return on capital.

We expect to fund the acquisition of Zipcar primarily with incremental corporate debt borrowings. At this point, our priorities for deployment of free cash flow will remain the same as in 2012: first, to keep our net corporate leverage ratio in the low 3s; second, for tuck-in acquisitions; and third if and when our leverage ratio moves below 3x, to consider share repurchases.

Now I'd like to spend a few minutes on our 2013 outlook, excluding Zipcar, before moving to Q&A.

As we announced last night, we expect our 2013 revenues to be approximately $7.6 billion to $7.8 billion, a 3%to 6% increase compared to 2012 primarily driven by volume growth. We expect total company fleet costs to be $275 to $290 per unit per month in 2013. Fleet costs in North America are also expected to be $275 to $290 per unit per month this year. I'll talk more about fleet in a moment.

We expect adjusted EBITDA to be approximately $725 to $825 million, excluding certain items, a decline of 2% to 14% reflecting higher per unit fleet costs in North America. While there are number of items that will impact EBITDA, the range primarily reflects uncertainty over where pricing will land in each of the regions in which we operate. Demand for car rental services and the strength of the used car market in North America will also matter.

We estimate that our full year corporate interest expense will be approximately $230 million to $235 million, a decline of $30 million to $35 million compared to 2012. As a result, we expect that our 2013 pre-tax income will be $360 million to $470 million excluding items.

We expect our effective tax rate in 2013 will be 37% to 38% excluding items, and our diluted share count will be approximately 120 million. Based on these expectations, we estimate that our 2013 diluted earnings per share, excluding certain items, will be approximately $1.90 to $2.45. We expect our capital expenditures to be around $160 million in 2013, which is higher than our historical trend rate due to investments we're making to integrate our European operations as well as investments in technology in North America.

Our cash taxes are expected to be approximately $75 million this year, and our free cash flow should be in the $300 million range absent any significant timing differences.

Our 2013 forecast is the result of an extensive worldwide bottom-up process. We paid particular attention to our forecasted fleet costs. We expect per unit fleet costs in North America to increase approximately 15% to 20% compared to 2012. We know not only that these costs can be difficult to predict, but also that our 2013 fleet cost estimates are higher than Street expectations and higher than what some of our competitors are forecasting. Let me provide some color on this issue.

First, as Ron mentioned, the fleet cost gains and depreciation adjustments we recorded last year on model year 2011 vehicles are likely a significant source of the higher percentage cost increase that we're projecting. Second, there is no reason to believe that we are buying or selling risk or program vehicles at significantly different prices than our competitors. Third, our mix of risk versus program vehicles in North America skews more toward program cars than our competitors' mix. And fourth, while it could turn out that we are being conservative in our fleet cost estimates, particularly if residual values in the spring are stronger than we expect, we don't think we're being particularly conservative or aggressive in our fleet cost forecast.

The risk component of our fleet is expected to increase approximately three points in 2013 to around 65%, which should offset some of the inflation in our program car cost. And while the volume of vehicles coming off lease in the United States will be higher than it was last year, it will remain around 25% below pre-recession levels, which we believe is constructive.

In addition, retail incentives remain well below pre-recession levels, and our own efforts to diversify our fleet sales into online, direct-to-dealer and direct-to-consumer channels will give us options for maximizing residual values.

So to wrap up, 2012 was a record year with strong revenue growth, further margin expansion, substantial debt reduction, improved credit metrics and double-digit growth in earnings per share. Our operations around the world continue to take advantage of profitable growth opportunities, we are rigorously controlling costs and we continue to focus on our strategic initiatives to position us for future growth.

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. I have two questions. First on pricing, I know you mentioned that most of your revenue expectations in 2013 will be volume-driven. But maybe you could help us with an idea of maybe where you're tracking on pricing. And within those expectations, I know you said that the first quarter may be positive, but are you extrapolating that for the rest of the year?

And then second, on your depreciation cost, can you maybe give us an idea of where you are as a percent of sales within the risk through alternate channels and then maybe if you could tell us how much you make when you sell through those channels as opposed to when you sell via auctions so that we can figure out where you could go if you continue to expand in that area. Thank you.

<A – Ron Nelson – Avis Budget Group, Inc.>: Hi, Afua. It's Ron. We haven't taken the pricing experience in the first quarter and really reflected it throughout the balance of the year yet. I think, as you know, I'm always loathe to forecast price increases in our business plan because I think it drives other expense items that for whatever reason tend to lead the revenue, and so we were fairly conservative in our assumption.

As I said in my comments, our pricing assumption is significantly more conservative than we're experiencing now. But I would tell you that the comps were easy in January. They get a little harder in February, and they get a little harder in March. And so you need to be careful about extrapolating the pricing gains that we're seeing in the first quarter out through the balance of the year. But the guidance that we gave clearly has more conservative pricing in it than we are currently experiencing.

In terms of our depreciation cost through alternative channels, it varies from channel to channel from time to time. We continue to sell. I think we sold 40% of our cars or so through alternative channels. For the most part, the 40% is still a wholesale channel, direct to dealer and online or [ph] Smart Lane (34;50) and things like that are all wholesale channels.

Where you get the savings in those channels typically is on freight and on time to market and from last revenue until sale. The price dislocations tend to average out. At least it's my view that they average out over the course of the year. You can take advantage of them at given points in time.

So when I think our direct-to-retail venture with AutoNation is still in small stages. We'll expand it this year, but we're not selling enough cars at this juncture to make a meaningful difference in fleet costs. But we've done a lot of analysis on fleet costs over longer periods of time and, when you look at our fleet cost per unit on a quarterly basis or on an annual basis and track it over the last four years to our competitors, we actually haven't seen much variance at all.

You asked a question about risk versus program. I think, as David said, we upped our risk percentage this year from high-50s to the mid-60s. We're comfortable in that. And I think I've answered your questions.

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

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

<Q – John Healy – Northcoast Research Partners LLC>: Hi. Good morning, guys. Ron, I wanted to ask about the corporate side of things on the pricing side. With that being down 2% this year, and I think it's been down for many years in a row, is there a thought that with fleet costs maybe moving high, or definitely moving higher over the next couple years, that the corporate side of things at some point in the future can turn, can stabilize? And appreciate any color you can give on the competitive environment on corporates. Sounds like you won a contract, but trying to understand where the price declines are coming from, Is it competitive? Is it the Fortune 500 customers just pushing you down, and is there any way we can turn that maybe over the next couple years?

<A – Ron Nelson – Avis Budget Group, Inc.>: It is competitive, John, and I think it remains competitive particularly in the very large accounts that are north of $10 million, $15 million. Look, we have a passion for raising prices in the commercial section (sic) [commercial segment]. Obviously, you can't take pricing down an average of 2% for the last three or four years without it doing nasty things to your margins. So as hard as we're pushing on leisure, we're pushing equally as hard on commercial.

I think in the near term, though, where you're going to see commercial pricing improve on a composite basis is because of mix. Our small business volume being up more than average is helpful because small business RPDs key off of leisure pricing so that we're up as much in small business pricing in January and February as we are in leisure pricing. So I think that changes the mix a little bit and it tends to average up the down 2% that we're tracking in the large commercial.

We've changed our incentive plan now for all of our sellers so that they're compensated on the basis of how much price increase they're able to get from their accounts. While it's too early to declare victory, I can tell you that in our mid-market business, we're actually starting to see some gains in pricing. And whether it's related to the incentive program or just the fact that we're pushing harder, I'm not sure, but I don't care, quite honestly, as long as we get pricing. Large commercial, particularly in the very large accounts, we're pushing. But it's still a very competitive segment.

<Q – John Healy – Northcoast Research Partners LLC>: Got you, and I appreciate that. And a question for you David; a little bit more on the fleet costs. When you look at the 15% to 20% North America increase, if you were to pull out the $125 million or so headwind from the model year 2011s, what do you think the increase would be based on just a base cost increase for you guys and then maybe how much incremental cost there is associated with you guys increasing the mix of your fleet and making the fleet a bit more richer?

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning, John. I think when you look at the 15% to 20% increase we have in North America, the way you're breaking it down makes a lot of sense. And in particular if you take the midpoint of that 15% to 20% range, just to make it a little easier, start at 17.5%, if you look at about a 4% increase due to the combination of inflation, mostly inflation and a little bit of mix in there as well, that leaves around 13.5%, which -- and given that we had about $940 million of fleet expense in North America in 2012, the 13.5% is almost exactly the $125 million that we're talking about.

And as we look back at the benefit that we had in 2012, and I read a number of the comments that came out last night, I see people worried about the increase that we have in 2013 and wondering what's causing that. And I think what people are missing is that we had a really good 2012. We did a lot of things right. The channels we used to dispose the vehicles worked well. The timing of our risk car dispositions clearly worked in our favor, and that was some optimization activity on our behalf.

And part of the challenge that we're seeing here in 2013 is that we are facing a tough comp because of things we did well last year. The good news is that the $125 million of benefits that we had in 2012 -- that turned into additional cash and additional cash flow that's on our balance sheet and is now available to us. So I think the way you're looking at trying to break down the fleet costs makes a lot of sense from our perspective.

<Q – John Healy – Northcoast Research Partners LLC>: Appreciate it. Thank you, guys.

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

<Q – Brian Johnson – Barclays Capital, Inc.>: Yes. You've been maintaining that depreciation increases in North America could be offset by pricing, and it seems to me at least some evidence of that in December. Couple things. How's the tenor of pricing to date and is this Avis-specific price capture, or do you think this is endemic of or symptomatic of a market clearing at a healthier price level?

<A – Ron Nelson – Avis Budget Group, Inc.>: Couldn't get my microphone on, Brian. Sorry.

First of all, I hope that we haven't said that we're going to offset the impact of fleet costs with pricing. I think what we probably said is that given the fact that fleet costs are increasing for everybody, given the used car market that everybody benefited from last year, there's going to be a natural inclination] to try and maintain margins by raising pricing. But I want to be clear that I don't think we've ever said that we're going to offset the impact of the $125 million fleet cost benefit with pricing this year.

<Q – Brian Johnson – Barclays Capital, Inc.>: No, partial offset.

<A – Ron Nelson – Avis Budget Group, Inc.>: Yeah. Well, I'm not sure that we've ever quantified whether it's largely, marginally or partially or significantly, but either way.

Secondly, in terms of the tenor of pricing, as you know, where we're getting the price increase is in the spot market. The spot market tends to be more leisure-oriented, and what you should expect is that there's more pricing strength in Budget than there is in Avis. So although, I will tell you on the leisure front, both Avis and Budget are up. The tenor is quite good.

As I think we've pointed out, we posted four price increases this year with two to come in March. The adoption rate from the competition is mixed, but on balance, good. I think the Enterprise complex has been a fast follower in almost all of it and Hertz/Dollar is mixed. In some cases, they were quick. In other cases, they were not so quick.

But all these things are driven by fleet positions in markets. So you can't expect somebody to go along with a price increase if they're overfleeted in a particular market. They're just simply not going to eat the fleet to do it. But I have to say that the pricing environment is really the best that it's been in the last three or four years.

It always gets tougher in the second quarter, particularly given that Easter is now in the first quarter this year. We'll see where everyone's spine and backbone is in the second quarter on pricing. But we're going to continue to be aggressive. We're going to do what's in our best economic interest.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay. And a couple of housekeeping questions. Any visibility into depreciation going into 2014? That is most of the benefit of some of the residual roll – some of the gains on sale rolled off or are there still some benefit of it in 2013 that means that 2014 will go up from where we are here?

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning, Brian. Wow. I guess the disadvantage associated with providing 2013 guidance is that the questions about 2014 begin. I think, obviously, 2014 fleet costs will depend a lot on where the model year 2014 negotiations land, and it's too soon to handicap that. But as I look at the 2013 numbers that we're forecasting, I think they represent a normalized level. There's nothing in there that I think of as pushing them particularly in one direction or another versus what I would consider normalized.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay. Thanks. And any improvement opportunities in Trucks? Is that kind of where you want the margins and is it – I know it shares many Budget locations? Is it a kind of critical business for you?

<A – David Wyshner – Avis Budget Group, Inc.>: I think there are significant opportunities in Truck, but they're longer term in nature. As we talked about last quarter and as I mentioned today, we are in the process of repositioning that business to be a somewhat smaller and, hopefully, more profitable business over time. That process is going to take at least the first six or nine months of 2013 and possibly close to the entire year. But we view that as a significant opportunity for us over time. I think it's a valuable business to us. It's an effective use of the or expansion of the Budget name and, clearly at this point, it does only represent around 6% of our revenue.

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

<Q – Chris Agnew – MKM Partners LLC>: Thanks very much. Good morning. David, I know you touched on this in the script, but there is quite some confusion on fleet costs and I guess in comparison with Hertz. They're guiding fleet costs per unit down, flat to down 1% to 2% North America. And even excluding the timing difference you outlined, the 13.5% or the $125 million, there's still a fair doubt of the guidance. So would you mind clarifying and giving a little bit more color on why you see the difference there?

<A – David Wyshner – Avis Budget Group, Inc.>: I'll try, Chris. It's a little bit hard because Hertz hasn't shared the details of their analysis with me nor do I expect them to. We are clearly seeing some inflation in the cost of program cars as well as in the purchase prices of risk cars. And that is a clearly a driver, in our view, of some increase even aside from the benefits in 2012 that we've identified.

We all know that Hertz is obviously combining with Dollar/Thrifty. I don't know what impact that has on their aggregate numbers. I don't know whether there are any purchase accounting issues. So it's hard for me to know exactly why the four or five point difference that you're talking about between us and them is there.

And then the last point that could be part of it is our mix. We've definitely been adding some higher end cars to our mix. We should have double the number of BMWs in our fleet this year that we had last year and that's having some impact as well.

<Q – Chris Agnew – MKM Partners LLC>: Okay. Thanks. And, Ron, can you describe the pipeline for tuck-in acquisitions and maybe give some color on what types of transactions you would like to look at?

<A – Ron Nelson – Avis Budget Group, Inc.>: Well, the pipeline is always fairly robust and I would say that it tends predominantly to include licensees more in European market and international markets than it does in the domestic markets. Our domestic licensee population is actually fairly small. And I would say that in the European operations, the principal objective here is to expand the distribution capability of Budget. So in non-licensee acquisitions, you're likely to see small rental car competitors that are in the value into the spectrum that we could co-brand and then ultimately re-brand Budget as a way of expanding our distribution footprint and that expands your ability to do partnership arrangements and, obviously, drive overall revenue and volume.

So how many of these we'll actually close on, Chris, is a different issue, and certainly none of these are large. A big licensee or tuck-in acquisition for us would be in the $30 million to $50 million range, but generally they all tend to be a little smaller than that.

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

<Q>: Good morning, guys. This is E.J. in for Adam. Not to beat a dead horse on the pricing environment, but there seems to be a couple of different factors going on in the pricing environment right now. The first is that the rental industry historically in the past has been able to use rack pricing to offset or at least partially offset rising fleet costs, which you're obviously seeing going up now. The second is the thesis that the pricing structure and the pricing discipline of the industry have significantly improved compared to the past. Could you give us a sense of how different the pricing environment is now compared to past fleet cost cycles where you're also seeing rising fleet costs?

<A – Ron Nelson – Avis Budget Group, Inc.>: It's hard to relate it to fleet costs. I think that fleet costs clearly are the driver behind people wanting to increase pricing. But I think it gets down to the fact that everybody enjoyed fairly significant benefits from high residual values that were somewhat occasioned by a lot of different things over the last two years.

And going into the 2013, as fleet costs normalized, margins probably looked like they were getting compressed and so there's an effort to maintain margins and we're pushing pricing up. I think the environment actually seems to be good for that. We're moving pricing up. As I said we led four price increases, and competition seems to be following in varying degrees. So I think they're experiencing the same sorts of things that we are.

<Q>: Would you say those price increases have been stickier than versus in the past and, like, have your competitors been following faster than in the past or is that just too hard to compare?

<A – Ron Nelson – Avis Budget Group, Inc.>: It's hard to say stickier because if you do four price increases in two months and your pricing isn't cumulative, these things just – fleet doesn't stay static. It moves around, and so as your fleet gets out of balance with demand you lower the price so that you're not carrying a lot of excess fleet. So that's what tends to happen.
What I would say is that I think people are following faster than in the past. I think within a few days, we have a pretty good sense of whether a price increase is going to stick at least for a week or two, so.

Operator: Our next question comes from Fred Lowrance with Avondale Partners. You may ask your question.

<Q – Fred Lowrance – Avondale Partners LLC>: Hey. Good morning, everybody. Maybe we'll save it for next week, David, when I see you. But I still don't quite get the disconnect between, on the fleet cost side wherever the past two years, you guys and Hertz or at least on an absolute unit basis in terms of, like, $250 per vehicle per month have been trending around the same levels [ph] for (54:59) depreciation over the last two years. So obviously, this all of a sudden $30ish gap up for you guys is a little bit confusing, but we'll save that for another time.

I'm just more curious on pricing. My data seems to show me that end of 2011 because of some over fleeting which carried into early 2012, that normal seasonality on pricing maybe was disrupted and that what we're seeing right now on pricing is maybe just more a return to normal seasonality. Can you discuss how much of this is just normal seasonality and how much of it you think is people really wanting to push prices higher than they would've been, say, if the industry hadn't been over-fleeted back at the end of 2011.

<A – David Wyshner – Avis Budget Group, Inc.>: Sure, Fred. I do look forward to connecting with you next week. I think as we look at seasonal factors and other trends that could be driving things, whether weather, any spillover effects from the hurricane and so forth, we're trying to sort all of that out and the data points are still relatively limited. And I think that's why Ron, in his comments earlier, wanted to share what we're seeing, which is positive and encouraging, and in some ways a bit different from the past. But also caution that it's early to draw conclusions about how this will sort out.

There were issues last year in terms of volumes in Florida and to Florida being relatively weak, made a very mild winter across the northern part of the country and that clearly may have an impact as well. But I think what we're seeing is what feels like a healthier environment for pricing amid some increases, in our case anyway, in fleet costs, and that's encouraging to us and something that, in terms of our own pricing, we're actively pushing for.

I think another element worth remembering is that two points of pricing, which is obviously the difference between, say, being down one and being up one is $0.80 a day,5 and so the movements we're talking about in the scheme of things aren't all that great and continue to keep the product and service that we offer very attractive from a customer standpoint. It makes a big difference to our margins and to our numbers, but the movements in terms of aggregate dollars per day are relatively small here.

I think the last point I'd mentioned just coming back to the topic we agreed to table in terms of a difference in fleet costs would certainly be that when we were looking at Dollar/Thrifty, we expected some significant synergies in the area of fleet costs. And clearly I think that was part of, I have to imagine that was part of what Hertz was working for as well, and so that could be playing into some of the numbers being different as well. But that shouldn't be a surprise to anyone since that was part of what everyone talked about in the deal.

Operator: We have time for one question. Steve O'Hara with Sidoti. You may ask a question.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Hi. Good morning. Could you just talk quickly about the gains that you had in 2011? I mean, I think they were in excess of $200 million; the gains in 2012, $125 million. So the impact seems a lot bigger in 2013. Can you just quickly describe why the impact would be much bigger in 2013 rather than 2012?

<A – David Wyshner – Avis Budget Group, Inc.>: I think so. The gains that we reported, which as you point out were over $200 million in 2011 and worked out to just around $100 million of reported gains, are part of the issue. The other part is that as we saw the used car market being strong and stronger than we expected in early 2012, we adjusted our depreciation rates on vehicles to reduce the amount of depreciation, which, in turn, would reduce the amount of gains that we would report and this is what we typically do, which is adjusting our depreciation based on expected residual values. And as a result, the gain figures themselves don't tell the whole story. There's also the issue of the effective changes in depreciation that impacted 2012 results as well. So I think that may be part of it.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Okay. So if you didn't adjust your depreciation rates in 2012, in terms of, maybe 2013, what would the per-unit fleet costs you're looking up this year without that change?

<A – David Wyshner – Avis Budget Group, Inc.>: Yeah. Without the $125 million benefit, we'd be talking about, works out I believe to a 2% to 7% increase in our North America fleet cost on a pre and per month basis.

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

Ronald L. Nelson, Chairman and Chief Executive Officer

Thanks. Before we close, I think it's important to reiterate what I believe are the key takeaways from today's call. One, North America pricing trends have improved considerably, and we're cautiously optimistic that pricing in the first quarter could be up year over year. We do remain enthusiastic about our pending acquisition of Zipcar and hope to be able to close the acquisition in March or April. And remember, were it not for last year's fleet cost benefit, we would be projecting an increase in earnings for 2013. And finally, we do believe we have the opportunity to reach $1 billion in adjusted EBITDA by 2015 for many of the reasons that we laid out today.

With that, I want to thank you for your time and I look forward to seeing many of you over the course of the next quarter. Thanks so much.

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