

Avis Budget Group (CAR-NYSE)

Initiation - Buy

At the Beginning of a Strong Three-Stage Earnings Recovery

- Initiating coverage on Avis Budget with a Buy rating and an \$18 price target.** CAR is positioned for significant EPS growth over the next two-years with EPS rising from an estimated loss of \$0.01 this year, to \$0.72 in 2010E and \$1.40 in 2011E. We believe the company is at the start of a three-stage earnings recovery: (1) the current strong leisure pricing environment continues into 2010; (2) corporate travel volumes first stabilize and then recover due to GDP growth and easier year-over-year comps; and (3) we see increased operating leverage as a result of actions management has taken: right-sizing the fleet; cutting \$380 million-\$440 million of costs (run-rate); strengthening the balance sheet; and eliminating unprofitable locations and transactions.
- Tighter vehicle inventories (down 17% y-o-y) should drive stronger pricing.** Industry pricing is relatively inelastic; it is the availability of fleet that exerts a greater influence on pricing. Industry fleet levels were 17% lower in 3Q (CAR - 23%) and as a result pricing improved 4.4% (CAR 9.4%). We forecast 3% pricing in 2010 and 2011 as fleet inventories remain tight versus demand (+2.1% in 2010 and +2.6% in 2011). We believe managements will remain disciplined on fleet in 2010/11 for the following reasons: (1) increased vehicle financing/collateral requirements; (2) increased mix of Risk vehicles; and (3) greater emphasis by managements on cash flow and profitability over market share.
- Valuation: Our 12-month price target of \$18 is based on 13x our 2011 EPS.** We believe 13x is an appropriate given the strong earnings growth and it is also the adjusted historic average-multiple. The EV/EBITDA on our 2011 estimate is 5.9x.
- Further upside to EPS estimates.** Cost cuts have increased our confidence that CAR can return to and even exceed Corporate EBITDA margins of 10-12%, which would provide upside for EPS to \$1.85-\$2.50 on this scenario. Our 2011 forecast is based on a margin of 8.6%.

Highlights	2008 A	2009 E	2010 E	2011 E
Revenue (\$mil)	\$5,984	\$5,150	\$5,370	\$5,640
Corp. EBITDA Margin	2.8%	4.7%	6.8%	8.6%
Adj. Pre-tax Margin	-0.9%	0.0%	2.3%	4.3%
Corp. EBITDA (\$mil)	\$169	\$243	\$367	\$488
EPS, Adj.	\$-0.39	\$0.01	\$0.72	\$1.40
Consensus		\$(0.04)	\$0.60	N/A
Valuation	5 yr hist av	2009 E	2010 E	2011 E
P/E	16x	NM	12.7x	6.5x
EV/EBITDA	NM	11.6x	7.7x	5.8x

Source: Company Reports, Baseline, Reuters, MKM Partners

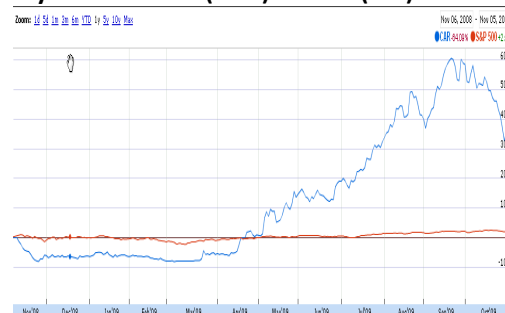
Share Data

Date	11/05/2009
Priced at 11/04/09 close	\$9.42
12-Month Price Target	\$18.00
52-wk Range	\$8.22-\$15.91
Market Cap (\$mil)	\$984
Shares Outstanding (mil)	104.5
Avg Volume (3-months)	3.5
Dividend/Yield	0.0%
Total Corp. Debt (\$mil)	\$1,876
Total Debt/Cap	NM
Net Cash (\$mil)	\$46
ROE (ttm)	-11%
5 year EPS growth rate	NM

Quarterly Adj. EPS

	2008A	2009E
Q1	\$ (0.12)	\$ (0.41) A
Q2	\$ 0.16	\$ 0.02 A
Q3	\$ 0.55	\$ 0.66 A
Q4	\$ (0.98)	\$ (0.27)
FY	\$ (0.39)	\$ 0.01

1-year chart CAR (blue) vs. SPX (red)



Share price

performance	3 month	6 month	12 month
Absolute	-6%	90%	200%
S&P 500	3%	14%	16%

See Page (20) for more in-depth technical analysis
Source: Company reports, Reuters, Google Finance

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Company snapshot

In 2008 Avis Budget reported \$6 billion in revenue with an average of 425,000 vehicles in North America, Australia and New Zealand. The Avis brand represents approximately two-thirds of revenue and Budget one-third. **Avis Budget has 30% market share of the \$11 billion US On-Airport market.**

Domestic car rental (U.S.) represents 61% of total revenue, International 10%, Truck rental 5% and Other revenue 24%. Other revenue is comprised of gasoline sales, airport concession pass-through fees, vehicle license revenues, GPS rentals as well as counter sales of insurance and other items. End-demand is split 50:50 between business and leisure travel; for Avis it is 60:40 and for Budget, 28:72 respectively. Avis has 1,000 company-owned locations in North America and Budget, 650 locations.

KEY INVESTMENT POINTS

We are initiating Avis Budget with a Buy rating and an \$18 price target. We believe the company is at the start of a three-stage earnings recovery which should drive significant EPS growth over the next two years. We forecast EPS of \$0.72 and \$1.40 in 2010 and 2011, up from \$0.01 in 2009:

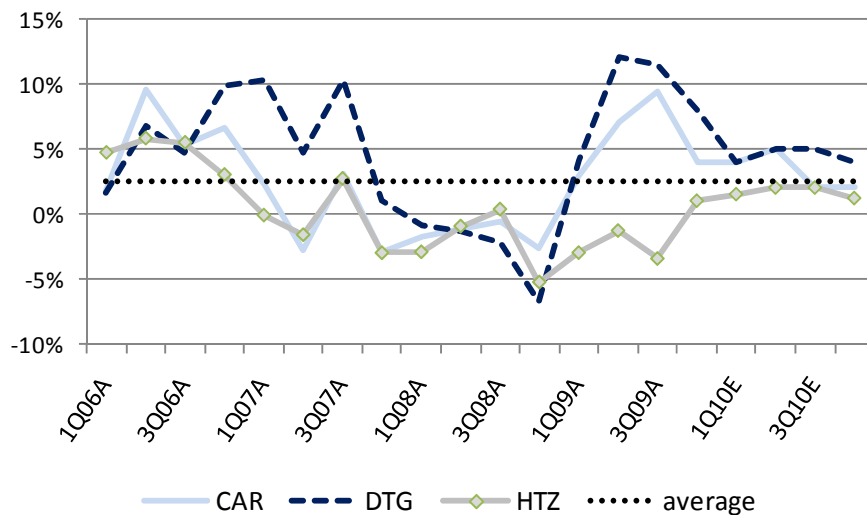
- (1) Current strong leisure pricing environment continues into 2010;
- (2) Corporate travel volumes first stabilize and then recover with to GDP growth and easier year-over-year comps;
- (3) Increased operating leverage as a result of actions management has taken: right-sizing the fleet; cutting \$380 million-\$440 million of costs (run-rate); strengthening the balance sheet; and eliminating unprofitable locations and transactions.

(1) Stronger Leisure Pricing Continues into 2010

The strong earnings growth we forecast is based on pricing reverting back to historical averages even though we believe tight industry-wide fleet policies could provide the right environment for several years of above average pricing. We forecast 3% pricing in 2010 and 2011 for Avis Budget which will be a combination of 5% - 6% leisure pricing and 0% - 1% commercial pricing.

Figure 1. Strong 3Q09 pricing (+9.4% y-o-y)

Year-over-year % change in RPD (Revenue Per Day) 1Q06-4Q10E



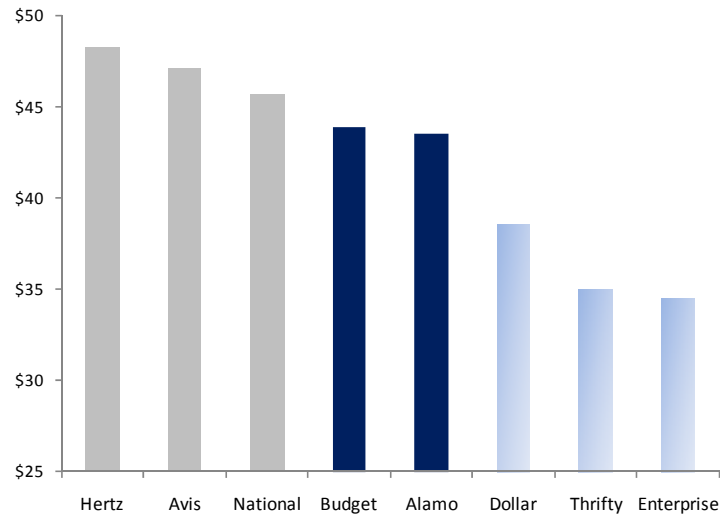
Source: Company reports, MKM Partners

Leisure pricing drives strong incremental earnings growth

- We estimate that for every 1% incremental domestic pricing EBITDA increases by ~\$35 million and EPS by ~\$0.20 for Avis Budget.
- In 3Q09 Avis Budget achieved 9.4% domestic pricing (figure 1) with leisure pricing +13% and Budget leisure pricing +13%. Overall pricing was lower due to the mix of business pricing.
- Budget is a leisure-orientated brand (72% leisure) and can respond more quickly to a more tightly-fleeted environment. Avis Budget management has been positioning Budget closer to National, which is the brand above Budget on the industry pricing-strategy ladder (figure 2).

Figure 2. Illustration of industry pricing-strategy ladder

RPD (\$) based MKM Partners Research airport survey



The above pricing is based on the average of daily rates at 7 U.S. airports in mid-October.

Source: Company reports, MKM Partners

Our pricing survey at seven national airports (figure 2) broadly illustrates the difference in pricing strategies for the different brands. We believe the order from top to bottom to be reflective of the industry even though the gradient (i.e. the variance in price) is probably less accurate as it will vary based on timing and location as well as several other factors.

Leisure Versus Business Travel: what's the difference?

Leisure Rental Characteristics

- Lower RPD's (Revenue Per Day) on average and transactions are longer in length
- Weekend and full week rentals; holidays, particularly July/August are peak demand periods
- Longer rental length improves fleet utilization
- **Pricing acts like a spot market and adjusts rapidly to supply/demand**

Business Rental Characteristics

- **Higher RPD's on average** and rentals are shorter in length
- Midweek and typically less marked seasonality
- Rates are contracted annually and pricing adjusts more slowly

(2) Stabilizing Demand and a Recovery in Corporate Travel

Rental days (volume/demand) correlate strongly with real GDP (r-squared: 89%). We base our forecast off consensus estimates and model industry volume growth of 2.5% in 2010 and 3.1% in 2011. We model 1.3% and 2.5% growth in transaction days for Avis budget as the company is eliminating unprofitable transactions and locations.

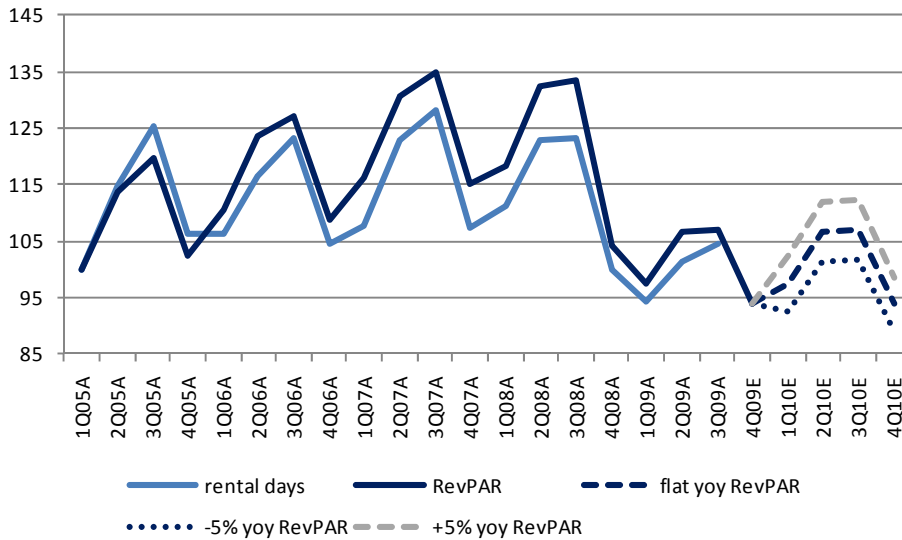
Corporate travel demand is a function of GDP growth and corporate profitability. During 3Q, management commentary from travel and lodging companies indicates that corporations are starting to consider loosening travel budgets. Companies are getting back to thinking about driving revenue as cost cutting is starting to run its course and although visibility remains poor, comps become substantially easier from 4Q. Stabilizing corporate demand should be enough to drive earnings growth as it will allow the incremental profitability from strong leisure pricing to drop through to the bottom line.

Does the outlook for U.S. hotels provide any insight into the direction of rental day growth?

Total US rental days correlate with RevPAR (Revenue Per Available Room) with an R-squared of 88% (figure 3). On 3Q09 conference calls Marriott International, Inc. (MAR, Not Rated) and Starwood Hotels and Resorts International, Inc. (HOT, Not Rated) both outlined expectations that RevPAR would be 0% to -5% in 2010. We believe this is a further encouraging sign that rental days should stabilize in 2010.

Figure 3. RevPAR expectations indicate stabilization in rental day volumes

Industry rental days (indexed to 100), RevPAR (indexed to 100)



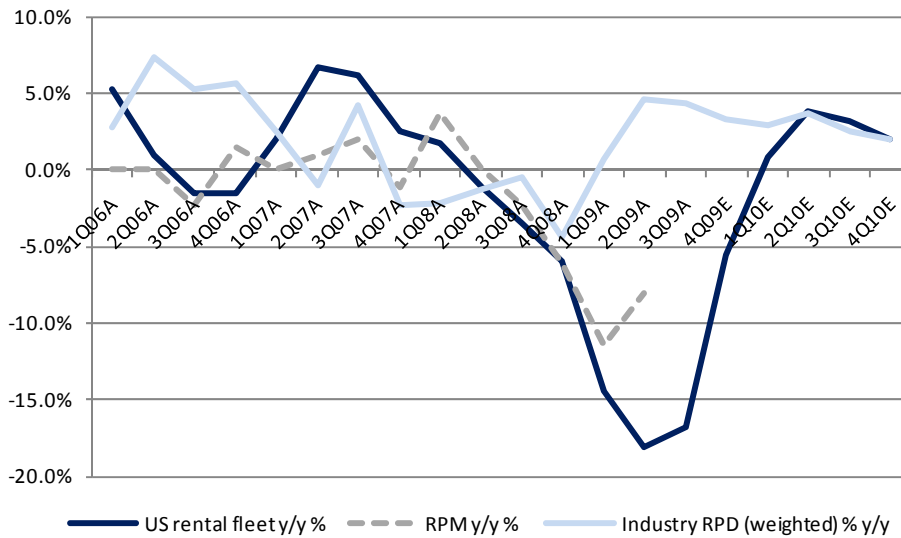
Rental-days combine US rental-day data from CAR, DTG and HTZ
Source: Company reports, MKM Partners

(3) Increased operating leverage in the business model due to management actions

Right-sizing the fleet

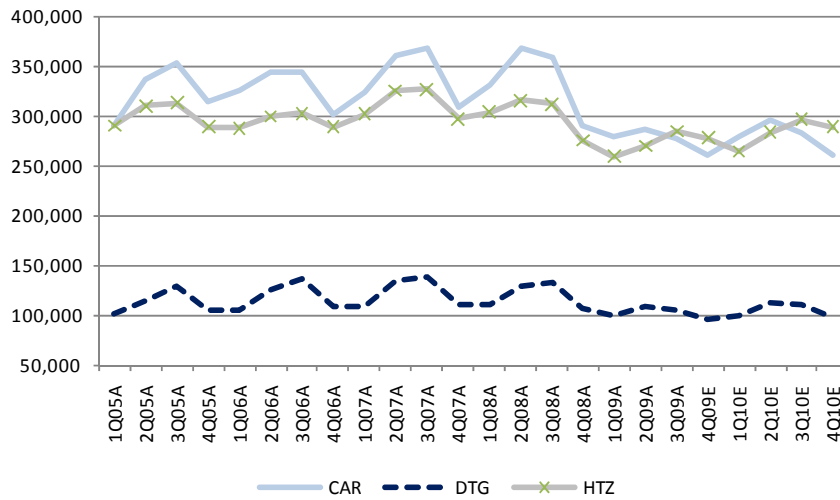
Pricing recovered sharply in 2Q09 and 3Q09, despite continued steep year-over-year declines in volume, because the industry has rapidly adjusted its asset base (i.e. the number of vehicles in the fleet). We use Revenue Passenger miles, a measure of domestic air travel as a proxy for demand (R-squared 81% to rental days) to demonstrate this in figure 4 below. Avis Budget has adjusted its fleet faster than the industry. At the end of 2Q07 its fleet was 22% lower year-over-year, versus 15% for Dollar Thrifty Group (DTG, Buy Rated) and 14% for Hertz (HTZ, Neutral Rated).

Figure 4. Pricing (US RPD) responds to supply (U.S. rental fleet) shrinking by more than demand (RPM) 1Q06-3Q09 (% y-o-y)



(* US car rental fleet includes only CAR, DTG and HTZ and excludes Enterprise which including National/Alamo has close to 45-50% of industry fleet). RPM = Revenue Passenger Miles and is a measure of domestic air travel (source ATA). US RPD = y-o-y percentage change in average revenue per day for weighted by fleet size for Avis Budget, Dollar Thrifty and Hertz. Source: ATA, Company reports, MKM Partners

Figure 5. CAR's domestic fleet was down 23% y-o-y at the end of 3Q US fleet sizes for Avis Budget, Dollar Thrifty and Hertz



Source: Company reports, MKM Partners

Cost cuts: targeting run-rate of \$380 million-\$440 million by 2010

The company implemented three stages of cost cuts starting in 2008: process improvements, 3Q 2008 cost actions and a five-point plan.

Tracking the cost cuts:

SG&A as a percentage of revenue in 1H09 was 10.6%, down 100 basis points from the prior year. Opex (51.4% of revenue in 1H09) was also lower compared to the prior year (52.6%). Management believes that many of the cost eliminations are permanent and that this should therefore drive increased operating leverage as revenue growth returns.

Process improvement: annual savings target of \$100 million-\$150 million

- Increasing productivity and the elimination of waste
- Replicating best-practices across the system
- Implementing LEAN, Six Sigma and other tools
- The company reports it achieved \$40 million in savings from these initiatives in 2008.

3Q 2008 actions: annual savings target of \$50 million

- Reduction in headcount of 700 people
- Consolidation of five regional offices into four
- Reductions in shuttling and other operating costs

Five-Point Plan: annual savings target of \$200 million

- Further headcount reductions (3,700 positions)
- Elimination of unprofitable business segments
- Consolidation of functions and locations
- Consolidation of procurement
- Targeted improvements in sales and marketing contributions

Strengthening the balance sheet

Avis Budget recently strengthened its balance sheet by (1) securing early refinancing for its term ABS debt maturing in 2010, (2) issuing \$300 million of convertible senior notes, and (3) renewing its 364-day ABS conduit facility.

Figure 6. Strengthening the balance sheet with five separate transactions

Date	Amount \$ mn	Financing	Coupon	Final payment	Rating	Advance rate *	Enhancement
May, 26 2009	325	Operating lease financing	<i>not disclosed</i>	<i>not disclosed</i>	<i>not disclosed</i>	<i>not disclosed</i>	<i>not disclosed</i>
July, 23 2009	450	Term ABS Series 2009-1	9.31%	Oct-12	A2 Moody's	70%	43%
Oct, 01 2009	450	Term ABS Series 2009-2	5.68%	Feb-13	Aaa Moody's	60%	67%
Oct, 07 2009	300	Convertible senior notes	3.50%	2014	--	--	--
Oct, 29 2009	1,950	364-day ABS Conduit facility	LIBOR plus 2.25%	Oct-10	--	--	--

* Estimate for each transaction was based on company's fleet composition at the time.

Source: Company reports, MKM Partners.

The company has \$3.5 billion of fleet funding capacity maturing through the end of 2010. In advance of these maturities, the company completed two term ABS notes for a total of \$900 million, arranged an operating lease financing facility and issued \$300 million of convertible senior notes. The company renewed in late October its 364-day ABS Conduit facilities (\$1.95 billion) at LIBOR plus 2.25%, representing a reduction of 100 basis points versus the prior rate. The company renews these facilities each year at the seasonal low point for fleet financing requirements.

Figure 7. Fewer, older vehicles has enabled fleet debt to fall 28% in two years

S mn	Twelve months ended June		
	2007	2008	2009
Vehicle-backed debt	7,140	6,978	5,131
Corporate debt	<u>1,803</u>	<u>1,793</u>	<u>1,887</u>
Total debt	8,943	8,771	7,018

Source: Company reports, MKM Partners

At the end of 3Q09, Avis Budget had corporate debt of \$1.9 billion, fleet debt of \$4.5 billion and cash and cash equivalents of \$0.5 million. The net book value of vehicles assets as at the end of 3Q09 was \$6.1billion.

Eliminating unprofitable locations and transactions

The company is identifying unprofitable transactions and raising prices in order to drive improved profitability and cash flow. We believe this may result in some lost share, for example in 2Q management believes its actions may have caused volumes to be 3%-4% lower.

Example: by increasing the price for a certain type of weekend rental that would likely incur high mileage, Avis Budget either improves profitability immediately (if the vehicle is rented at the higher price) or if the vehicle is not rented, Avis Budget has the ability to benefit from two or three mid-week rentals as the vehicle's life has been extended (because it has not hit mileage thresholds). Either way Avis Budget has been able to improve profitability.

Tighter Vehicle Inventories Should Drive Stronger Pricing

Tighter vehicle inventories (down 18% y-o-y) should drive stronger pricing. Industry pricing is relatively inelastic; it is the availability of fleet that exerts a greater influence on pricing. Industry fleet levels were 17% lower in 3Q (Avis Budget -23%) and pricing improved 4.4% (Avis Budget +9.4%). We forecast 2.8% industry pricing in 2010 and 2.7% in 2011 as fleet inventories (+2.5% in 2010 and +3.1% in 2011) remain tight to demand. We believe management teams should remain disciplined on fleet in 2010/11 for the following reasons: (1) increased vehicle financing/collateral requirements; (2) increased mix of Risk vehicles; and (3) greater emphasis by managements on cash flow and profitability over market share.

- **Increased fleet collateral/financing requirements** – Vehicle financing costs are increasing (both collateral requirements and interest expense). Recent transactions have seen enhancement levels rise from 15-30% several years ago to 40-60% today. Adding fleet has become increasingly more capital intensive and therefore we believe management's will be more cautious adding incremental fleet.

Interest expense and fleet collateral requirements are increasing due to changes in the ABS market. As existing (cheaper) asset-backed notes mature, companies are refinancing fleet debt but at higher interest rates and/or increased enhancement levels. (Enhancements take the form of cash, vehicles or letters of credit which are set aside as collateral in addition to the vehicle assets themselves.) The Asset Backed Security market has improved substantially through 2009 and Hertz and Avis Budget have both accessed the market with different transactions.

- **Increased mix of Risk vehicles** - auto rental companies have residual exposure to used-car prices on the 'Risk' vehicles in their fleet. This contrasts with 'Program' cars, which have guaranteed buy-back residuals from the manufacturers. Risk vehicles take 15-20 days longer to dispose of as auto rental companies need to re-market the vehicles as opposed to simply returning Program cars to the OEM. Therefore, we believe the industry-wide move to more Risk vehicles will cause the industry to be more cautious increasing fleet sizes, particularly around peak season over the summer months.

Avis Budget increased its mix of Risk vehicles to 60% from 25% in 2007 and ~1% back in 2005. Dollar Thrifty has Risk mix of 95% and Hertz is targeting 70% Risk mix for its US fleet.

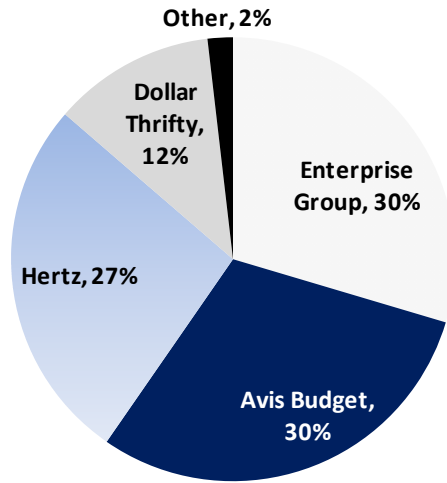
- **Managements are more focused on cash flow and profitability rather than market share.** Dollar Thrifty and Avis Budget have focused on closing unprofitable locations eliminating unprofitable transactions. In the recent conference calls, both companies mentioned that a couple of points of volume decline relates to intentional actions to limit unprofitable volume in their mix.

COMPANY OVERVIEW

Headquartered in Parsippany, NJ, Avis Budget had \$6 billion in revenue in 2008 from an average fleet of 425,000 vehicles in North America, Australia and New Zealand. Avis and/or Budget in the rest of the world are operated by subsidiaries and sub-licensees of independent third-parties (for example Avis Europe is an independent publicly listed company headquartered in London).

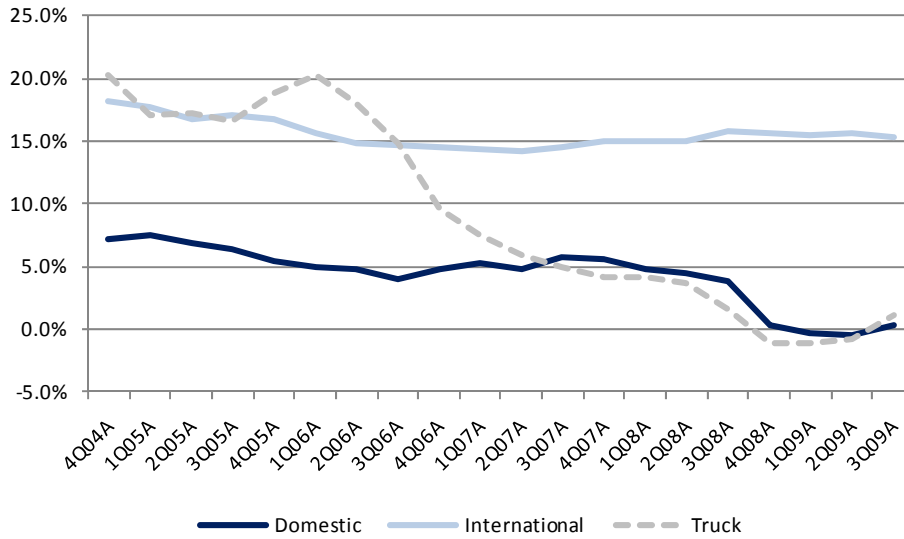
- Avis Budget has a combined 30% market share of the \$11 billion US on-airport market. The Avis brand represents approximately two-thirds of revenue and Budget, one-third.
- Domestic car rental (U.S.) represents 61% of total revenue, International 10%, Truck rental 5% and Other 24%.
- Other revenue is comprised of gasoline sales, airport concession pass-through fees, vehicle license revenues, GPS rentals as well as counter sales of insurance and other items.
- Within North America 80% of revenues are derived from airport locations and 20% from 'local', off-airport locations.
- In 2008, 60% of Avis revenues were commercial and 40% leisure at its 1,000 company-owned locations in North America.
- Budget had 650 company locations in 2008 and mix of 28% leisure and 72% business.
- Avis has 300 franchise locations in North America and Budget 225 locations.
- Avis Budget split out of the Cendant group in July 2006 as several different business units (Realogy, Wyndham and Travelport) separated. The company was left as the rump entity listed on the NYSE and was renamed as Avis Budget Group. Avis was founded in 1946 and Budget in 1958. Avis acquired Budget out of bankruptcy in August 2002. The free float is 100%.

Figure 8. Leading combined market share at US airports
 2008 US On-Airport market share (%)



Source: Company reports, MKM Partners

Figure 9. Truck rental could provide additional upside to the earnings story
 LTM rolling quarterly segment EBITDA margins (4Q04 – 3Q09)



Source: Company reports, MKM Partners

Figure 10. Domestic car rental represents ~61% of revenue
Avis Budget revenue model (2005-2011E)

Revenue model	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Revenue Summary							
Vehicle rental	4,302.0	4,519.0	4,667.0	4,563.2	3,918.5	4,081.9	4,289.2
Other	1,014.0	1,109.0	1,319.0	1,419.8	1,230.3	1,287.9	1,350.3
Total Revenues	5,316.0	5,628.0	5,986.0	5,983.0	5,148.8	5,369.9	5,639.5
Revenue breakout							
Domestic	3,357.4	3,578.7	3,710.8	3,637.2	3,127.6	3,273.5	3,452.4
International	478.2	546.7	620.1	622.6	509.0	518.1	539.0
Truck rental	466.7	392.7	336.4	304.1	281.8	290.3	297.8
Total Vehicle rental revenues	4,302.4	4,518.1	4,667.2	4,563.9	3,918.5	4,081.9	4,289.2
Other	1,013.6	1,109.9	1,300.8	1,417.1	1,230.3	1,287.9	1,350.3
Total Revenues	5,316.0	5,628.0	5,968.0	5,981.0	5,148.8	5,369.9	5,639.5
Revenue yoy change (%)							
Domestic	11.2%	6.6%	3.7%	-2.0%	-14.0%	4.7%	5.5%
International	22.0%	14.3%	13.4%	0.4%	-18.2%	1.8%	4.0%
Truck rental	3.9%	-15.8%	-14.3%	-9.6%	-7.3%	3.0%	2.6%
Total vehicle revenues	11.5%	5.0%	3.3%	-2.2%	-14.1%	4.2%	5.1%
Other	19.3%	9.5%	17.2%	8.9%	-13.2%	4.7%	4.8%
Total revenues	12.9%	5.9%	6.0%	0.2%	-13.9%	4.3%	5.0%
% of revenue							
Revenue Summary							
Vehicle rental	80.9%	80.3%	78.2%	76.3%	76.1%	76.0%	76.1%
Other	19.1%	19.7%	22.1%	23.7%	23.9%	24.0%	23.9%
Total Revenues							
Revenue breakout							
Domestic	63.2%	63.6%	62.2%	60.8%	60.7%	61.0%	61.2%
International	9.0%	9.7%	10.4%	10.4%	9.9%	9.6%	9.6%
Truck rental	8.8%	7.0%	5.6%	5.1%	5.5%	5.4%	5.3%
Total Vehicle rental revenues							
Other	19.1%	19.7%	21.8%	23.7%	23.9%	24.0%	23.9%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company reports, MKM Partners

FINANCIAL CONDITION

Avis Budget recently strengthened its balance sheet. In preparation for \$3.5 billion of fleet funding capacity maturing through the end of 2010, the company completed two term Asset Backed Security notes in July and October 2009 for a total of \$900 million, arranged an operating lease financing facility, renewed its \$1.95 billion ABS conduit facility and issued \$300 million of convertible senior notes (October 2009).

At the end of 3Q09, Avis Budget had corporate debt of \$1.9 billion, fleet debt of \$4.5 billion and cash and cash equivalents of \$0.5 million. The net book value of vehicles assets as at the end of 3Q09 was \$6.1bn.

Figure 11. No corporate debt maturities until 2012

Debt schedule (\$ million, 2008, 1Q09-2Q09)

Debt schedule	2008A	1Q09A	2Q09A
Long-term debt and borrowing arrangements			
Floating rate term loan - April 2012	787.0	785.0	783.0
Floating rate notes - due May 2014	250.0	250.0	250.0
7 5/8% notes - due May 2014	375.0	375.0	375.0
7 3/4% notes - due May 2016	375.0	375.0	375.0
Other	2.0	<u>6.0</u>	<u>104.0</u>
Total long-term debt	1,789.0	1,791.0	1,887.0
Less: current portion	10.0	12.0	11.0
	1,779.0	<u>1,779.0</u>	<u>1,876.0</u>
Debt Under Vehicle Programs and Borrowing Arrangements			
Debt due to Avis Budget Rental Car Funding			
Capacity		5,569.0	5,621.0
Available		1,400.0	1,275.0
Outstanding	5,142.0	4,169.0	4,346.0
Budget Truck financing:			
Budget Truck Funding program	316.0	301.0	281.0
Capital leases	126.0	115.0	109.0
Other	450.0	425.0	616.0
Debt Under Vehicle Programs	6,034.0	<u>5,010.0</u>	<u>5,352.0</u>
Outstanding debt under vehicle programs	5,142.0	4,169.0	4,346.0
Collateralized by vehicles and related assets		5,500.0	5,800.0
LTV		75.8%	74.9%

Source: Company reports, MKM Partners

Cash flow: pre-tax profit a good proxy for free cash flow

With large NOL's and other tax benefits, pre-tax profit is a good proxy for FCF. Cash taxes should approximate \$10 million-\$20 million for the next several years. We forecast free cash flow of \$106 million and \$208 million in 2010/2011.

Figure 12. Pre-tax profits are a good proxy for FCF

Quick cash flow	2007A	2008A	2009E	2010E	2011E
Sources:					
Corporate EBITDA	409.0	169.0	243.2	367.2	487.5
Uses:					
Corporate interest expense	(127.0)	(129.0)	(147.0)	(144.0)	(145.0)
Cash Taxes	(19.0)	(234.0)	(6.6)	(10.0)	(14.7)
Change in Current Accounts (ex tax)	(126.0)	10.0	157.1	13.9	16.2
Non-fleet capital expenditures	(94.0)	(83.0)	(24.0)	(43.2)	(64.8)
Other	0.0	0.0	(224.2)	(77.5)	(71.4)
sub-total	(366.0)	(436.0)	(244.7)	(260.8)	(279.7)
Free Cash Flow	43.0	(267.0)	(1.5)	106.4	207.8

Source: Company reports, MKM Partners

EARNINGS MODEL AND ESTIMATES

Revenue growth returns in 2010

Our revenue estimates are \$5,150 million, \$5,370 million and \$5,640 million for 2009, 2010 and 2011, respectively.

- We forecast revenue declines of 14% in 2009 led principally by 19% lower transaction volumes and offset by 6% better RPD (Revenue Per Day) in the U.S.
- In 2010 we forecast 1.2% transaction day growth (1.3% in the U.S. and 1% International) and 3.2% growth in RPD which results in total revenue growth of 4.3%.
- We assume growth increases in 2011 as pricing mix shifts back to business versus leisure travelers. We estimate 3% RPD growth in the U.S. (2% International) and 2.2% growth in worldwide transactions.
- We forecast growth of ancillary/other revenue of 5% in 2010 and 2011.

(Avis Budget refers to T&M RPD which is Time & Mileage Revenue-Per-Day. Rental days and time and mileage revenue per day are calculated based on actual usage of the vehicle during a 24-hour period.)

Corporate EBITDA

Our Corporate EBITDA estimates are \$243 million, \$367 million and \$488 million for 2009, 2010 and 2011, with EBITDA margins of 4.7%, 6.8% and 8.6%.

Corporate EBITDA is calculated by adding back to pre-tax profit, non-vehicle related depreciation and interest expense on corporate debt. In other words it treats vehicle holding costs (depreciation and interest) as an expense. This calculation is useful in our view because: 1) it aids comparison with other companies; and 2) it treats vehicle costs exactly as they are i.e. cash operating expenses.

Figure 13. EBITDA sensitivity to change in domestic pricing and volume

	CAR \$ mn	DTG \$ mn	HTZ \$ mn
1% pricing	35	13	45
1% transactions	13	5	16
1% per unit fleet costs	14	5	25

Source: Company reports, MKM Partners

- Direct operating expenses are forecast hold level as a percentage of revenue at 50.9% in 2010 as a result of Avis Budget cost savings. Some of the main constituents of opex include operating commissions (11-12% of revenue), maintenance and damage (5-6%), gas (3-4%) and headcount (14-16%).
- SG&A as a percentage of revenue should remain around 10%.
- Depreciation of Revenue Earning Equipment costs are declining as vehicle depreciation (per unit/month) fall to around \$320 in 2010 from \$340 in 2009 due to stronger residuals on late-model vehicles and better fleet deals with the OEM's for the new model year 2010 vehicles.
- Fleet interest expense is forecast to increase \$33 million year-over-year due fleet refinancing and increased enhancement levels and limited fleet growth.
- The non-GAAP tax rate should remain 40%.

We forecast EPS of \$0.01, \$0.72 and \$1.40 for 2009, 2010 and 2011 respectively.

Figure 14. Year-over-year change in revenue and expenses (%) 2005-2011E

yoy % change	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Vehicle rental revenue	11.5%	5.0%	3.3%	-2.2%	-14.1%	4.2%	5.1%
Other revenue	19.4%	9.4%	18.9%	7.7%	-13.3%	4.7%	4.8%
Total Revenue	12.9%	5.9%	6.4%	0.0%	-13.9%	4.3%	5.0%
Operating Expenses	12.6%	5.6%	5.1%	3.8%	-16.8%	2.3%	2.4%
Vehicle Depn. & Lease Charges	25.3%	14.4%	10.9%	8.0%	-13.9%	-4.0%	4.4%
SG&A	6.5%	-3.4%	9.7%	-0.5%	-18.6%	1.3%	3.7%
Vehicle interest expense, net	26.6%	3.6%	-1.6%	1.9%	-7.9%	29.7%	1.0%
Non-vehicle D&A	9.6%	20.0%	-12.5%	4.8%	11.4%	0.0%	0.0%

Source: Company reports, MKM Partners

Figure 15. Revenue drivers: moderate recovery in volumes combined with 3% pricing 2005-2011E

Revenue drivers	2005A	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09E	2009E	2010E	2011E
Domestic Car											
Rental Days (000's)	88,774	89,444	92,743	92,291	18,459	19,604	19,167	17,736	74,966	75,938	77,836
T&M per day (*)	\$ 37.82	\$ 40.01	\$ 40.01	\$ 39.41	\$ 40.69	\$ 40.51	\$ 45.06	\$ 40.62	\$ 41.72	\$ 43.06	\$ 44.35
Average Fleet	324,739	329,348	340,889	338,093	279,939	286,991	278,189	261,903	276,755	280,299	287,306
International Car											
Rental Days (000's)	12,259	13,803	14,241	14,346	3,235	3,057	3,774	3,036	13,102	13,233	13,498
T&M per day (*)	\$ 39.01	\$ 39.61	\$ 43.54	\$ 43.40	\$ 34.87	\$ 40.40	\$ 46.28	\$ 33.86	\$ 38.85	\$ 39.15	\$ 39.94
Average Fleet	47,125	53,310	55,703	56,726	51,836	49,595	55,101	50,439	51,743	52,260	53,305
Truck											
Rental Days (000's)	5,295	4,552	4,249	4,129	785	1,008	1,089	968	3,850	3,927	4,006
T&M per day (*)	\$ 88.14	\$ 86.28	\$ 79.17	\$ 73.66	\$ 69.84	\$ 76.35	\$ 77.50	\$ 67.80	\$ 72.87	\$ 73.60	\$ 74.34
Average Fleet	32,101	30,495	28,728	29,744	29,517	29,197	28,871	29,389	29,244	29,828	30,425
(*) Rental days and time and mileage revenue per day are calculated based on the actual usage of the vehicle during a 24-hour period.											
Domestic Car (yoy % change)											
Rental Days (% yoy)	14.4%	0.8%	3.7%	-0.5%	-18.2%	-22.3%	-22.7%	-10.0%	-18.8%	1.3%	2.5%
T&M per day	-2.8%	5.8%	0.0%	-1.5%	2.9%	7.1%	9.4%	4.0%	5.9%	3.2%	3.0%
Average Fleet	13.7%	1.4%	3.5%	-0.8%	-15.7%	-22.3%	-22.7%	-10.0%	-18.8%	1.3%	2.5%
Int'l Car (yoy % change)											
Rental Days (000's)	17.3%	12.6%	3.2%	0.7%	-7.9%	-10.0%	-8.8%	-8.0%	-8.7%	1.0%	2.0%
T&M per day	4.0%	1.5%	9.9%	-0.3%	-25.3%	-12.4%	3.8%	-5.0%	-10.5%	0.8%	2.0%
Average Fleet	21.4%	13.1%	4.5%	1.8%	-4.6%	-9.9%	-12.1%	-8.0%	-8.7%	1.0%	2.0%
Truck (yoy % change)											
Rental Days (000's)	0.5%	-14.0%	-6.7%	-2.8%	-8.9%	-7.9%	-8.9%	-1.0%	-6.8%	2.0%	2.0%
T&M per day	3.4%	-2.1%	-8.2%	-7.0%	-2.8%	-0.2%	-0.3%	1.0%	-1.1%	1.0%	1.0%
Average Fleet	7.3%	-5.0%	-5.8%	3.5%	1.4%	-3.0%	-4.0%	-1.0%	-6.8%	2.0%	2.0%

Source: Company reports, MKM Partners

Figure 16. Segment model
2004-2011E

Segment model	2004A	2005A	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09E	2009E	2010E	2011E
Revenue												
Domestic Car	3,658	4,109	4,395	4,679	4,695	960	1,031	1,109	929	4,029	4,219	4,454
International Car	534	661	761	873	904	164	183	250	165	762	779	808
Truck	517	546	472	416	382	70	97	106	84	356	367	378
Total Revenue	4,709	5,316	5,628	5,968	5,981	1,194	1,311	1,465	1,179	5,148	5,365	5,639
EBITDA												
Domestic Car	265	225	214	265	12	(11)	37	102				
International Car	97	111	111	131	141	19	18	56				
Truck	105	103	45	17	(4)	(10)	9	13				
Total EBITDA	467	439	370	413	149	(2)	64	171	-	-	-	
Corporate and Other								(25)				
Reconciliation of EBITDA to Pretax Income												
Total Company EBITDA	467	439	370	413	146	(2)	64	146				
Less: Non-vehicle related D&A	73	80	86	83	88	22	24	26				
Non-vehicle interest expense	10	6	94	130	130	38	37	37				
Impairment	-	-	-	1,195	1,262	1	-	-				
Pretax Income	384	353	190	(995)	(1,334)	(63)	3	83	-	-	-	
Revenue yoy % change												
Domestic Car	-	12.3%	7.0%	6.5%	0.3%	-15.5%	-16.9%	-15.9%	-7.0%	-14.2%	4.7%	5.6%
International Car	-	23.8%	15.1%	14.7%	3.6%	-28.7%	-20.4%	-5.7%	-7.7%	-15.7%	2.2%	3.7%
Truck	-	5.6%	-13.6%	-11.9%	-8.2%	-10.3%	-7.6%	-8.6%	1.6%	-6.8%	3.0%	3.0%
Total Revenue	-	12.9%	5.9%	6.0%	0.2%	-17.3%	-16.8%	-13.8%	-6.5%	-13.9%	4.2%	5.1%
EBITDA margin (%)												
Domestic Car	7.2%	5.5%	4.9%	5.7%	0.3%	-1.1%	3.6%	9.2%				
International Car	18.2%	16.8%	14.6%	15.0%	15.6%	11.6%	9.8%	22.4%				
Truck	20.3%	18.9%	9.5%	4.1%	-1.0%	-14.3%	9.3%	12.3%				
Total Revenue	9.9%	8.3%	6.6%	6.9%	2.5%	-0.2%	4.9%	11.7%				

Source: Company reports, MKM Partners

Figure 17. Domestic and International car rental assumptions

Revenue model: (\$ millions) 2005-2011E

Domestic car rental	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Rental Days	88.8	89.4	92.6	92.3	75.0	75.9	77.8
Time & Miles Rev/day	\$37.82	\$40.01	\$40.06	\$39.41	\$41.72	\$43.06	\$44.35
Rental Revenue	3,357.4	3,578.7	3,710.8	3,637.2	3,127.6	3,270.1	3,452.4
<u>Ancillary revenue</u>	<u>751.6</u>	<u>816.3</u>	<u>968.2</u>	<u>1,057.8</u>	<u>901.6</u>	<u>949.3</u>	<u>1,001.5</u>
Domestic revenue	4,109.0	4,395.0	4,679.0	4,695.0	4,029.2	4,219.4	4,453.9
Average Fleet Size	324,739	329,348	340,889	338,093	276,755	280,299	287,306
Ancillary revenue/rental day	61	59	68	74	69	72	74
yoy %	0%	-4%	15%	8%	-7%	4%	12%
Change yoy %							
Rental days	14.4%	0.8%	3.6%	-0.4%	-18.8%	1.3%	2.5%
T&M Rev/day	-2.8%	5.8%	0.1%	-1.6%	5.9%	3.2%	3.0%
Rental revenue	11.2%	6.6%	3.7%	-2.0%	-14.0%	4.6%	5.6%
Ancillary revenue	17.5%	8.6%	18.6%	9.3%	-14.8%	5.3%	5.5%
Domestic revenue	12.3%	7.0%	6.5%	0.3%	-14.2%	4.7%	5.6%
Fleet	13.7%	1.4%	3.5%	-0.8%	-18.1%	1.3%	2.5%
International car rental							
	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Rental Days	12.3	13.8	14.2	14.3	13.1	13.2	13.5
Time & Miles Rev/day	\$39.01	\$39.61	\$43.54	\$43.40	\$38.85	\$39.15	\$39.94
Rental Revenue	478.2	546.7	620.1	622.6	509.0	518.1	539.0
<u>Ancillary revenue</u>	<u>182.8</u>	<u>214.3</u>	<u>252.9</u>	<u>281.4</u>	<u>253.2</u>	<u>260.8</u>	<u>268.7</u>
International revenue	661.0	761.0	873.0	904.0	762.3	779.0	807.7
Average Fleet Size	47,125	53,310	55,703	56,726	51,743	52,260	53,305
Change yoy %							
Rental days	17.3%	12.6%	3.2%	0.7%	-8.7%	1.0%	313.1%
T&M Rev/day	4.0%	1.5%	9.9%	-0.3%	-10.5%	0.8%	14.5%
Rental revenue	22.0%	14.3%	13.4%	0.4%	-18.2%	1.8%	4.0%
Ancillary revenue	28.7%	17.2%	18.1%	11.2%	-10.0%	3.0%	3.0%
International revenue	23.8%	15.1%	14.7%	3.6%	-15.7%	2.2%	3.7%
Fleet	21.4%	13.1%	4.5%	1.8%	-8.8%	1.0%	2.0%

Source: Company reports, MKM Partners

VALUATION - \$18 price target based on 13x P/E our 2011 EPS estimate

Our \$18 price target is based on CAR trading at 13x our 2011 EPS estimate, one year from now. This implies an EV/Corporate EBITDA multiple of 7.7x our 2011 Corporate EBITDA estimate.

- The historic P/E multiple-range for Avis Budget is 9x-22x, with an historic mean and median of 16x and 17x respectively. We are comfortable using a 13x multiple, which is a 20% discount to its historical average forward-P/E, due to the reduced contribution from the Truck business. The Truck business which is expected to be breakeven in 2009, contributed approximately 20% of EBITDA in 2004 and 2005,
- In our analysis of historic P/E multiples we exclude the multiples from 4Q08 as we believe they are not meaningful. During the credit crisis the multiple expanded above 30x and then quickly turned negative as earnings collapsed and the stock began to increasingly price some element of going-concern risk. We no longer believe this is appropriate following the recent refinancing, strengthening of the balance sheet and improved profitability and cash flow.
- Given recent cost cutting and improved operational efficiencies we have increased confidence that the company can return toward and even exceed historic margins of 10%-12%. Our 2011 EPS estimate reflects a Corporate EBITDA margin of 8.6%.

Figure 18. Auto rental earnings data and valuation sheet

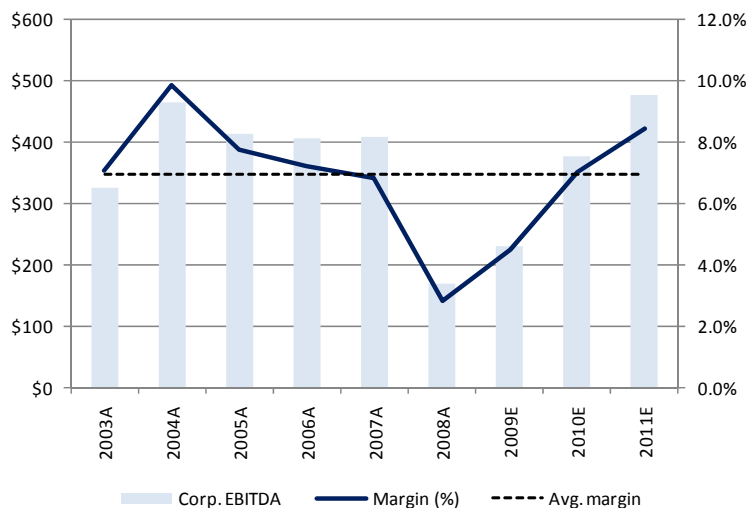
		Price	52 - week	Shares	Mkt cap	Earnings Per Share (\$)				Price/EPS				EV/EBITDA		
		\$	range	(mn)	\$ mn	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E	2009E	2010E	2011E
Auto Rental																
Avis Budget	CAR Buy	9.11	14.14 - 0.34	104.5	952.0	(0.39)	0.01	0.72	1.40	-23.2 x	1014 x	12.7 x	6.5 x	11.6 x	7.7 x	5.8 x
Dollar Thrifty	DTG Buy	18.01	27.50 - 0.60	28.4	511.5	(1.90)	0.54	1.48	2.20	-9.5 x	33.4 x	12.2 x	8.2 x	7.4 x	4.5 x	3.4 x
Hertz	HTZ Buy	8.89	11.99 - 1.55	407.7	3,624.5	0.42	0.22	0.50	0.82	21.3 x	40.4 x	17.9 x	10.8 x	7.6 x	6.9 x	5.9 x

			net debt	EV	Revenue				Price/Sales				Corp. EBITDA (\$ mn)			
			\$ mn	\$ mn	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E	2009E	2010E	2011E	
Auto Rental																
Avis Budget	CAR Buy	-	-	1,876.0	2,828.0	5,984	5,150	5,370	5,639	0.2 x	0.2 x	0.2 x	0.2 x	243	367	487
Dollar Thrifty	DTG Buy	-	-	0.0	511.5	1,698	1,544	1,641	1,732	0.3 x	0.3 x	0.3 x	0.3 x	69	115	149
Hertz	HTZ Buy	-	-	3,638.9	7,263.4	8,525	7,062	7,214	7,602	0.4 x	0.5 x	0.5 x	0.5 x	950	1,054	1,235

Source: Company reports, Reuters, MKM Partners

Figure 19. Margins should rebound back above historic margins

Corporate EBITDA margin (2002A-2011E)



Source: Company reports, MKM Partners

RISKS TO OUR VIEW AND PRICE TARGET

Failure to achieve pricing is the greatest risk to our view. The product is a quasi-commodity and although the industry has consolidated to 3 or 4 major players, the industry remains highly competitive.

- **Competition for business travel contracts:** Although Avis is retaining ~98% of its corporate travel business, competition is hurting pricing. Corporate travel represents 60% of revenue at Avis and 28% of revenue at Budget. Sustained negative pricing for business travel could cause our overall pricing estimates to be too optimistic.

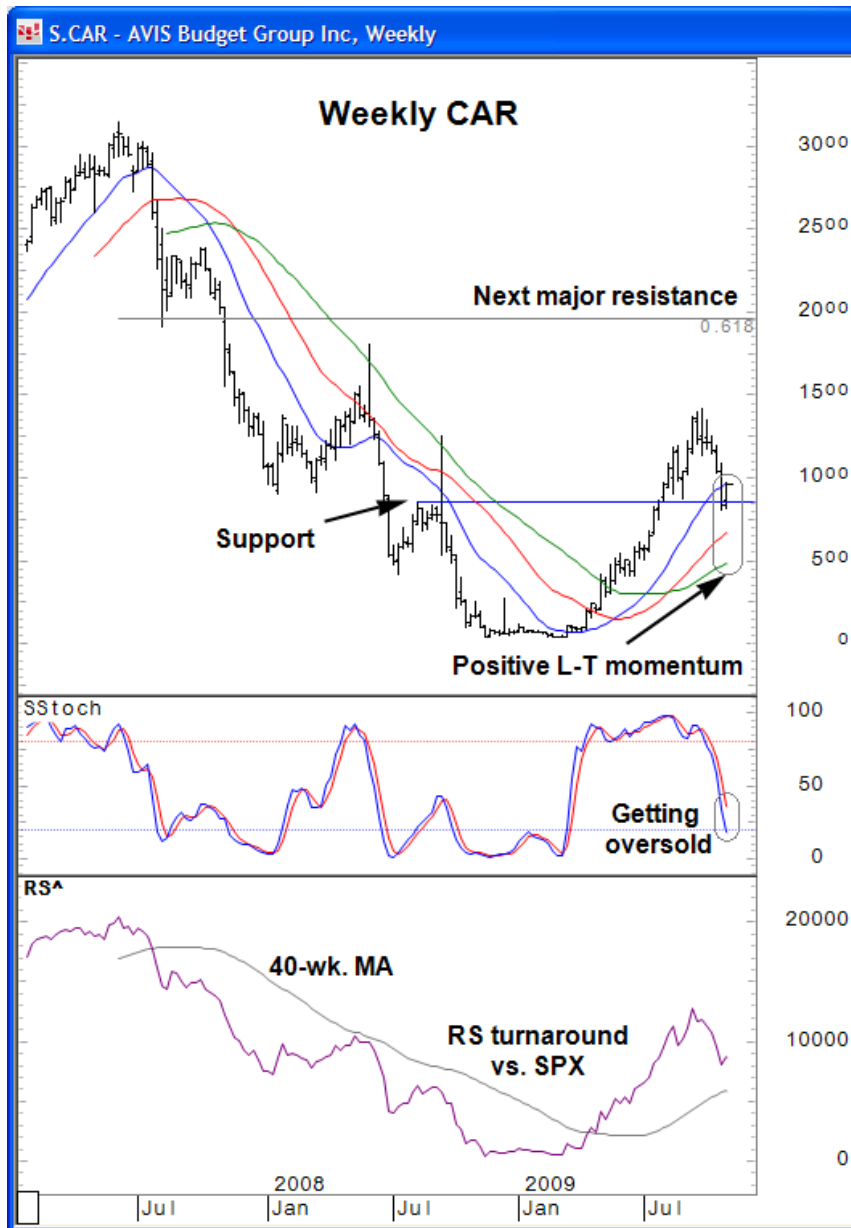
We believe that National, which has a smaller share of the corporate travel market, is being the most aggressive on price. Both Hertz and National (owned by Enterprise, a private company) compete with Avis for business travelers. Typically, travel departments at companies sign/renew annual contracts with one or more of the companies for preferred or exclusive contracts for all business travel.

- **Declining vehicle residual values:** Declining residual values for late-model (i.e. ex-rental vehicles) would cause vehicle depreciation costs, which represent approximately 30% of total costs, to rise. Avis Budget's Risk vehicle mix is expected to be 60% for 2010.
- **Leisure pricing can be volatile and fluctuate quarter to quarter:** Leisure pricing may be trending strongly in an upward direction, but particular events or actions by competitors can cause RPD metrics to fluctuate from quarter to quarter.

Technical review

Avis Budget Group (CAR, \$9.11) has pulled back sharply over the past few weeks, relieving intermediate-term overbought conditions. The posture of the chart is bullish, given the reversal of a long-term downtrend earlier this year. Long-term momentum is positive based on the TMAP model, which consists of the 20-, 35-, and 50-week moving averages, which suggests the pullback be viewed as a buying opportunity from a technical standpoint. There is support near \$8.50 based on former resistance, which we believe will limit downside risk. The next major resistance on the chart is near \$20 based on a Fibonacci retracement level. Avis Budget has healthy relative strength compared to the S&P 500 Index (SPX).

We use technical analysis as a way to manage risk and time entries within the scope of our fundamental ratings.



Source: CQG, Inc. © 2009 All rights reserved worldwide. www.cqg.com Wed Nov 04 2009

Figure 20. Income statement and earnings analysis
(\$ millions) 2005-2011E

Income Statement	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Vehicle rental	4,302.0	4,519.0	4,667.0	4,564.0	3,919.2	4,081.9	4,289.2
Other	1,014.0	1,109.0	1,319.0	1,420.0	1,230.7	1,287.9	1,350.3
Revenue	5,316.0	5,628.0	5,986.0	5,984.0	5,149.8	5,369.9	5,639.5
<i>yoy % change</i>	-	5.9%	6.4%	0.0%	-13.9%	4.3%	5.0%
Operating Expenses	2,735.0	2,887.0	3,033.0	3,147.0	2,616.8	2,675.9	2,739.9
Vehicle Depn. & Lease Charges	1,238.0	1,416.0	1,571.0	1,697.0	1,461.0	1,403.3	1,464.8
SG&A	621.0	600.0	658.0	655.0	533.0	540.0	560.0
Vehicle interest expense, net	309.0	320.0	315.0	321.0	295.7	383.6	387.3
Non-vehicle D&A	80.0	96.0	84.0	88.0	98.0	98.0	98.0
Interest expense on Corporate debt	(20.0)	137.0	127.0	129.0	147.0	144.0	145.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	4,963.0	5,456.0	5,788.0	6,037.0	5,151.6	5,244.7	5,395.0
Pre-tax profit	353.0	172.0	198.0	(53.0)	(1.8)	125.2	244.5
Provision/(benefit) for Income Taxes	129.0	67.1	72.6	(13.0)	(2.7)	50.1	97.8
Tax Rate	36.5%	39.0%	36.7%	0.2%	153.1%	40.0%	40.0%
Adj Net Income/ (loss)	224.0	104.9	125.4	(40.0)	0.9	75.1	146.7
Adj. EPS	2.15	1.04	1.22	(0.39)	0.01	0.72	1.40
Non-recurring adjustments/ (charges)	(8.0)	(31.5)	(1,041.0)	0.0	(16.4)	0.0	0.0
GAAP Net Income/ (loss)	216.0	73.4	(915.6)	(40.0)	(15.5)	75.1	146.7
Shares Outstanding - Basic	104.0	100.4	103.1	101.9	102.3	102.3	102.3
Shares Outstanding - Diluted	104.0	100.6	103.1	101.9	104.5	104.5	104.5
GAAP EPS - Diluted	2.08	0.73	(8.88)	(0.39)	(0.15)	0.72	1.40
Earnings analysis	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Pre-tax profit	353.0	172.0	198.0	(53.0)	(1.8)	125.2	244.5
Pre-tax margin (%)	6.6%	3.1%	3.3%	-0.9%	0.0%	2.3%	4.3%
Non-vehicle related depreciation	80.0	96.0	84.0	88.0	98.0	98.0	98.0
Interest expense on Corp. debt	(20.0)	137.0	127.0	129.0	147.0	144.0	145.0
Other	0.0	0.0	0.0	5.0	0.0	0.0	0.0
Corporate EBITDA	413.0	405.0	409.0	169.0	243.2	367.2	487.5
<i>Margin (%)</i>	<i>7.8%</i>	<i>7.2%</i>	<i>6.8%</i>	<i>2.8%</i>	<i>4.7%</i>	<i>6.8%</i>	<i>8.6%</i>
<i>y/y change (%)</i>	<i>-11.2%</i>	<i>-1.9%</i>	<i>1.0%</i>	<i>-58.7%</i>	<i>43.9%</i>	<i>51.0%</i>	<i>32.8%</i>
% of revenue							
Operating Expenses	51.4%	51.3%	50.7%	52.6%	50.8%	49.8%	48.6%
Vehicle Depn. & Lease Charges	23.3%	25.2%	26.2%	28.4%	28.4%	26.1%	26.0%
SG&A	11.7%	10.7%	11.0%	10.9%	10.3%	10.1%	9.9%
Vehicle interest expense, net	5.8%	5.7%	5.3%	5.4%	5.7%	7.1%	6.9%
Average fleet	403,965	413,153	425,320	424,563	357,742	362,387	371,037
<i>y/y change (%)</i>	<i>14.0%</i>	<i>2.3%</i>	<i>2.9%</i>	<i>-0.2%</i>	<i>-15.7%</i>	<i>1.3%</i>	<i>2.4%</i>
per unit depreciation cost/month (\$)	255	286	308	333	341	323	317
<i>y/y change (%)</i>	<i>9.9%</i>	<i>11.8%</i>	<i>7.8%</i>	<i>8.2%</i>	<i>2.2%</i>	<i>-5.2%</i>	<i>2.0%</i>
Vehicle Depn. yoy change (%)	25.3%	14.4%	10.9%	8.0%	-13.9%	-4.0%	4.4%

Source: Company reports, MKM Partners

Figure 21. Quarterly income statement and earnings analysis
(\$ millions) 1Q 2008 – 4Q 2009E

Income Statement	1Q08A	2Q08A	3Q08A	4Q08A	2008A	1Q09A	2Q09A	3Q09A	4Q09E	2009E
Vehicle rental	1,118.0	1,194.0	1,298.0	954.0	4,564.0	919.0	995.0	1,122.7	882.4	3,919.2
Other	327.0	383.0	403.0	307.0	1,420.0	275.0	317.0	342.3	296.4	1,230.7
Revenue	1,445.0	1,577.0	1,701.0	1,261.0	5,984.0	1,194.0	1,312.0	1,465.0	1,178.8	5,149.8
<i>yoy % change</i>	5.9%	4.0%	-1.0%	-9.0%	0.0%	-17.4%	-16.8%	-13.9%	-6.5%	-13.9%
Operating Expenses	778.0	811.0	847.0	711.0	3,147.0	640.0	648.0	731.0	597.8	2,616.8
Vehicle Depn. & Lease Charges	383.0	441.0	473.0	400.0	1,697.0	355.0	393.0	357.0	356.0	1,461.0
SG&A	167.0	173.0	171.0	144.0	655.0	133.0	133.0	137.0	130.0	533.0
Vehicle interest expense, net	86.0	74.0	74.0	87.0	321.0	69.0	71.0	75.0	80.7	295.7
Non-vehicle D&A	19.0	20.0	23.0	26.0	88.0	22.0	24.0	26.0	26.0	98.0
Interest expense on Corporate debt	30.0	32.0	31.0	36.0	129.0	38.0	37.0	37.0	35.0	147.0
Other	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total expenses	1,463.0	1,551.0	1,619.0	1,404.0	6,037.0	1,257.0	1,306.0	1,363.0	1,225.6	5,151.6
Pre-tax profit	(18.0)	26.0	82.0	(143.0)	(53.0)	(63.0)	6.0	102.0	(46.8)	(1.8)
Provision/(benefit) for Income Taxes	(6.0)	10.0	26.0	(43.0)	(13.0)	(21.0)	4.0	33.0	(18.7)	(2.7)
Tax Rate	33.3%	38.5%	31.7%	30.1%	0.2%	33.3%	66.7%	32.4%	40.0%	153.1%
Adj Net Income/ (loss)	(12.0)	16.0	56.0	(100.0)	(40.0)	(42.0)	2.0	69.0	(28.1)	0.9
Adj. EPS	(0.12)	0.16	0.55	(0.98)	(0.39)	(0.41)	0.02	0.66	(0.27)	0.01
Non-recurring adjustments/ (charges)	0.0	(1.0)	(1,063.0)	0.0	0.0	(7.0)	(8.0)	(1.4)	0.0	(16.4)
GAAP Net Income/ (loss)	(12.0)	15.0	(1,007.0)	(100.0)	(40.0)	(49.0)	(6.0)	67.6	(28.1)	(15.5)
Shares Outstanding - Basic	102.8	101.4	101.6	101.7	101.9	101.8	102.1	102.3	102.3	102.3
Shares Outstanding - Diluted	102.8	101.4	101.6	101.7	101.9	101.8	102.1	104.5	104.5	104.5
GAAP EPS - Diluted	(0.12)	0.15	(9.91)	(0.98)	(0.39)	(0.48)	(0.06)	0.65	(0.27)	(0.15)

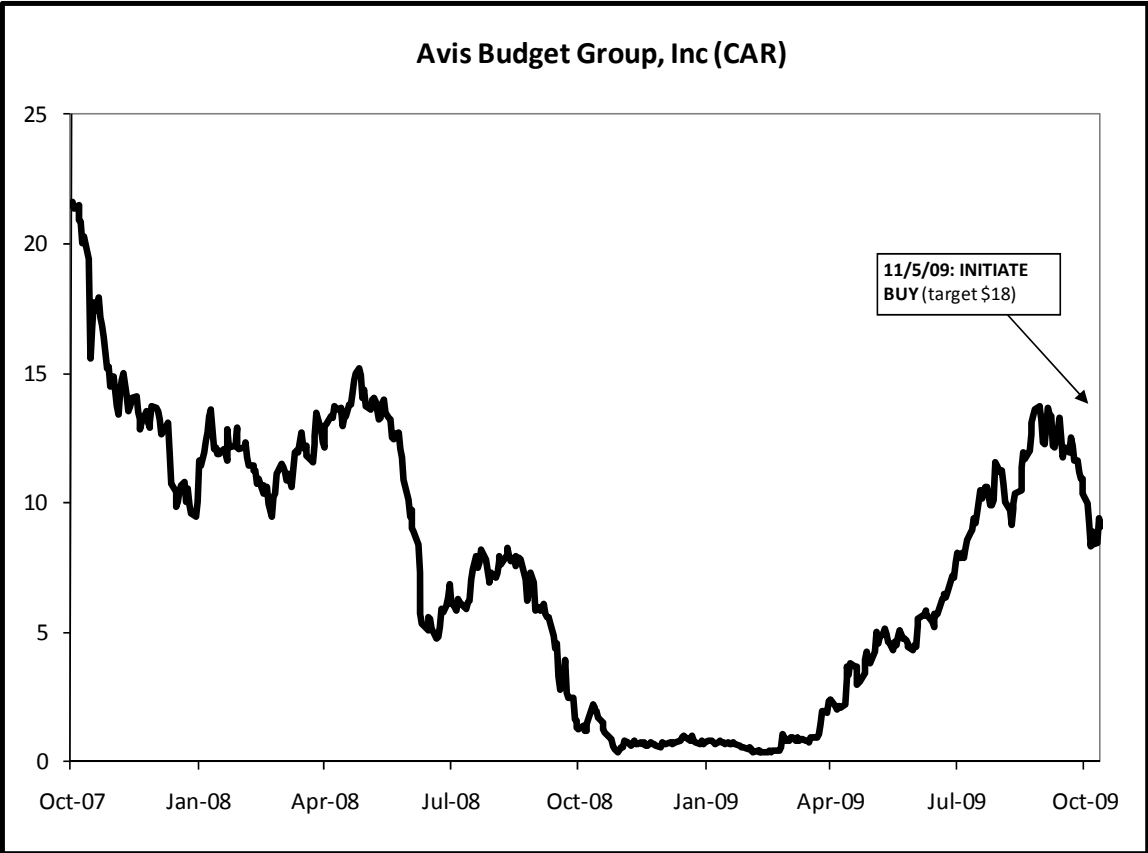
Earnings analysis	1Q08A	2Q08A	3Q08A	4Q08A	2008A	1Q09A	2Q09A	3Q09A	4Q09E	2009E
Pre-tax profit	(18.0)	26.0	82.0	(143.0)	(53.0)	(63.0)	6.0	102.0	(46.8)	(1.8)
Pre-tax margin (%)	-1.2%	1.6%	4.8%	-11.3%	-0.9%	-5.3%	0.5%	7.0%	-4.0%	0.0%
Non-vehicle related depreciation	19.0	20.0	23.0	26.0	88.0	22.0	24.0	26.0	26.0	98.0
Interest expense on Corp. debt	30.0	32.0	31.0	36.0	129.0	38.0	37.0	37.0	35.0	147.0
Other	0.0	0.0	5.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0
Corporate EBITDA	31.0	78.0	141.0	(81.0)	169.0	(3.0)	67.0	165.0	14.2	243.2
<i>Margin (%)</i>	2.1%	4.9%	8.3%	-6.4%	2.8%	-0.3%	5.1%	11.3%	1.2%	4.7%
<i>y/y change (%)</i>	-50.0%	-13.3%	-17.5%	-194.2%	-58.7%	-109.7%	-14.1%	17.0%	-117.6%	43.9%
% of revenue										
Operating Expenses	53.8%	51.4%	49.8%	56.4%	52.6%	53.6%	49.4%	49.9%	50.7%	50.8%
Vehicle Depn. & Lease Charges	26.5%	28.0%	27.8%	31.7%	28.4%	29.7%	30.0%	24.4%	30.2%	28.4%
SG&A	11.6%	11.0%	10.1%	11.4%	10.9%	11.1%	10.1%	9.4%	11.0%	10.3%
Vehicle interest expense, net	6.0%	4.7%	4.4%	6.9%	5.4%	5.8%	5.4%	5.1%	6.8%	5.7%
Average fleet	415,500	454,726	452,534	375,514	424,563	361,292	365,783	362,161	341,731	357,742
<i>y/y change (%)</i>	2.8%	2.2%	-1.6%	-4.4%	-0.2%	-13.0%	-19.6%	-20.0%	-9.0%	-15.7%
per unit depreciation cost/month (\$)	307	323	348	355	333	328	358	329	348	341
<i>y/y change (%)</i>	2.9%	7.3%	8.9%	14.3%	8.2%	6.6%	10.8%	-5.7%	-2.0%	2.2%
Vehicle Depn. yoy change (%)	5.8%	9.7%	7.3%	9.3%	8.0%	-7.3%	-10.9%	-24.5%	-11.0%	-13.9%

Source: Company reports, MKM Partners

Figure 22. Balance sheet and return calculations
(\$ millions) 2005-2011E

Balance sheet	2005A	2006A	2007A	2008A	2009E	2010E	2011E
Cash and cash equivalents	58	172	214	258	375	482	690
Restricted cash	0	0	0	0	0	0	0
Accounts receivable	348	363	392	360	334	343	392
Deferred income taxes	207	7	42	75	73	73	73
<u>Other current assets</u>	<u>802</u>	<u>1,264</u>	<u>570</u>	<u>380</u>	<u>385</u>	<u>385</u>	<u>385</u>
Total Current Assets	1,415	1,806	1,218	1,073	1,168	1,283	1,539
Property & equipment, net	438	486	500	485	418	363	330
Goodwill & other intangibles	2,918	2,932	1,760	542	546	546	546
<u>Other non-current assets</u>	<u>217</u>	<u>347</u>	<u>1,015</u>	<u>1,392</u>	<u>1,416</u>	<u>1,416</u>	<u>1,416</u>
Total assets ex. vehicles	4,988	5,571	4,493	3,492	3,548	3,608	3,831
Assets under Vehicle Programs:							
Program cash	15	14	1	12	1	1	1
Vehicles, net	7,509	7,049	7,474	7,164	6,959	6,982	7,575
Due from vehicle OEMs	602	276	276	533	100	100	100
<u>Investment in AESOP</u>	<u>374</u>	<u>361</u>	<u>230</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>117</u>
Vehicle assets	8,500	7,700	7,981	7,826	7,177	7,200	7,793
Total Assets	13,488	13,271	12,474	11,318	10,725	10,809	11,624
Current Liabilities							
Accounts payable and other	1,277	1,855	1,094	901	867	890	954
<u>Short-term Debt</u>	<u>0</u>	<u>29</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>11</u>
Total Current Liabilities	1,277	1,884	1,104	911	878	901	965
Long-term debt	0	1,813	1,787	1,779	1,876	1,876	1,876
<u>Other non-current liabilities</u>	<u>214</u>	<u>452</u>	<u>998</u>	<u>1,121</u>	<u>1,109</u>	<u>1,100</u>	<u>1,320</u>
Total liabilities ex. Vehicles	1,491	4,149	3,889	3,811	3,863	3,877	4,161
Liabilities under vehicle programs:							
Vehicle Debt	952	759	950	892	1,006	1,006	1,006
Vehicle debt due to AESOP LLC	6,932	4,511	4,646	5,142	4,376	4,177	4,526
Deferred income taxes	1,139	1,206	1,246	1,188	1,246	1,246	1,246
Other	0	203	278	192	33	226	262
Total Liabilities	9,023	6,679	7,120	7,414	6,661	6,656	7,040
Preferred Equity	0	0	0	0	0	0	0
Shareholder's Equity	2,974	2,443	1,465	93	201	276	423
Total Liabilities & Equity	13,488	13,271	12,474	11,318	10,725	10,809	11,624
					0.0	0.0	0.0
Return measures							
Net Corporate debt/ net EBITDA	-	4.1 x	3.9 x	9.1 x	6.2 x	3.8 x	2.5 x
ROA Return on Assets	4.1%	3.9%	3.9%	1.6%	2.3%	3.6%	4.5%
ROE Return on Equity	7.8%	3.9%	6.4%	-5.1%	0.6%	31.5%	48.6%
ROIC - ex vehicle assets	5.3%	5.0%	5.5%	1.5%	3.3%	6.0%	8.4%
ROIC - incl. vehicle assets	3.3%	3.2%	3.4%	2.2%	2.6%	4.0%	4.5%

Source: Company reports, MKM Partners



Source: Bloomberg

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