



How to Explain Car Rental to Banks and Investors

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Senior Managing Director, Head of Investment Banking

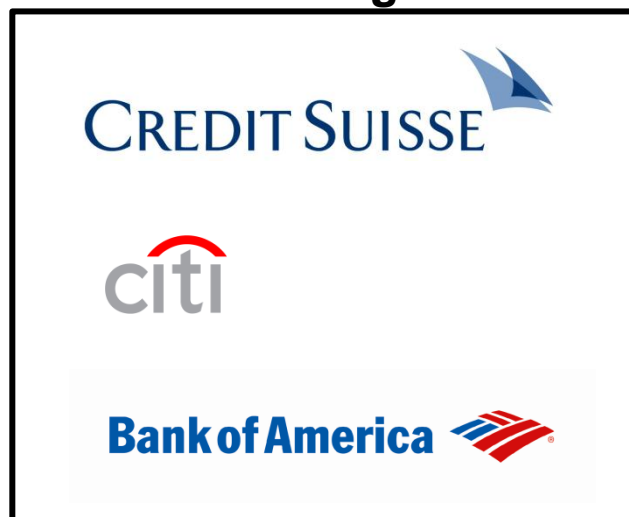
C.L. King & Associates

March 8-9, 2011 – Las Vegas Hilton

My Background – 18 Years Advising Car Rental Companies

Investment Banker for 20+ Years

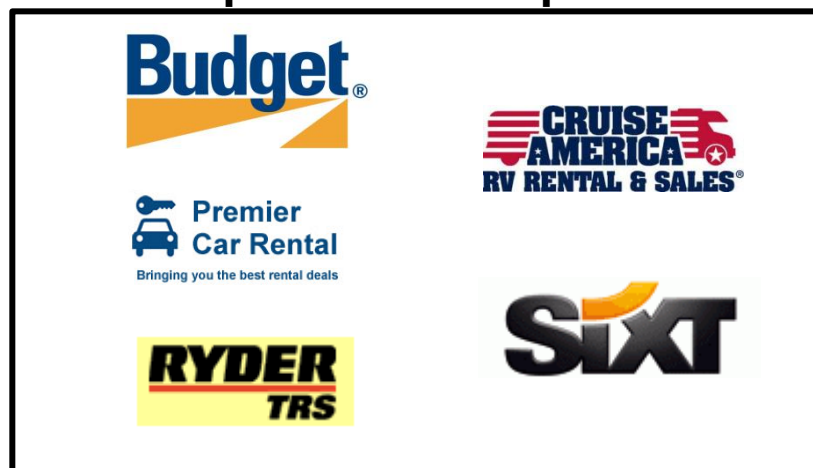
17 Years at Large Banks



Advisory Assignments



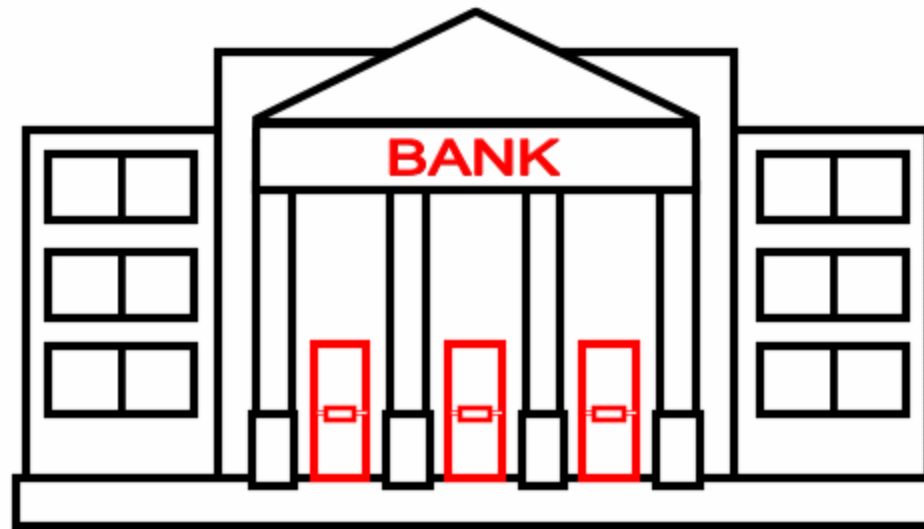
EVP Corporate Development



Capital Raising

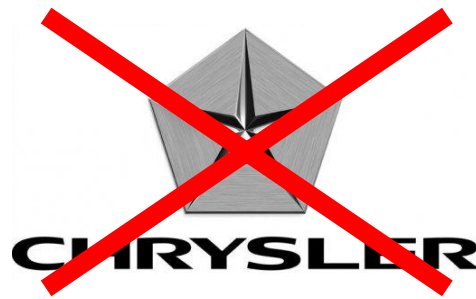


Common Car Rental Biases at Banks



Fear of Exposure to “Auto”

30 Years of Auto Industry Troubles Resulting in Well-Known Bankruptcies

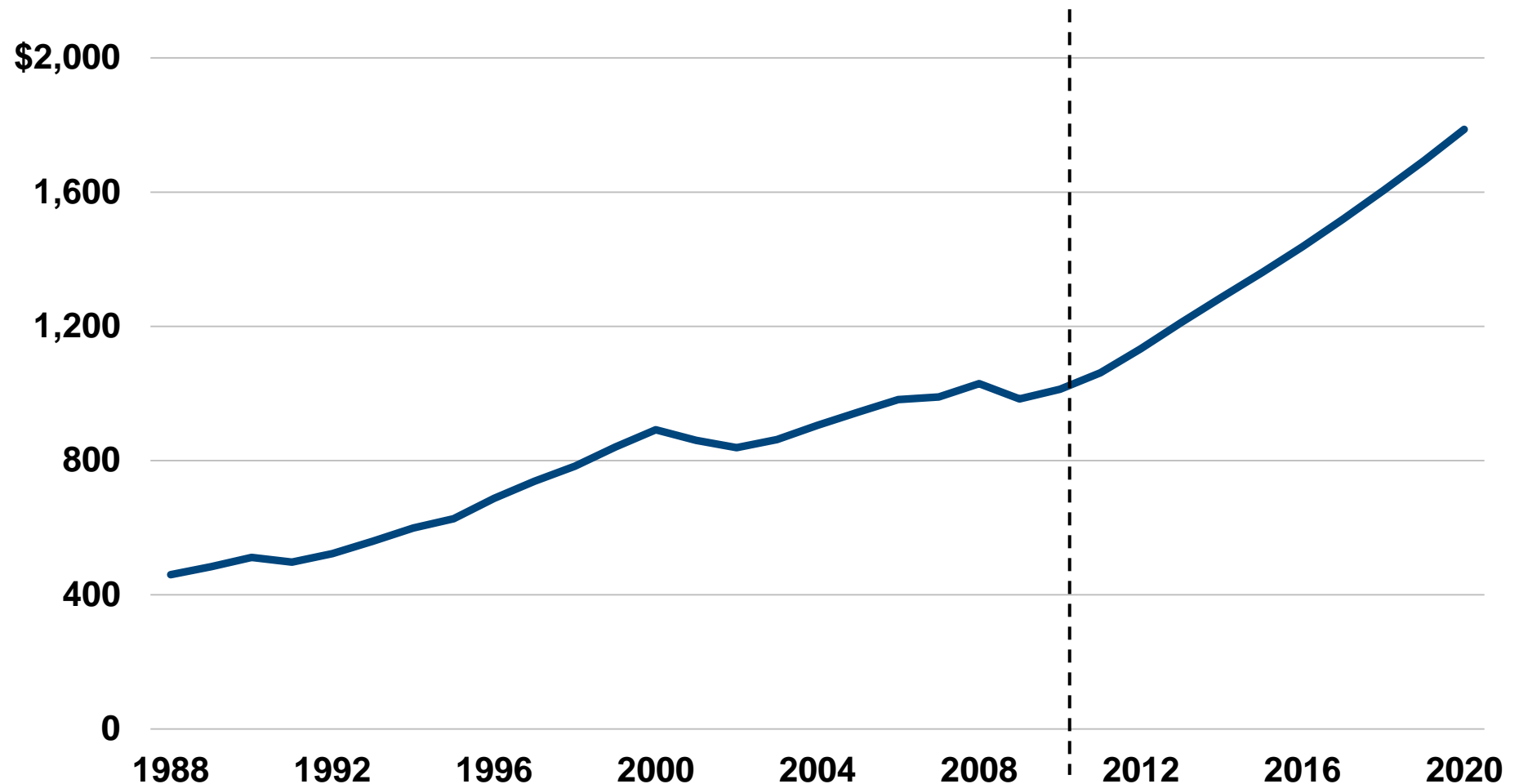


Car Rental Revenue is Driven by Travel Spending

Not Related to the Automotive Cycle

(\$ in billions)

U.S. Business and Personal Travel Spending (1988 – 2020)

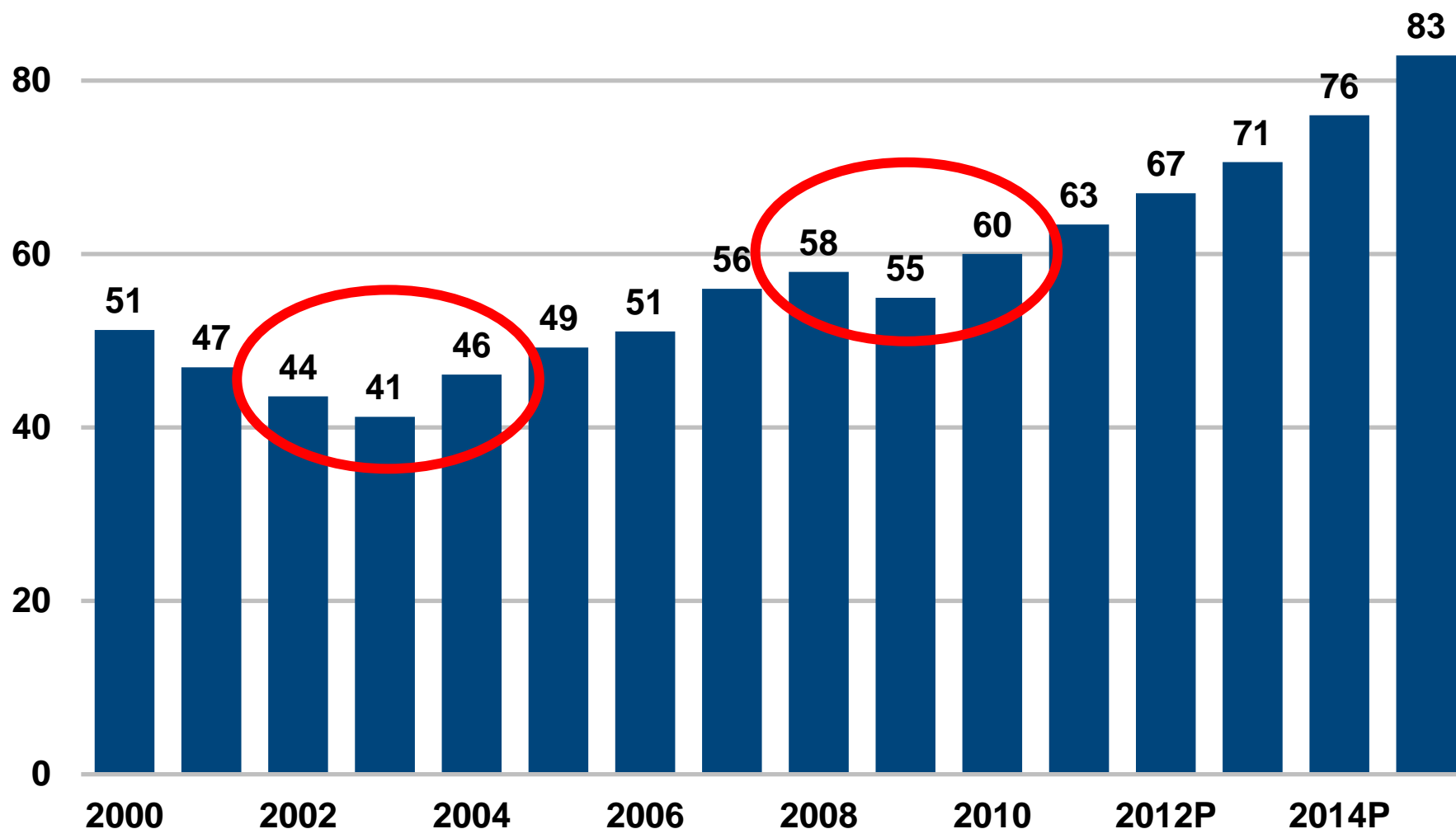


Travel Spending Driven by Economic Activity

Ever Rising Travel Spending, with Recent Exceptions

(Arrivals in millions)

International Visitors to the U.S. (2000 – 2015 Projected)

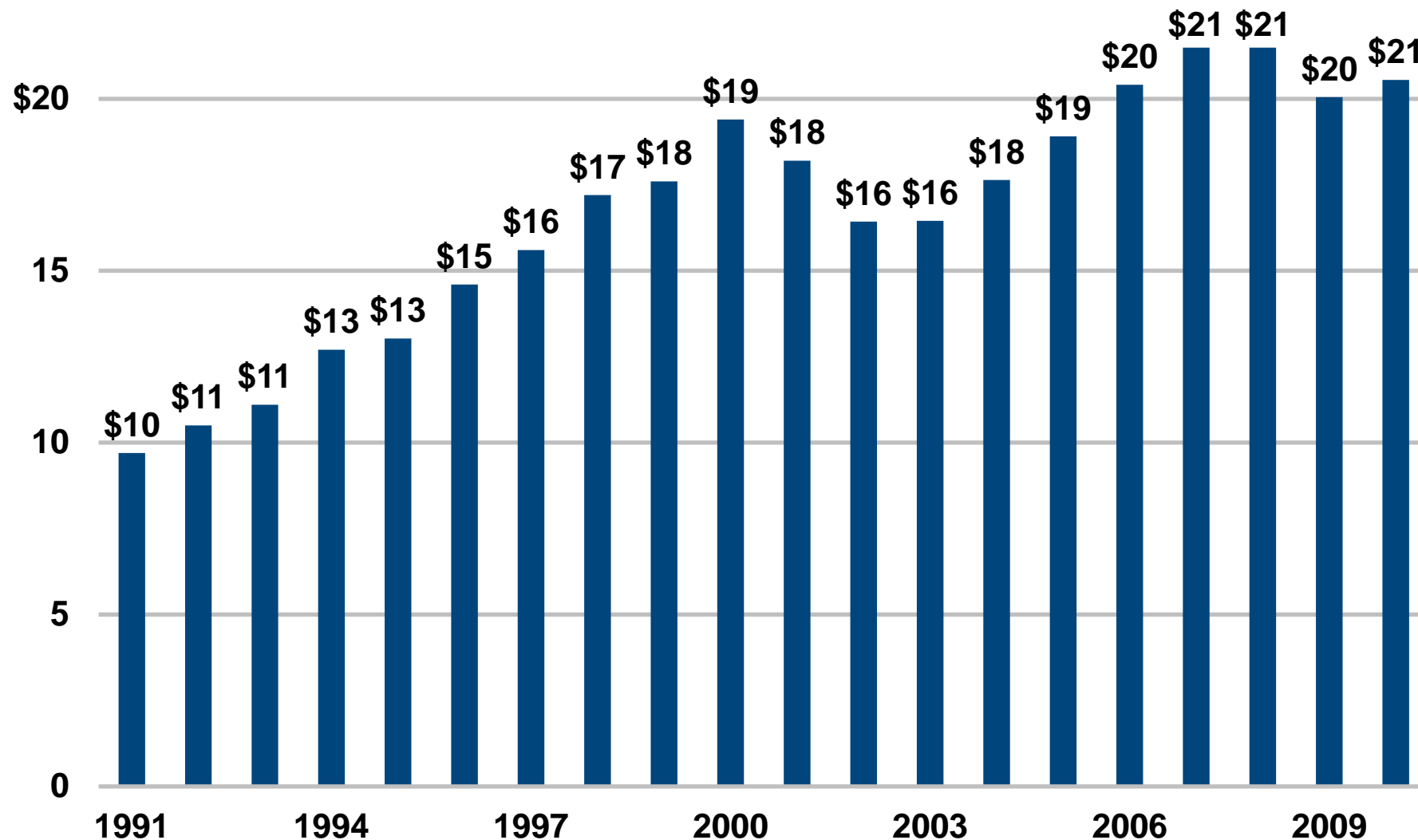


Car Rental Revenue Has Grown for Decades

Notwithstanding Recent Exceptions

(\$ in billions)

Car Rental Revenue in U.S. Market (1991 – 2010)



What is Car Rental ?

- ◆ Finance business + rental service
- ◆ No connection to “auto” issues



Car Rental is an Essential Service

- ◆ Key part of the transportation network
- ◆ Utility-like quality of predictable and recurring revenues
- ◆ Can't outsource it overseas
- ◆ Can't replace it with the Internet



“EBITDA is Huge” — Wrong

EBITDA

Car Rental Cash Flow

Definition of EBITDA

Net Income (“Earnings”)

+ Income Taxes

+ Non-Fleet Interest Expense

+ Non-Fleet Depreciation and Amortization

= Adjusted EBITDA, aka, Corporate EBITDA

Car Rental Cash Flow

Said Another Way

Revenues

- Operating Expenses
- Selling, General and Administrative Expenses

= EBITDA (Gross)

- Fleet Depreciation and Interest
(roughly 35% of Revenues)

= Adjusted or Corporate EBITDA

- ◆ Adjusted / Corporate EBITDA available to service non-fleet debt **(but beware non-fleet debt)**
- ◆ Fleet depreciation and interest are “COGS” in a car rental company

Exposure to Used Car Prices

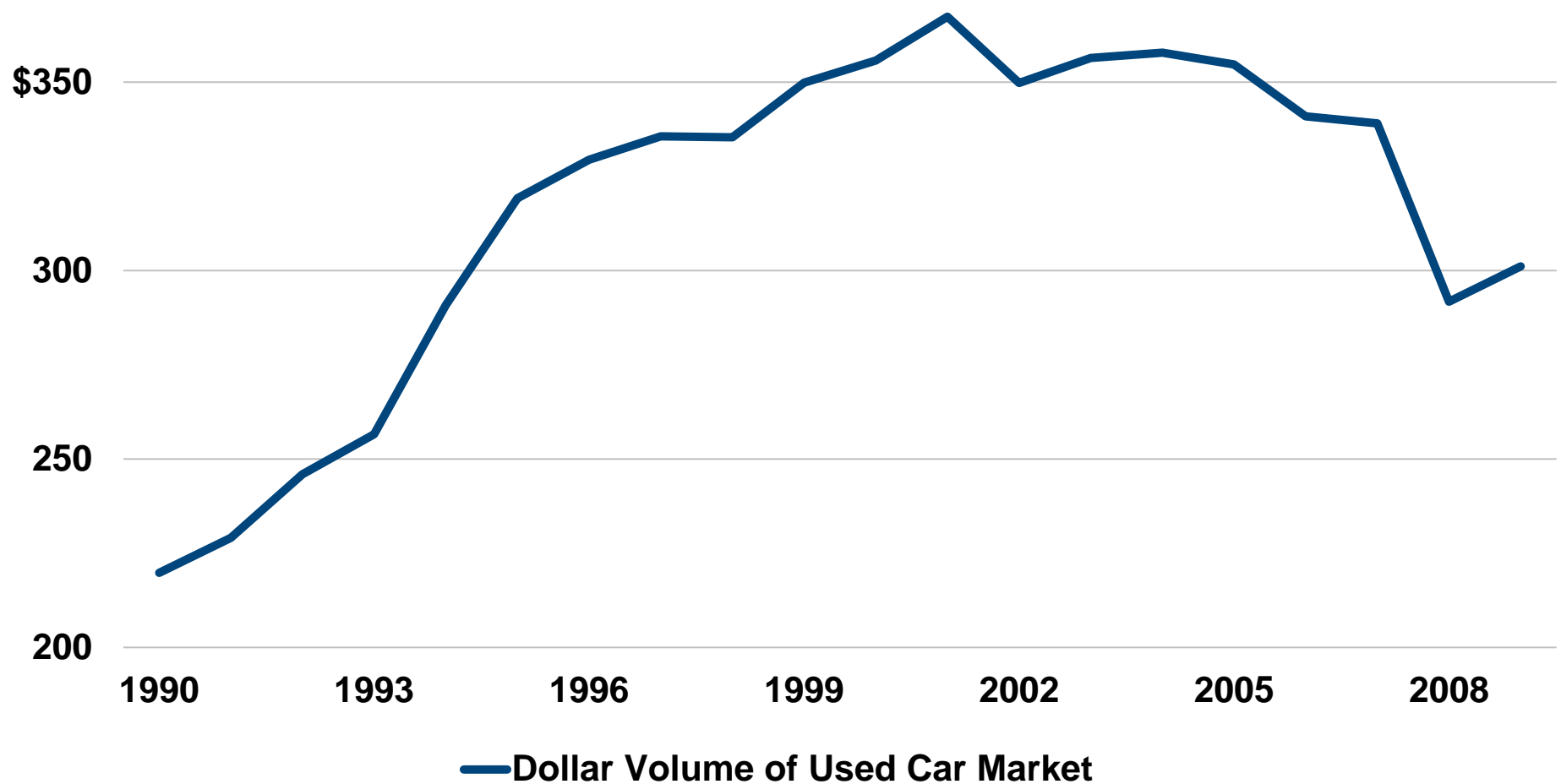
- ◆ NOT “Used Cars”?! OMG!!!
 - Sense that “used car risk” is not manageable
 - Worry about bottomless pit exposure
- ◆ Answer: Used Car Market is a Plus for Car Rental
 - Huge (several hundred billion dollars)
 - Efficient (can’t game it)
 - Liquid (easy to turn cars into cash)
 - Affects everyone equally (no one has an advantage)
- ◆ Car rental companies average gain on sale of a few hundred dollars per risk car



Used Car Market is Huge — Over \$300 Billion

(\$ in billions)

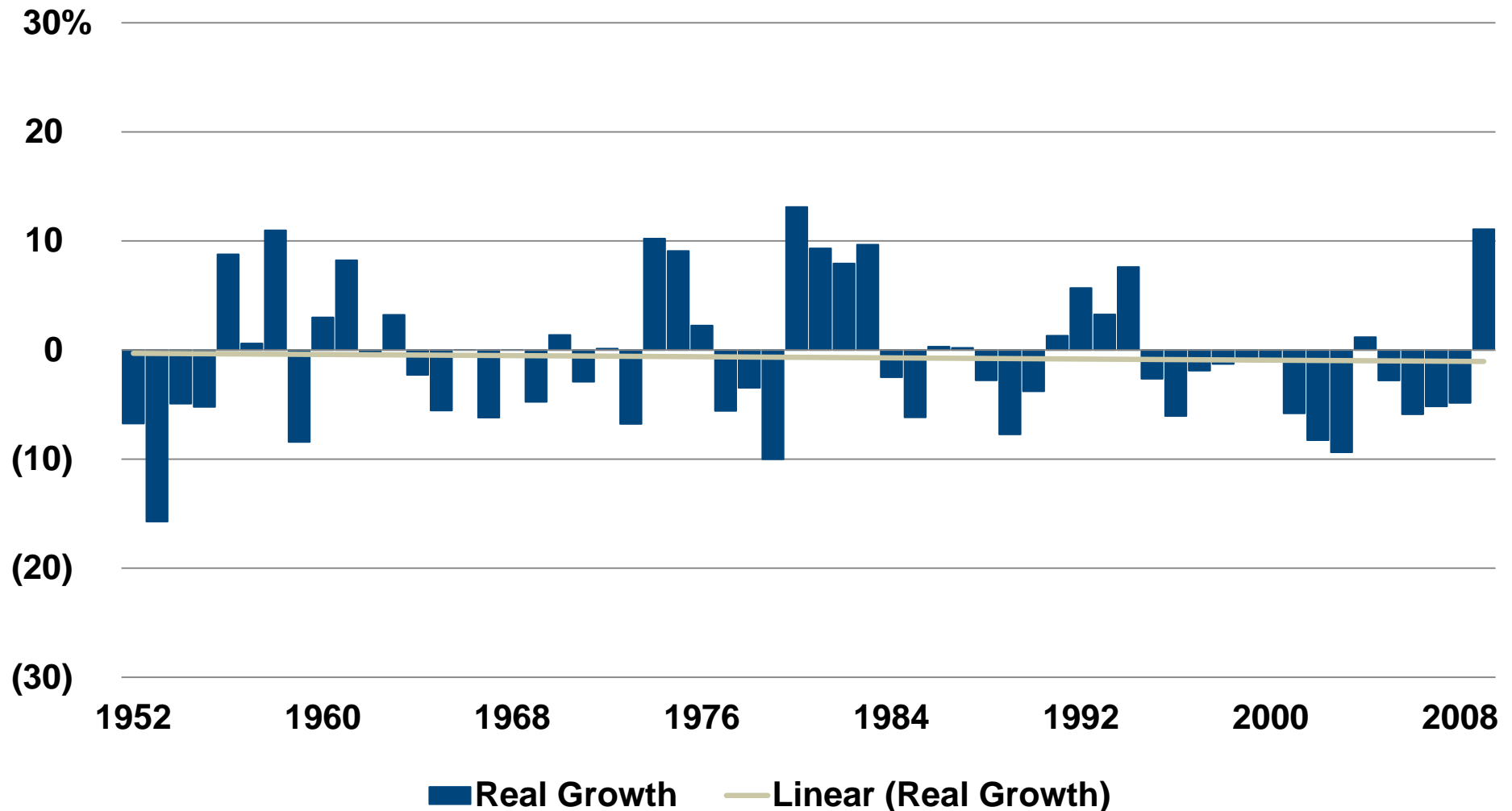
Dollar Volume of Used Car Market, annually (1990 – 2009)



Used Car Market is Efficient

Over the past 58 years, used car prices have tracked inflation, with some year-to-year variation

Real Growth: Consumer Price Index vs Prices of Used Cars and Trucks (1952 – 2010)

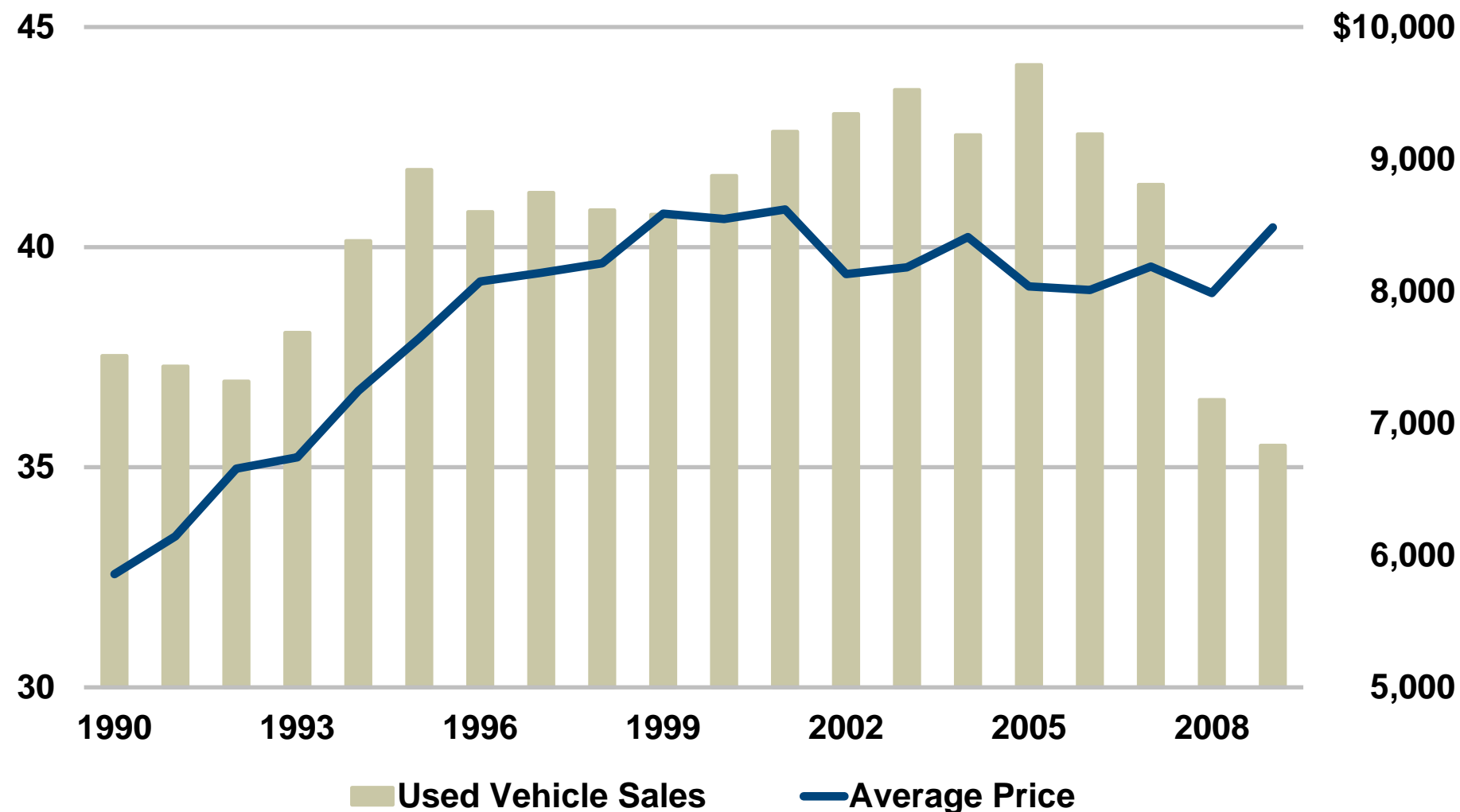


Used Car Market is Liquid — Around 40 Million Transactions Annually

Annual Volumes and Prices

(# in millions)

Used Car Average Price and # of Vehicle Sales (1990 – 2009)



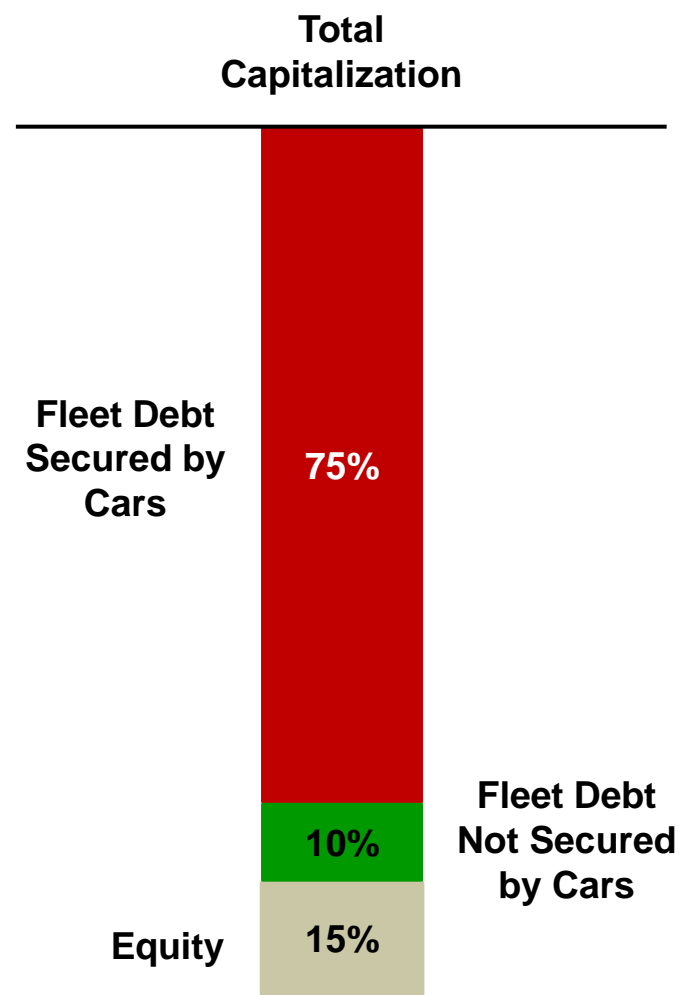
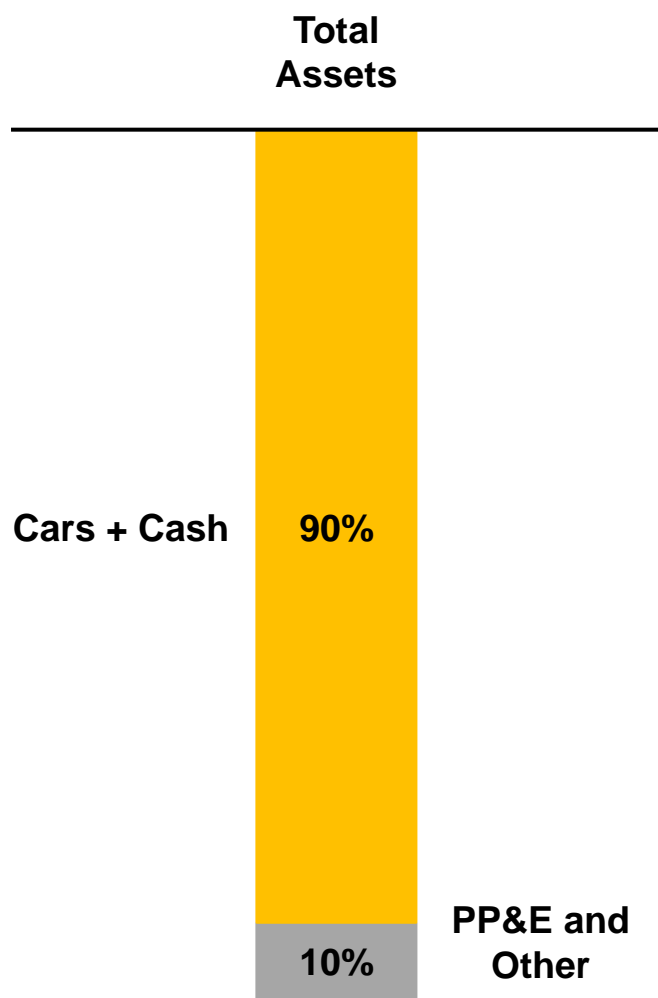
“Too Capital Intensive”

- ◆ Not really
 - Fleet is largely debt-financed
 - Fleet is liquid
 - Can de-fleet to pay-off debt
- ◆ Non-fleet capex relatively modest
- ◆ Hard to go bankrupt unless you have non-fleet debt
- ◆ Highly variable cost structure
 - Reduce fleet and headcount in a downturn



Fleet is Debt-Financed / Assets Largely Cars + Cash

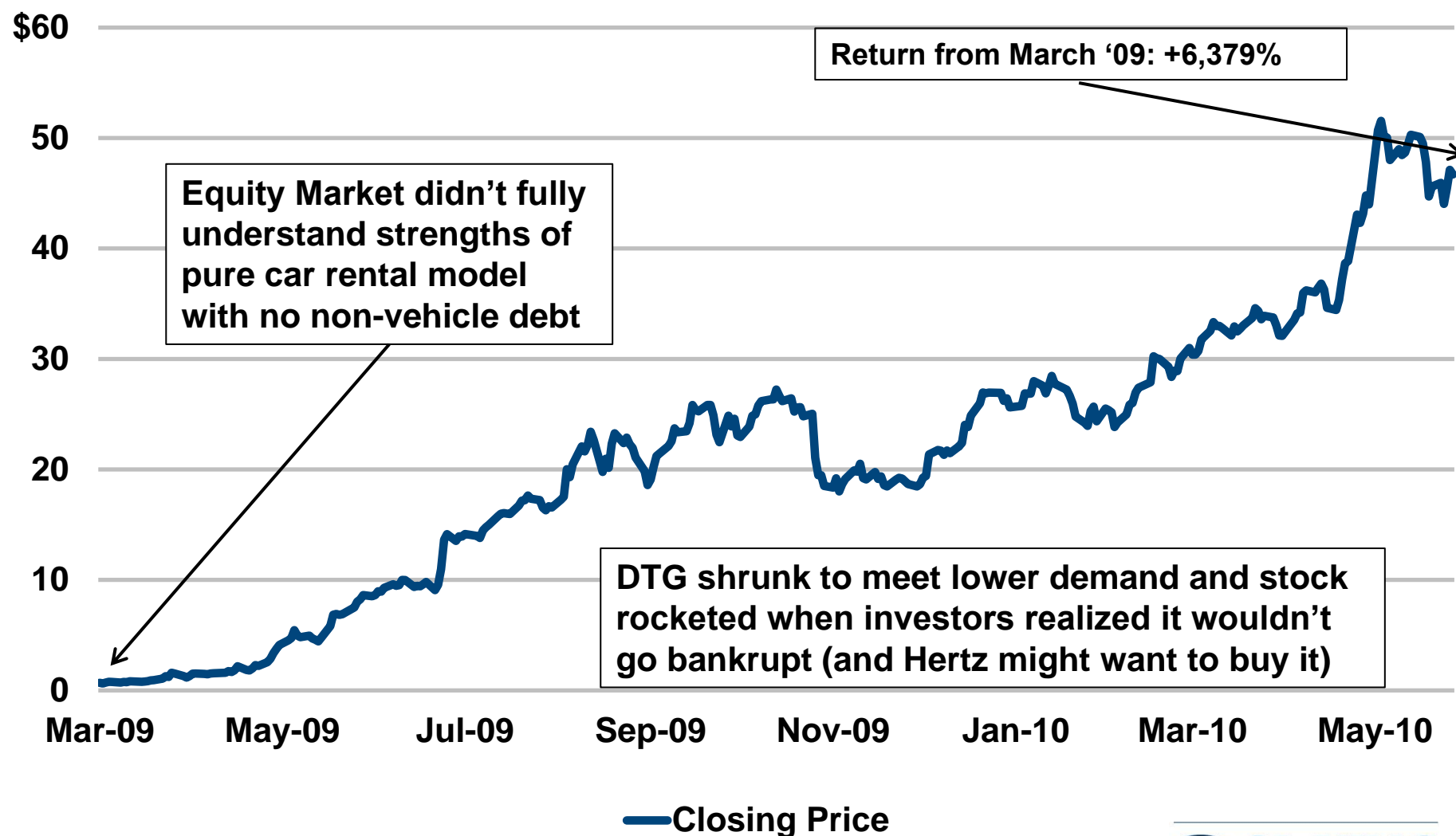
Illustrative Car Rental Balance Sheet



Dollar Thrifty Exemplifies Strength of Car Rental Business Model

Pure-Play Public Car Rental Company

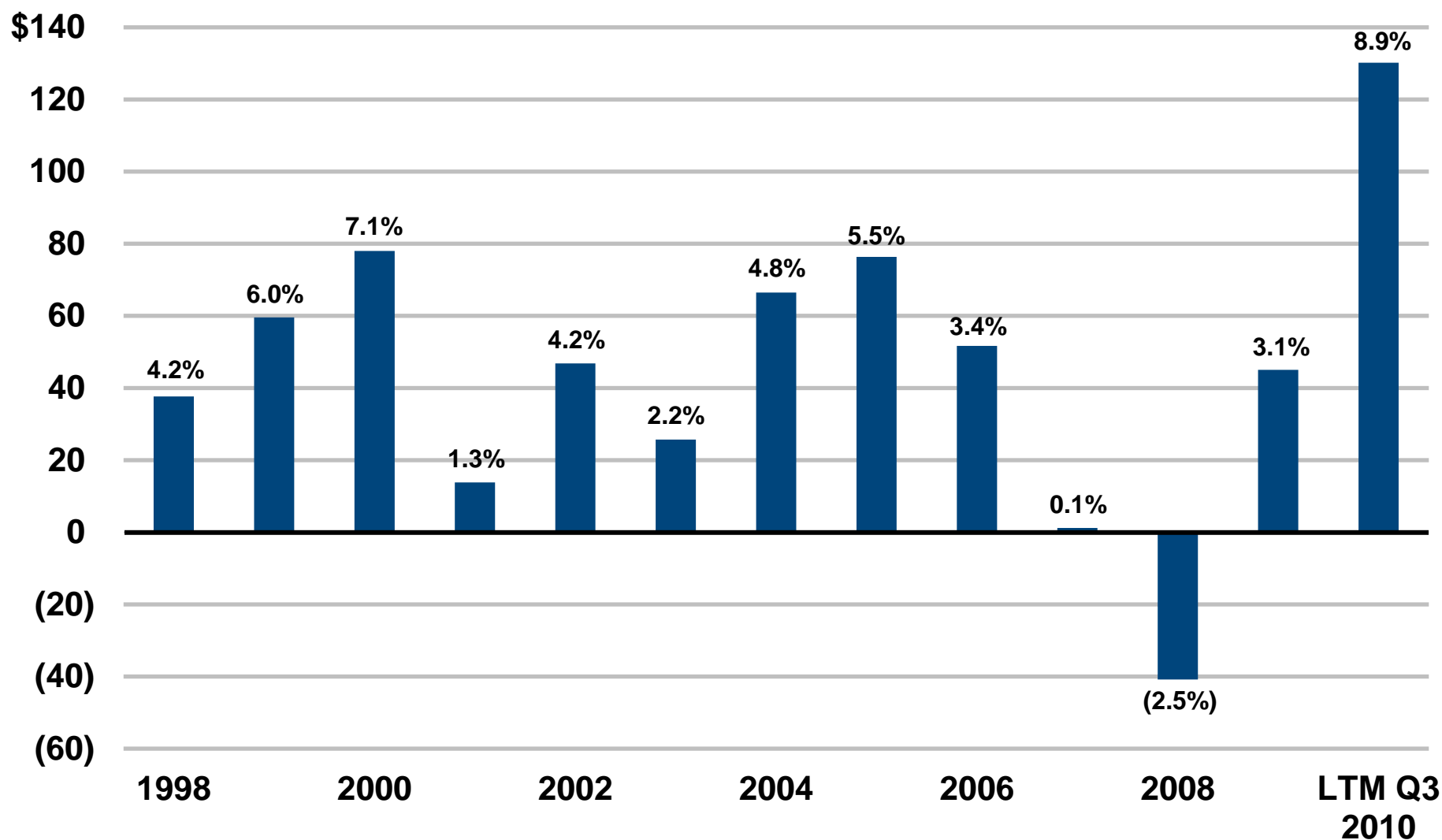
Stock Price and Trading Volume (March 2009 – May 2010)



Dollar Thrifty – 13 Years of Solid Earnings Performance

Net Income and Net Income Margins (IPO 1998 – Q3 2010)

(\$ in millions)



“There’s No Free Cash Flow . . .

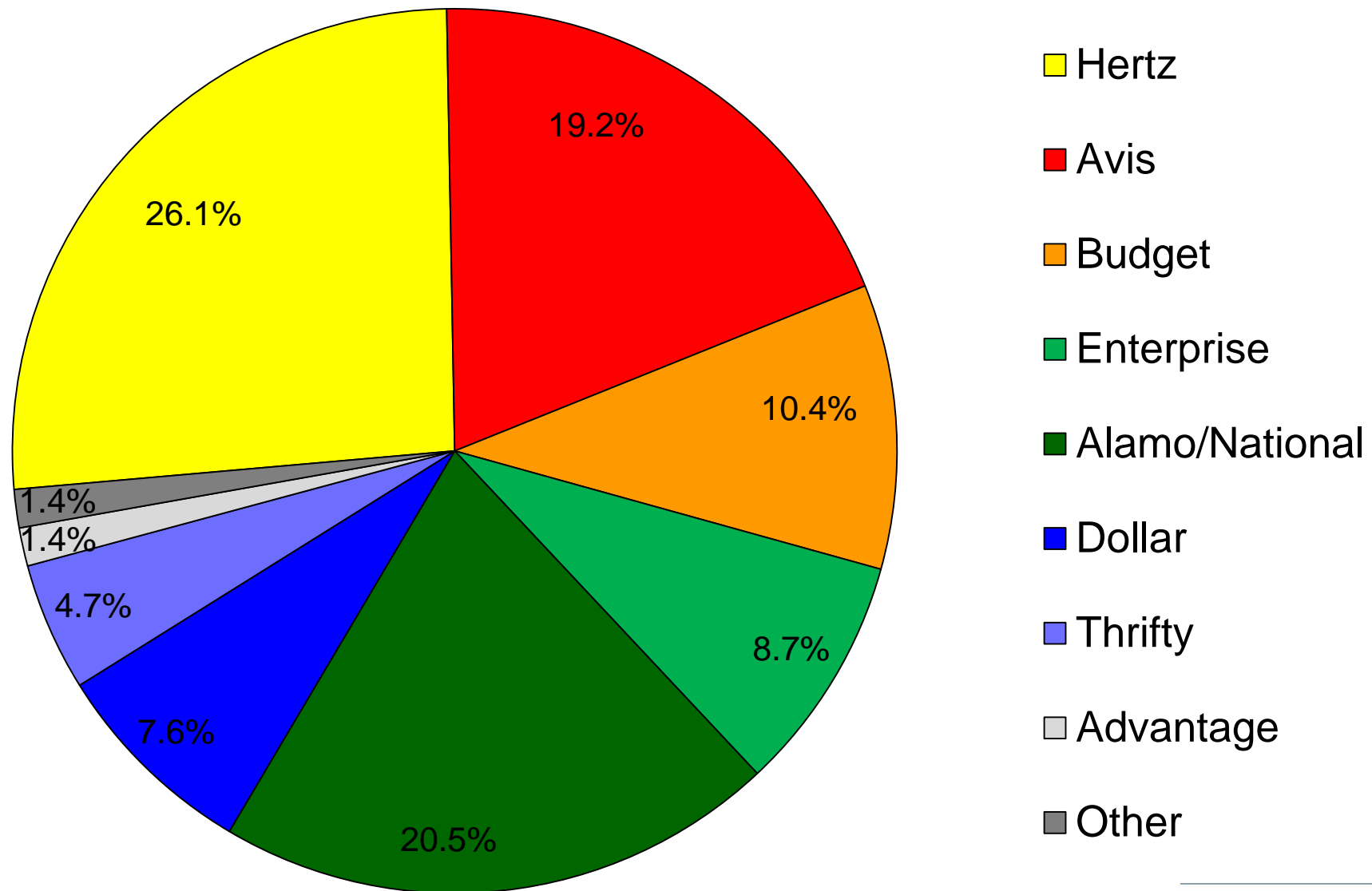
. . . because you always have to plow cash back into the fleet.”

- ◆ See prior graph!
- ◆ Net Income = Free Cash Flow (over time)
- ◆ Car rental has lots of moving pieces – it’s complicated
 - Financial models must be carefully done
- ◆ Decades of demonstrated performance
 - Net Income margins generally 5-10%
- ◆ Can run it to generate cash
 - Or grow it by reinvesting cash



“Commodity Service” vs. Brands Matter

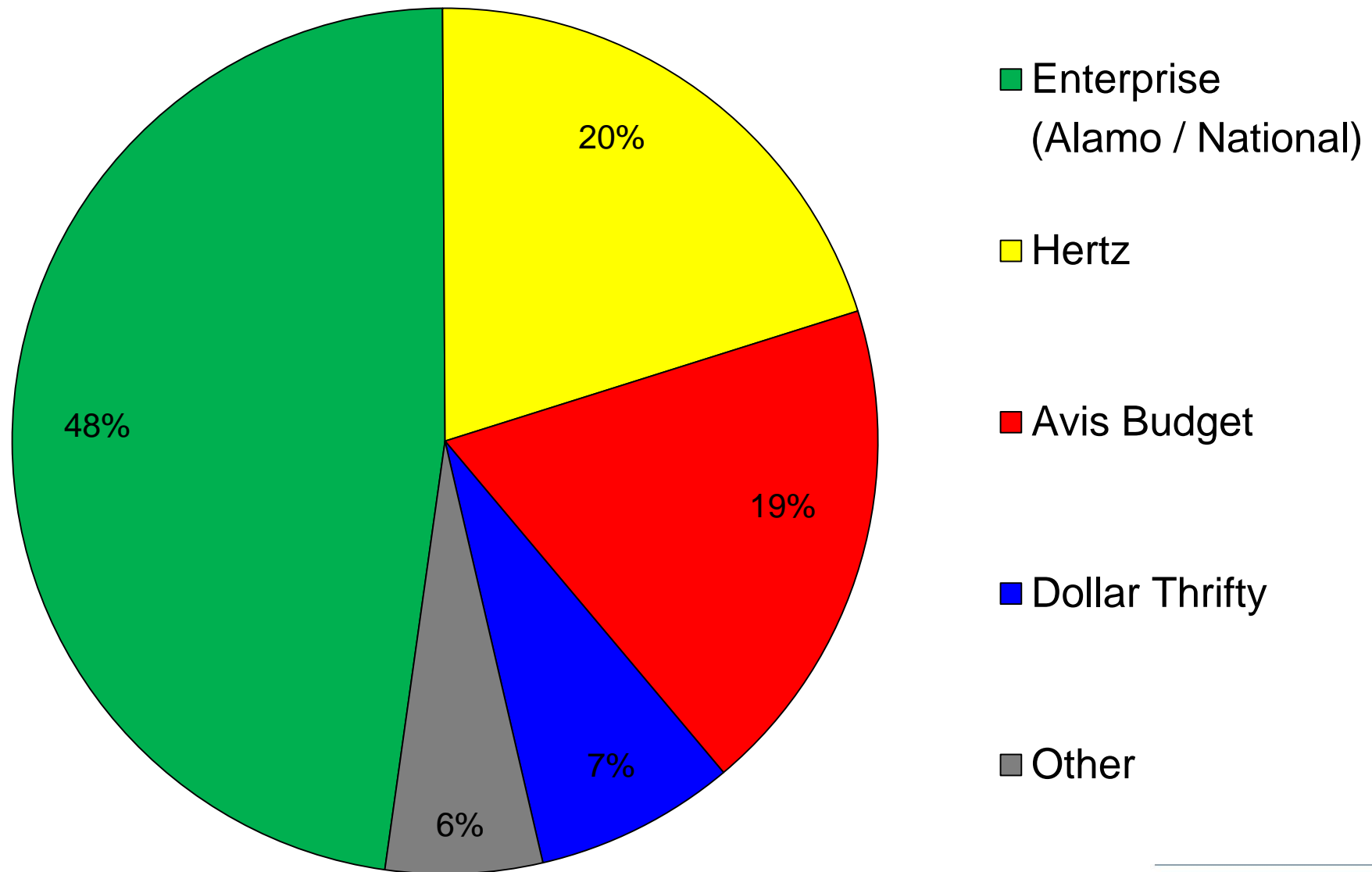
On-Airport Market Share (2009)



Source: Wall Street Research

“Commodity Service” vs. Brands Matter

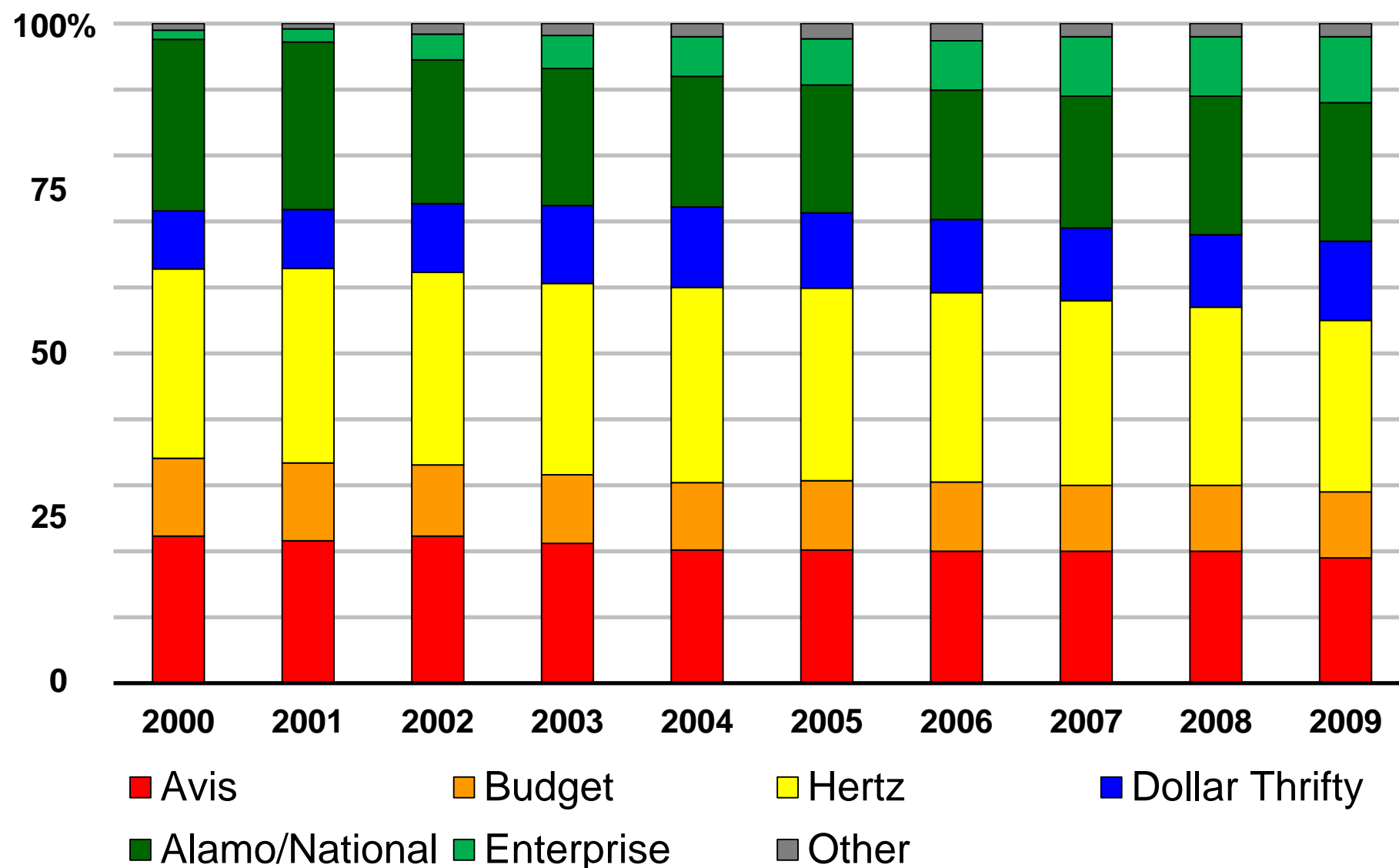
Total Market Share (2010)



Source: Based on 2010 Revenue from Auto Rental News Fact Book 2011

Relatively Stable Market Shares Over Time

Established Brands Attract the Business



Source: Data from Hertz 10-K Filings

“Pricing is Not Rational”

Long-term price trends among the brands are consistent with the brand images



Type	Off Terminal	Off Terminal	In Terminal	In Terminal	In Terminal	In Terminal	In Terminal	In Terminal	In Terminal
Economy	\$30	\$45	\$46	\$55	\$63	\$63	\$64	\$70	\$70
Compact	\$30	\$45	\$46	\$55	\$63	\$63	\$64	\$70	\$70
Midsize	\$30	\$46	\$47	\$56	\$65	\$65	\$66	\$72	\$72
Standard	\$35	—	—	—	\$67	\$67	\$68	\$74	\$74
Full size	\$37	\$60	\$50	\$60	\$67	\$67	\$68	\$74	\$74
Premium	—	—	—	\$87	\$64	\$64	\$69	\$69	\$72

Source: Orbitz snapshot mid-Feb 2011, for Orlando in late March 2011.

“What About Insurance Exposure?” – Not an Insurance Play

Products Below Best Thought of as Extra Price

SLI

Supplemental Liability Insurance

LDW

Loss Damage Waiver

CDW

Collision Damage Waiver

PEC

Personal Effects Coverage

PAI

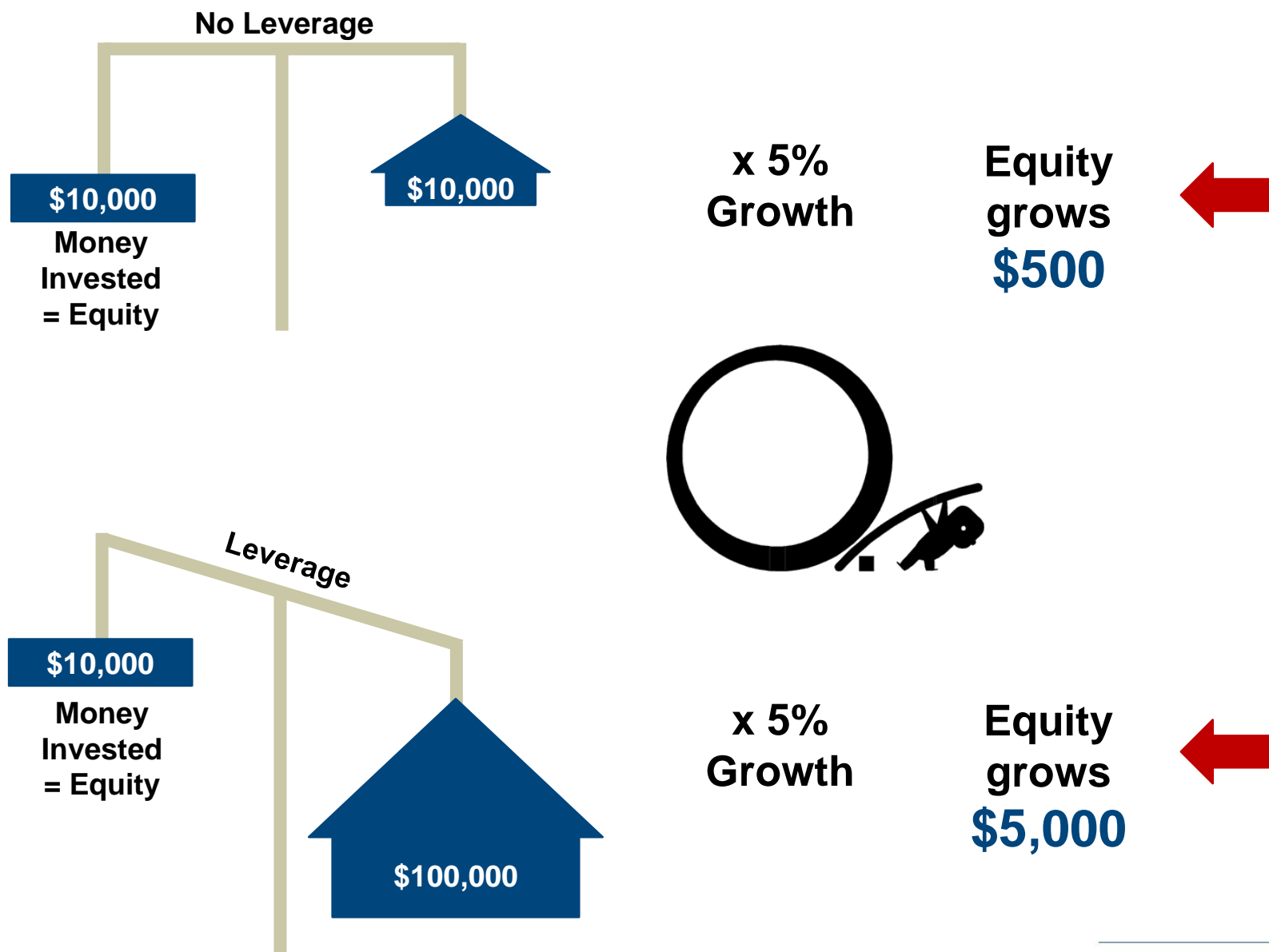
Personal Accident Insurance



The Equity Story



Financial Leverage Magnifies Returns to the Equity

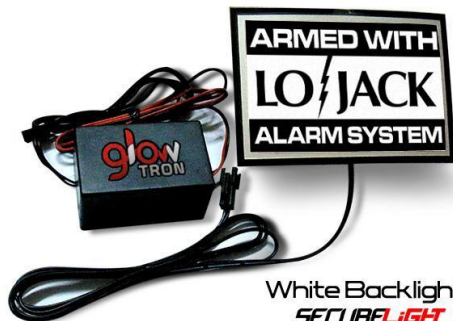


Operating Leverage Also Magnifies Returns to the Equity

And Price Changes Everything!

ORBITZ

 **Expedia**



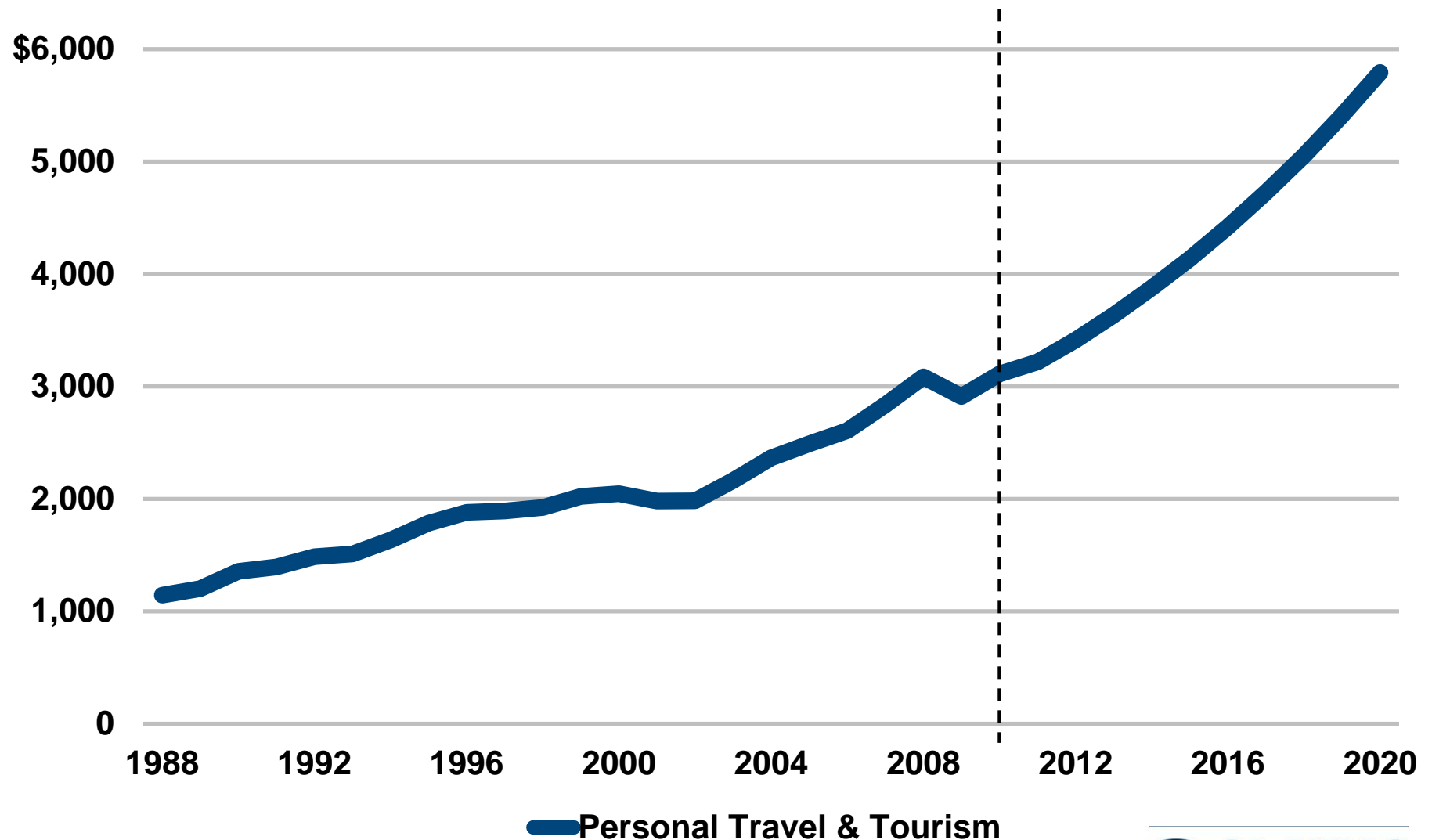
 **travelocity**

Car Rental is a Bet on Economic Activity and Wanderlust

Ever Rising Travel Spending Makes Car Rental an Attractive Investment

(\$ in billions)

Worldwide Travel and Tourism Spending (1988 – 2020)



Source: World Travel & Tourism Council