# Rightsize or Capsize

Rental car companies large and small grapple with tight lending, lower demand and two supplier bankruptcies. Is the industry heading in the right direction?

The car rental industry is in the midst of an unprecedented maelstrom. Just as the industry survived the thrashing it took in the used car market last year, the recession hit and weakened travel and rental car demand. With the collapse of the securitization and bond markets and lenders pulling back, the major rental companies down to the independents were left scrambling to find financing. They're getting squeezed on the back end too, as consumers and other commercial buyers of rental fleets suffer the credit crunch. It's all costing much more. And then Chrysler and General Motors, two of the biggest suppliers of rental fleets, declared bankruptcy.

The mandate: Right-size or capsize. The following is a compendium of the industry's recalculations and adjustments to stay on course. Brace yourself—that could be bright skies on the horizon or just the eye of the storm.

**A Major Scramble**

Like many other industries dependent on large amounts of capital to run, the major car rental companies are trimming the fat as they work to replace funding lost in the wake of the securitization market implosion.

There was no disaster in car rental; no one had to liquidate entire fleets. But with a virtually insolvent bond market, the backstop to securitization is gone—as is 4 percent financing.

Hertz was able to raise close to $1 billion recently through debt and equity offerings, which will be used to help in debt refinancing and lower fleet interest expense. Hertz cut its U.S. car rental fleet in the first quarter by 15 percent year over year.

Avis Budget says it will need to raise $1–$1.5 billion for fleet needs over the next year. The company ended the quarter with its fleet down 22 percent from the year earlier.

Dollar Thrifty reduced debt by $490 million in the first quarter, while reducing its investment in fleet by about 43 percent, or more than $1.1 billion from the year earlier.

Enterprise has paid down $3 billion worth of debt in the first nine months of its fiscal year (ending July 31, 2009) while purchasing more than $10 billion worth of cars in that time.

"We have paid down debt this year, we haven't borrowed and we have not drawn on our lines of credit," says Bill Snyder, CFO and executive vice president for Enterprise Rent-A-Car, National Car Rental and Alamo Rent A Car.

With the demise of securitization, the majors investigated government TARP (Troubled Asset Relief Program) money and TALF (Term Asset-Backed Securities Loan Facility) loans. But TALF terms require a AAA rating and 60 percent equity in the deal. This is a difficult proposition for car rental.

Nonetheless, Avis Budget remains optimistic about accessing TALF funds. "We are actively working through the logistics of issuing debt under this program and we hope to issue TALF eligible asset-backed securities in the coming months," said David Wyshner, executive vice president and CFO, in the company's first-quarter earnings call. "Early indications are that costs under this program will be in line with our current conduit facility costs."

“By being unsecured we believe that the flexibility in how we manage our fleet more than offsets any potential interest savings that we would get by being a securitized borrower,” says Snyder.

However, Enterprise says it will not need financing any time soon. “We are totally internally financing vehicles right now,” says Snyder. “We have sufficient liquidity such that we will not need to go to the debt markets through our fiscal year-end. Actually, as we look out unless we start seeing significant fleet growth, we would be fine through fiscal year-end 2011.”

**Independents Follow Suit**

Like the majors, licensees and independents are trying to pay down debt, run tighter fleets and keep funding in place. “I’ve taken the value of my fleet and cut it almost in half in the last eight months,” says Michael Jones, a National franchisee in Bentonville, Ark. “I’m working aggressively to show my bank that there will not be a problem on my end to pay the money back.”

“We’re getting into lower cap cost cars and are increasing the amortization on them,” says Monty Merrill, a Dollar and Thrifty franchisee in Austin and Killeen, Texas. “We’ve lowered our lending needs by 30 percent. We’ve battened down the hatches.”

Financing is still tight, as RACs regroup from the virtual pullout of GE Capital from the market and banks shorten upon credit lines.

“We lost GE, our largest lender,” says one operator. “I still have 100 cars on that line and I’m gradually selling them down. We have 12 months to deal with this, which is reasonable.”

**By Chris Brown**

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