European Car Rental
–
Market Overview and Structural Perspectives

Nedrelid
Corporate Advisory

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EXECUTIVE SUMMARY

Mobility is a current megatrend and car rental companies are key mobility solution providers. New segments and participants have driven recent changes in the market space, creating challenges but also new growth opportunities for existing operators.

The European car rental market is fragmented compared to its American counterpart. In the US, three groups control some 95% of the market whereas in Europe 5 major operators hold an approximate 65% market share, the remainder being in the hands of independent, mainly national and/ or regional operators. Based on our analysis, we consider the car rental industry in Europe as unconcentrated overall, with disparities between countries, including some markets that can be considered moderately concentrated.

We see real potential for structural change in the European market, i.e. a consolidation. Recent activity confirms this view and we see this trend accelerating going forward. In a medium term perspective, we see a scenario with 3-4 majors potentially controlling 75-80% of the overall market as realistic. The potential for consolidation is confirmed in our market concentration analysis, where on a European level moving from 5 to 4 majors would still mean a market with limited concentration.

1. INTRODUCTION

Mobility is a theme currently very much in fashion, driven by changing consumer attitudes, urbanization and other societal changes, e.g. an increased focus on the sharing economy overall. We see mobility as a megatrend, which will shape society over the foreseeable future. As more and more people seek alternative solutions to car ownership, e.g. car and/ or ride sharing, demand is created for providers of mobility services.

Recently much of the news flow has been around Uber, but car sharing at large is attracting significant interest with a growing number of operators entering this space. Despite the strong inflow of new operators, we do believe that more traditional providers of mobility solutions and services, e.g. car rental operators, can thrive and grow in the current environment. After all, car sharing is nothing more than a (very) short term rental, so to us this represents a new segment rather than a fundamentally new and different business model. Further, the populace using car sharing services for their day-to-day needs may also be more susceptible to use traditional car rental operators, e.g. for vacation purposes, based on the simple fact that they generally do not own a car. Thus, the emergence of car sharing solutions may actually increase demand for traditional car rental as well.

The focus of this paper is the European car rental sector, for which we see exciting years ahead from a structural perspective. In the United States, car rental is now effectively an oligopoly with 3 groups controlling approximately 95% of the overall market[1]. In Europe, the situation is different with a more fragmented market where the top 5 control around 65% of the total market, the rest being in the hands of independent players. We see Europe moving towards the US in terms of market structure, consolidating through M&A activity.

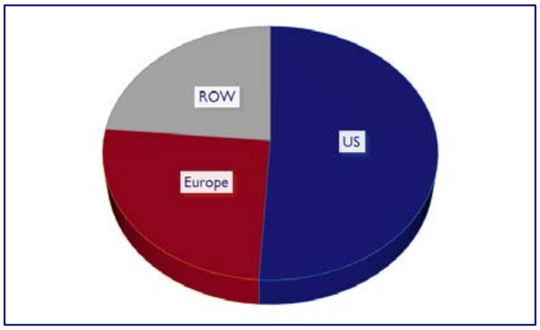
[1] Source: Auto Rental News, Fact Book 2015

2. CAR RENTAL MARKET

2.1. Global market

The car rental industry was worth approximately $51 billion globally in 2014[2]. Geographically one generally breaks the market down into three regions, being the US, Europe and the Rest of the World. The US represents slightly more than 50% of the global market, with the other two estimated to represent approximately a quarter each, as illustrated below:

Figure 1Geographical split of global car rental market[3]

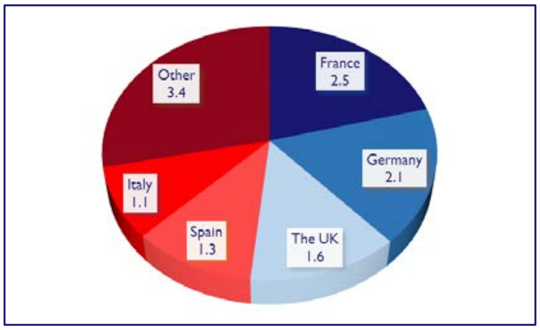


2.2. European market overview

There is limited official data on the exact size of the European car rental market, but some estimates exist. According to Europcar the European car rental sector is worth approximately EUR 12 billion[4], which is more or less in line with the USD 13 billion advanced by Hertz[5]. The European market is approximately half the size of the US market and top five countries (France, Germany, the United Kingdom, Spain and Italy) represent roughly 70% of the total market. The car rental market is expected to see modest growth going forward, Europcar in its listing document refers to a study by KPMG forecasting growth of 2.0%, 2.2% and 2.3% respectively for the period 2015 – 2017. A rule of thumb in the car rental sector is market growth of approximately 2x GDP, and the aforementioned numbers are broadly in line with this when factoring in Euro area growth of 1.5%, 1.6% and 1.7% for the same period according to the IMF[6].

[2] Source: Future Market Insights through Auto Rental News International, 2nd Quarter 2015, Vol. 1/ No. 1
[3] Sources: Auto Rental News, Europcar, Hertz
[4] Source: Europcar listing document (June 2015)
[5] Source: Hertz 2014 annual report
[6] Source: IMF, World Economic Outlook, October 2015

Figure 2 European car rental market (€B)[7]



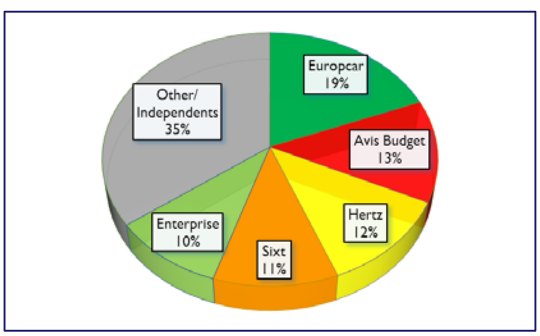
In terms of segmentation, there are two distinct operational segments, airport and off airport. According to Hertz Global Holding's 2014 annual report, the airport segment represents 38% of the European market value. Sub-segments, mainly in the off airport space, include insurance replacement business and vans and trucks. The main client segments are business and leisure.

The European car rental market remains reasonably fragmented. There are five operators with a truly European-wide presence, which we will refer to as the majors in this document, these are

- Avis Budget
- Enterprise
- Europcar
- Hertz
- Sixt

Europcar is number 1 in terms of market share and the five majors control approximately 65% of the overall market[8].

Figure 3 European market shares[9]



Market shares, sourced from Europcar's listing document for its June 2015 IPO at Euronext Paris, are based on the countries in which Europcar has a corporate presence, i.e. Belgium, France, Germany, Italy, Portugal, Spain the United Kingdom. It excludes franchising operations, which can represent a significant

[7] Source: Europcar listing document (June 2015)
[8] Source: Europcar listing document (June 2015)
[9] Situation before Maggiore was acquired by Avis Budget, Maggiore included in "Other/ Independents"

part of a brand's "real" market share in certain countries. As mentioned, there is limited data available for the car rental market in Europe, both overall and by country, but these numbers are coherent and in line with what we have seen from other sources and thus represent a good estimate.

Europe is not, and should not be considered as, one homogeneous and fully integrated market, which is a major difference with the US. Across Europe consumer expectations differ in terms car preferences (large car vs. small car, cheap vs. premium etc), which represents a real challenge when running a continental wide operation. The differences across markets is one of the main explanations behind the current fragmentation and lack of consolidation compared to the US.

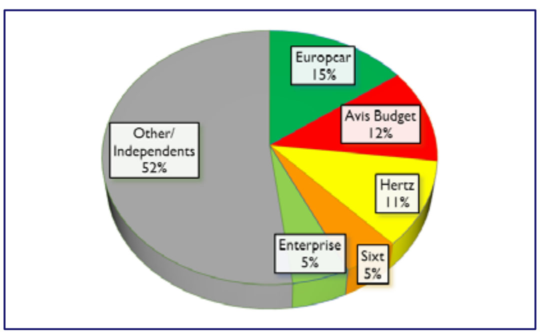
2.3. Country overview

Europe not being a homogeneous market, each country has its own specificities. Considering the strength of operators, once more based on the Europcar listing document, the market shares in the top 5 European markets (France, Germany, the UK, Spain and Italy) show that there are significant differences in where each company is strong.

2.3.1. France

France is the largest car rental market in Europe with an estimated size of EUR 2.5B. Europcar is the market leader. The French market is characterized by a significant number of independent operators with a national presence, including the Euronext listed companies ADA and Ucar and privately held Rent-a-Car. A number of new entrants have entered the market in recent years, particularly in the van segment (e.g. most supermarket chains) and in car sharing (AutoLib etc) and ride sharing (BlaBlaCar).

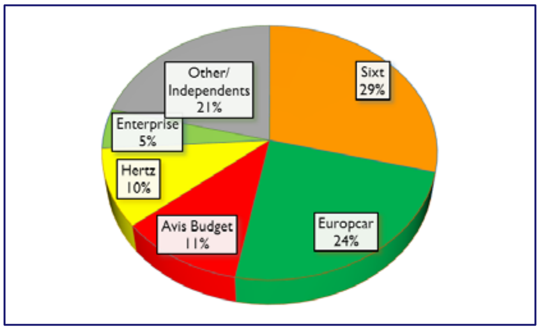
Figure 4 France market share



2.3.2. Germany

Germany, worth approximately EUR 2.1B, is Europe's second largest market. It is the home market of Sixt, the market leader. Germany is a reasonably concentrated market with the majors holding a share of around 80% and Buchbinder being the main independent to talk of. The German car rental market is driven by the corporate sector (B2B) and off-airport represents a significant part of the market.

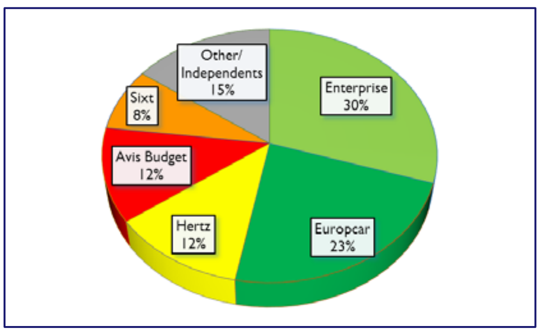
Figure 5 Germany market share



2.3.3. The United Kingdom

The UK is the third largest European car rental market, worth approxinately EUR 1.6B. Of the major European markets, it has the highest concentration with the 5 majors controlling some 85% of the market. It is, accordingly, the Europen market that looks structurally the most like the US with no independent operator having a meaningful market share.

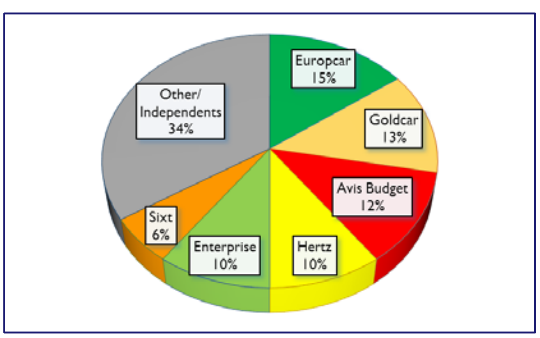
Figure 6 UK market share



2.3.4. Spain

The Spanish market was worth roughly EUR 1.3B in 2013. It is to a large degree a leisure destination, which has proven fertile territory for local, independent operators, the most significant being Goldcar, the #2 player. Local independent operators have a strong position in the market, including Goldcar their market share is just below 50%.

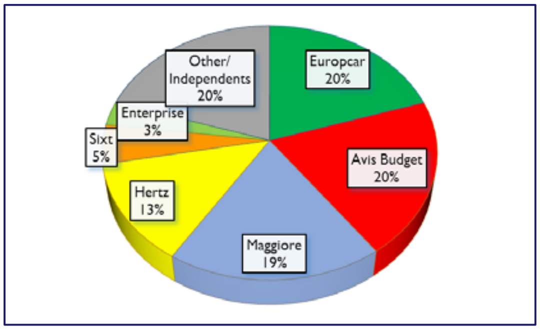
Figure 7 Spain market share



2.3.5. Italy

Italy is the smallest of the major European markets with a value of approximately EUR 1.1B. As is the case in the other Southern European countries, independents make up a significant share of the market, close to 40%. However, with Maggiore, the #3 operator being acquired by Avis Budget early 2015, thereby making the latter the #1 in this market, the share of independents is around 20%, roughly the same as in Germany and the UK.

Figure 8 Italy market share[10]



There are some key take aways from the country market share data:

1. Market concentration varies significantly across countries, with independents having a 15% share in the UK and a 52% share in France
2. Each major, except Hertz, is #1 in at least one market (Avis Budget + Maggiore in Italy)
3. Europcar is consistently strong, being either #1 or #2 in all of the top 5 European markets
4. Sixt (Germany) and Enterprise (the UK) have a very strong position in one market each, but are relatively weak (generally fourth and/ or fifth position) elsewhere

The five aforementioned countries represent about 2/3 of the European market, as such we believe that it is a sufficient sample for analyzing the overall market dynamics, trends and prospects in the sector.

2.4. Competitive environment and metrics

As seen in section 2.2., the market structure across countries is rather heterogeneous, with some countries seemingly more competitive than others. Taking a more theoretical approach, what is the real and tangible picture? In order to calculate market structure and competitiveness, we use a C4/H4 approach as a proxy, and complement this analysis with C3/H3 and C5/H5. We do this for the European market as a whole and for each of the top 5 European markets.

[10] Before Avis Budget's acquisition of Maggiore in 2015

Table 1 Market structure and concentration[11]

	Europe	France	Germany	The UK	Spain	Italy[12]
Main metric						
C4 concentration	57%	43%	74%	77%	50%	77%
H4 concentration	842	515	1'638	1'717	638	2'115
Alternative metrics						
C3 concentration	46%	38%	64%	65%	40%	72%
H3 concentration	721	490	1'538	1'573	538	2'090
C5 concentration	67%	48%	79%	85%	60%	80%
H5 concentration	942	540	1'663	1'781	738	2'124

Table 2 Herfindahl concentration measure[13]

HHI	Competition level
<1500	Unconcentrated Markets
1500–2500	Moderately Concentrated Markets
>2500	Highly Concentrated Markets

Based on the H4 metric, market concentration varies significantly between countries, with Germany, the UK and Italy being moderately concentrated markets and France, Spain and Europe as a whole being unconcentrated markets. In our opinion, Europe is the most relevant market for numerous reasons

- Car rental, like large parts of the travel industry, e.g. aviation, is international in nature with foreign sourced, inbound business representing a significant part of a country's market size
- Car rental is a commoditized and largely price driven market
- Online channels such as operator web sites, brokers and price comparison web sites drive price transparency

As such, while we acknowledge that individual markets and countries across Europe are more or less concentrated, we consider this to be a case of the various operators possessing different characteristics and strengths. When looking at the market shares across countries, this is evident, but we believe that this does not mean that operators can significantly influence prices to the detriment of consumers in individual countries due to the aforementioned reasons.

2.5. Comparison with the US

As one of our main premises behind our assumption that the European market will consolidate is that it would represent a catch-up with the situation and structure seen in the US. Table 3 summarizes the top 3 to top 5 market share for the period 2006 through 2014 as well as the Herfindahl concentration for the top 3 to top 5.

[11] Source: Europcar listing document (June 2015) for raw data, our analysis

[12] Avis Budget and Maggiore have been combined and aggregated for this analysis

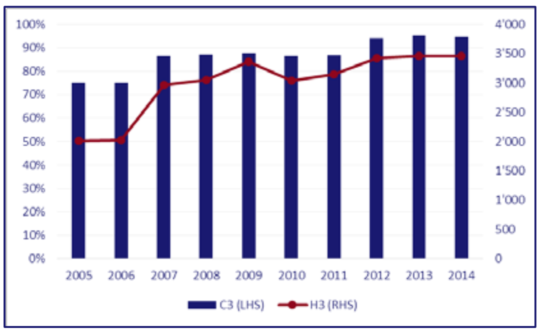
[13] Source: Naldi and Flamini (2014), The CR4 index and the interval estimation of the Herfindahl-Hirschman Index: an empirical comparison, https://hal.archives-ouvertes.fr/hal-01008144

Table 3 US market concentration[14]

Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
C3	75%	75%	87%	87%	88%	87%	87%	94%	95%	95%
H3	2'006	2'026	2'966	3'052	3'366	3'034	3'153	3'427	3'458	3'462
C4	85%	86%	94%	95%	95%	94%	94%	95%	96%	96%
H4	2'111	2'139	3'020	3'109	3'421	3'090	3'207	3'428	3'459	3'463
C5	93%	93%	95%	95%	96%	95%	95%	96%	97%	96%
H5	2'166	2'198	3'021	3'109	3'422	3'091	3'208	3'428	3'459	3'463

What one sees is that over the last decade, the US market has moved from being moderately concentrated, measured by the Herfindahl index, to being a highly concentrated market. This shift has been particularly pronounced when looking at the top 3, whose market share has increased from 75% in 2005 to 95% in 2014. There are two major events driving this, clearly seen in the H3 concentration levels in Figure 12, being Enterprise's acquisition of Vanguard (National and Alamo) in 2007 and Hertz acquiring Dollar Thrifty in 2012, which decreased the number of major operators in the US from 5 to 3.

Figure 9 Top 3 market concentration in the US[15]



As mentioned earlier, we do not see the European market becoming as concentrated as what we currently see in the US, but we clearly see potential for a moving from the current unconcentrated market on a European level to a moderately concentrated market going forward.

[14] Source: Auto Rental News annual fact books 2006-2015 for raw data, our analysis
[15] Source: Auto Rental News annual fact books 2006-2015 for raw data, our analysis

3. COMPANY PROFILES

There is a large number of car rental operators across Europe of various sizes and operating in different segments. We believe that one can group these into two broad categories:

- Majors – the 5 operators with a pan-European presence
- Independents – national and/ or regional operators

3.1. Majors

Table 4 Financial highlights of major car rental operators[16]

EUR billion[17]	Avis Budget	Enterprise[18]	Europcar	Hertz	Sixt
FY14 revenue Group	7.7	17.7	2.0	10.1	1.8
FY14 revenue International RAC	2.4	N/A	2.0	2.2	1.2
Place of listing	NASDAQ	Private	Euronext Paris	NYSE	Deutsche Börse
Market cap[19]	3.3	N/A	1.7	5.9	2.0
Main brands	Avis Budget Zipcar	Enterprise National Alamo	Europcar Interrent Car2Go[20]	Hertz Dollar Thrifty Firefly	Sixt DriveNow[21]

3.1.1. Avis Budget

Avis Budget is present worldwide in more than 175 countries. The corporation took a major strategic decision with regards to its European presence when it acquired Avis Europe, which was a stand-alone, independent company, in 2011. This consolidated Avis Budget's operations globally.

It is the world's third largest car rental operator with consolidated revenues of $8.5B (€7.7B) in 2014. Its European brand portfolio is primarily made up of Avis, Budget and Zipcar, its car sharing operator acquired in 2013. The company generates approximately €2.4B in international activities, of which Budget Europe represented approximately $250M (€230M) in 2014.

Since acquiring Avis Europe, the company has shown and proven a real commitment to its European operations. It has put real effort behind developing Budget as a stand-alone brand in the value segment and it has made a couple of tuck-in acquisitions that adds real depth to its operations, including its Scandinavian franchisee for approximately $50M late 2014, Maggiore, the largest independent operator in Italy, in spring 2015 for approximately $160M, giving Avis Budget the number 1 position in Italy, and, in November 2015 the acquisition of its licensee in Poland.

[16] Sources: Capital IQ, enterpriseholdings.com
[17] Converted at USD/EUR 1.09
[18] Fiscal year 2015, ending 31 July 2015
[19] 23 December 2015
[20] JV with Daimler
[21] JV with BMW

Budget, positioned as a value brand in the European market, has increased its penetration across the continent and it recently significantly increased its network through entering a franchise agreement for France with Rent-a-Car, one of the leading independent players in the French market.

3.1.2. Enterprise Holdings

Enterprise is the world's largest car rental company with a consolidated revenue of \$19.4B (€17.7B) in fiscal year 2015 ending 31 July 2015. Its brand portfolio consists of Enterprise, Alamo and National in the traditional car rental space and it is also present in the car sharing segment. Until a few years ago it was mainly focusing on its home market, the US, where it is by far the largest player and only had a limited presence in Europe.

It entered the European market in the early 1990s, establishing a presence in the UK, Germany and Ireland. It has established itself as the leader in the British market but has been unable to build the same strength and presence in the other two. In 2011 Enterprise started an aggressive roll-out across Europe, building a continental wide presence in all major markets. This has been done through a mix of increased corporate presence, mainly based on integrating Citer (France) and Atesa (Spain), both acquired in 2011, and building an extensive franchise network in other markets. It also bought back the European rights to Alamo and National, previously licensed to Europcar, expanded its presence in the van segment in the UK through the acquisition of Burnt Tree in 2014 and has grown its footprint in the car sharing segment through acquiring UK based City Car Club early 2015. Accordingly, Enterprise is now truly established as a major player in the European car rental space.

As a private company, there is very little public information available regarding Enterprise's financial performance, with the exception of its consolidated annual revenue figures, which it discloses. There is, however, circumstantial evidence indicating that it is in a strong financial position, most importantly its investment grade rating. This suggests solid financial performance and it also means that its financing cost is attractive, an important point in capital intensive and leveraged business. It is therefore fair to assume that Enterprise has the financial muscles to continue growing its European presence.

A possible weakness for Enterprise is brand recognition. Outside of the UK, where it is the leader, Enterprise may not immediately come to mind for potential renters. This is, however, likely to change as the Enterprise logo is becoming a familiar sight at airports in major markets. It becoming a sponsor for the UEFA Europa League is also likely to improve its position in the consciousness of the European population.

Enterprise is privately held by the Taylor family and is based in St Louis, Missouri.

3.1.3. Europcar

Europcar is the European market leader with a consolidated revenue of €2.0B in 2014. It has a corporate presence in Australia and New Zealand, but is not directly present in the North American market. It has developed a multi brand market presence, launching the value brand Interrent in 2011 and entering a car sharing JV with Daimler (Car2Go).

Europcar has strong and homogenous presence across Europe, with a #1 or #2 position in most markets. Its business mix is balanced, with the business segment representing 45% of revenue and leisure 55%. It generates 42% of its revenue from airport operations and 58% off-airport.

In the past it has not been able to translate its market position into strong financial performance, partly due to expensive debt financing. Its recent listing on Euronext Paris, where it raised in excess of €470M, allowed it to pay down some its debt. This improves its capital structure and should have a positive impact on its profitability going forward.

Its relatively limited presence in North America, currently limited to partnerships and referral agreements with minor operators in this market, limits its inbound potential from this region and represents a potential competitive handicap with regards to sourcing inbound business versus the other majors, who are all either American or building out a corporate presence in the US.

3.1.4. Hertz

Hertz is second largest car rental company globally with consolidated revenue of $11.0B (€10.1B) for 2014. It is present in approximately 145 countries globally and operates a brand portfolio consisting of Hertz, Dollar, Thrifty and Firefly.

Hertz is particularly strong in the airport segment, where it is clearly a leader, generating 55% of its revenue in the International division from this segment[22]. Its global presence is also an advantage in the business segment, which generates 59% of revenue internationally.

Over the last few years Hertz has built a broad brand portfolio, covering all segments of the market. Hertz is the upscale brand covering the premium segment, Dollar and Thrifty, acquired in 2012 offer mid-market exposure and Firefly covers the value segment. It also has a presence in the car sharing segment with its Hertz 24/7 product.

On the flipside, its off-airport presence is relatively weak and in terms of revenue it is underperforming versus competition in this segment. A general perception of being expensive represents headwind in the leisure space, though this has been alleviated through launching Firefly in the value segment.

3.1.5. Sixt

Sixt is the clear market leader in Germany with a share of about 30%. It has positioned itself as a high quality mobility service provider offering a premium fleet of vehicles (more than half its fleet is made up of Mercedes-Benz, BMW and Audi). The company is present in more than 100 countries worldwide, though outside Germany it has not managed to build a market leading position, at least not in the major European countries.

Sixt has been able to consistently deliver profits, largely driven by its German operations. This puts the company in a comfortable position with regards to expanding and growing its presence in new and existing

[22] Source: Hertz 2014 annual report

markets as it can use internally generated cash to fund the expansion. A notable example is its current expansion into the US. Going forward this can generate profits locally, but it is also a way to build brand recognition in the world's largest rental market, thereby generating inbound business to Europe. In terms of segmentation Sixt is pretty balanced with leisure making up 51% of rental revenue in 2014.

A relative, potential weakness versus the other majors is its mono-brand model, which means that it has to cover all segments with one product. Based on corporate financial performance, there is limited evidence of a drag on profitability from this, but assuming that the shift towards intermediaries as the major sales channel in the market continues, this may have a negative long-term effect as the value of a brand may diminish in this case.

3.2. Independents

Across Europe there is a significant number of independent players, often with a strong market position in national markets. This is particularly evident in Southern Europe, which is mainly a leisure destination, with the value segment being of great importance. Examples include:

- France: Rent-a-Car, ADA, UCAR
- Spain: Goldcar, RecordGo
- Germany: Buchbinder/ Terstappen
- Italy: Maggiore (until acquired by Avis Budget in 2015), Locauto

The independent operators vary significantly in size and include everything from mom-and-pop stores with a few cars to national operators with multimillion euro operations.

Table 5 Revenue of selected independent car rental operators[23]

		Revenue – EUR million				
Company	**Country**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**
Rent-a-Car	France	50.4	65.7	75.2	35.9	38.7
ADA	France	46.0	43.0	37.5	35.1	45.3
UCAR	France	44.1	59.4	65.2	60.8	55.8
Goldcar	Spain	120.9	134.8	160.5	178.2	190.4
Record Go	Spain	53.8	55.9	64.4	72.9	N/A
Buchbinder	Germany	38.3	43.4	42.2	N/A	N/A
Locauto	Italy	11.2	20.9	27.8	35.5	50.7

[23] Source: Capital IQ

4. MARKET TRENDS

The car rental sector has, like most of the rest of the travel industry, gone through a significant change over the last couple of decades, to a large degree driven by the internet and e-commerce. Some notable shifts include

- Growing importance of online brokers and travel agents/ intermediaries as a distribution channel
- Emergence and growth of value segment
- Automation of rental process through new, technology driven solutions

These changes have had a profound impact on everything from market structure, profitability and customer behavior, which will be discussed below.

4.1. Intermediaries

Before the dawn of the Internet era, renting a car was, in simplistic terms, pretty much about looking up Hertz or Avis in the phone directory, calling one or the other up and accepting the proposed price. This is no longer the case. Today a whole host of online web-sites, commonly known as car rental brokers, have established themselves, serving as demand aggregators and intermediaries between the client and the operator. Examples include carrentals.com, cartrawler.com, expedia.com, priceline.com to mention a few prominent examples.

The advantages to clients are obvious, lower prices. The advantages for the operators are less obvious, though the importance as a sales channel is clear, given the share of transactions from this channel and the need to be where clients are. The clear negative is pricing, as this is a highly competitive segment where price is the main decision factor. On top, there are broker commissions payable, which means that from an operator's point of view, sales through brokers and intermediaries are generally unfavorable vs direct sales. Further, brand differentiation becomes difficult as the client's point of interaction at the time of making a decision to rent is the intermediary, not the end-operator.

4.2. Value segment

Much like the European aviation industry has seen the coming of Ryanair, Easyjet, Norwegian and other low cost carriers, the car rental industry has seen the same happening, particularly in leisure heavy markets, e.g. in Southern Europe around the Mediterranean (Spain, Italy and to a certain degree France). Online brokers have clearly facilitated this change as it allows small players with a limited, local physical presence to reach a global clientele.

Well-known operators in this space includes Goldcar and RecordGo in Spain. The traditional operators have responded through launching their own value brands, most notably Firefly by Hertz and Interrent by Europcar.

A major consequence of the growth in the value (or low cost) segment, is that average pricing has come under significant pressure over the last few years. This has been repeatedly pointed out in financial reports from the listed companies. Auto Rental News also treated this issue extensively earlier in 2015[24].

[24] Auto Rental News International, 2nd Quarter 2015, Vol. 1/ No. 1

4.3. Rental process improvements

Car rental operators have been able to take advantage of the opportunities generated by recent technological innovations. The internet, a driving force behind new distribution channels, represents only one. Other solutions, most of the time geared towards simplifying the customer experience, include self-service kiosk, online check-in, loyalty programs etc, all of which clearly makes the rental process quicker and smoother. However, the question is to what degree this drives profitability.

Many of the new solutions and services launched recently have the objective of facilitating the rental process through removing counter passages. A question is to what degree this impacts the capacity to sell ancillaries, often sold by a CSR at the counter at the time of the pick-up. Ancillaries tend to be high margin products and a drop in ancillary revenues is likely to have significant impact on overall profitability. This is an issue of increasing importance given the overall pressure on pricing on the rental car as a stand-alone objet and the growing importance of intermediaries as distribution channels, the latter limiting the number of potential client interactions before the actual car pick-up.

Another issue is to what degree some of the services actually bring incremental revenue and profits. The issue for the car rental industry is that there are two very distinct client groups, business and leisure, that have very different expectations. The former, who are often frequent travelers and renters, appreciate automatic rental pick-ups, loyalty points and a global network etc, and are willing to pay for this as a value adding service. On the other hand, the leisure segment is very much price driven and to a large degree made up of infrequent renters (once per year for an annual vacation). As such, there may be limited willingness to pay for these new services as the perceived value add is negligible.

4.4. Alternative service providers

In the last few years a number of new services and providers have come to market, driven by the overall mobility megatrend. Notable examples include the growth of car sharing services, e.g. Zipcar and the likes, and the emergence of P2P services such as Uber, Lyft and BlaBlaCar. We see neither of these as existential threats to "classical" car rental operators.

To us, car sharing as conducted by Zipcar, a pioneer in the field (at least in the US) acquired by Avis in 2013, is really not much more than car rentals over a (very) short time span. As such, there may be some business lost on the margin. However, assuming that short term rentals is a segment, there is nothing stopping car rental companies from offering this service, thus leveraging their skills and operational experience in fleet management, logistics and general rental operations. This is already the case with Avis Budget having acquired Zipcar, Sixt operating a JV with BMW (DriveNow), Europcar has a JV with Daimler AG (Car2Go Europe), Hertz operates Hertz 24/7 in several European countries and Enterprise Car Share is present in the UK.

With regards to P2P services such as Uber, we see limited potential for erosion of the car rental business (more so for the taxi business), at least in Europe, in that a) it is largely an urban trend and b) we believe that travelers on city breaks in Europe already are more inclined to use taxis and other forms of public transportation than a rental car. This does not mean, however, that we believe car rental operators should neglect and disregard these trends, nor that they should stay away from them. They represent a potential challenge, but could also mean interesting opportunities to explore, e.g. the recent Hertz/ Lyft partnership announced for Las Vegas, which could be replicated in other markets.

4.5. Operating models

All of the major car rental operators use a mix of operating models, include corporate locations, franchise (full country, in-country) and agencies. Each model has its pros and cons and a lot depends on the context. There is no one-size-fits-all solution with regards to which operating model to use, so a lot depends on performance objectives, market context, available financial resources and availability of attractive partners. The most important is to use each model consciously and be aware of both opportunities, advantages and limitations related to each.

Supporting the fact that the operating model is context driven is the number of recent transactions moving from one model to another. Examples include Hertz franchising Switzerland in 2012, Avis Budget acquiring its Scandinavian franchisee in 2015, Avis Budget entering a franchise agreement with Rent-a-Car for the Budget brand earlier in 2015 and Enterprise's mix of corporate and franchise operations in its recent European roll-out.

Accordingly, what model is most appropriate should be analyzed on a case-by-case basis.

5. MARKET STRUCTURE

The whole mobility segment is going through a profound change currently, and the car rental industry is no exception. As mentioned earlier, technology, new operators and new distribution channels all impact the market space, both from a demand and a supply perspective. This represent a challenge to existing operators in the car rental space, but it also creates opportunities. We see this as potentially driving structural changes in the market, i.e. consolidation, as operators aim to solidify their positions and grow in a market with modest growth expectations over the mid-term in the traditional business segment.

5.1. Structural changes

In the US, the car rental market has seen significant consolidation over the last decade with three groups, Enterprise, Hertz and Avis Budget, now controlling approximately 95% of the overall market. We see a similar movement happening in Europe, though not necessarily to the same degree. Competition authorities in Europe tend to be somewhat stricter than its American counterpart, so it is unlikely that an oligopoly of 3 players controlling 90%+ of the market will be allowed. That does not, however, mean that there is no room for consolidation. With this in mind, we find the Avis Budget acquisition of Maggiore very interesting in that through letting #2 and #3 become one, an uncontested market leader with approximately 40% share was created. Assuming that one operator is allowed to have this kind of share in each European market, there are a lot more potential constellations possible than if a market leader with 30%+ is considered acceptable.

We see potential for further consolidation with the number of pan-European operators going from 5 today to 3 or 4 over the medium term. Including the potential for the majors making some tuck-in acquisitions of independents, we see a scenario with 3-4 majors controlling somewhere in the 75-80% of the overall European market as realistic.

5.2. Potential deal rationales and drivers

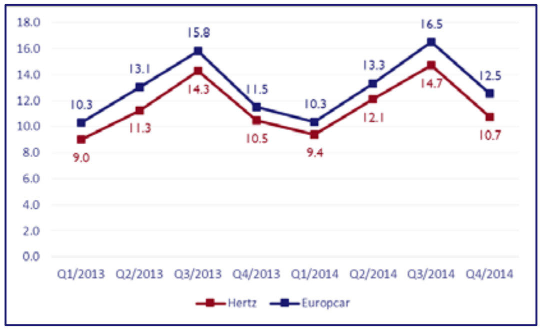
What may drive future deal activity? We see two main themes, being growth and business complementarity.

As mentioned, expectations are for limited growth going forward. In such a scenario, increasing market share organically is likely to be complicated, time consuming and potentially costly. Accordingly, for operators looking to build a bigger market presence, inorganic options such as M&A, would be a faster and more immediate route. Expanding the geographical footprint of an operator can also be considered to fall into this category.

The car rental sector is segmented, e.g. airport vs. off-airport, and operators have do not have the same presence in each. As an example, if one compares the revenue sources for Hertz International and Europcar, the former's split AP/OAP is 59/41, whereas the latter is 42/58 (see Table 6). Whereas historically, the main segments were airport and off-airport, the market has recently the emergence of new segments, e.g. the value segment, car sharing etc. Building a multi-brand portfolio to cater to different client segments and growing the footprint either on or off-airport can accordingly constitute a deal rationale.

Seasonality is another key issue in the industry, illustrated by rental days per quarter in 2013 and 2014 for Europcar and Hertz International, shown in Figure 10[25].

Figure 10 Rental days (M) by quarter for Europcar and Hertz



Note: Actual Hertz figures, Europcar figures derived from available data on average fleet and utilization

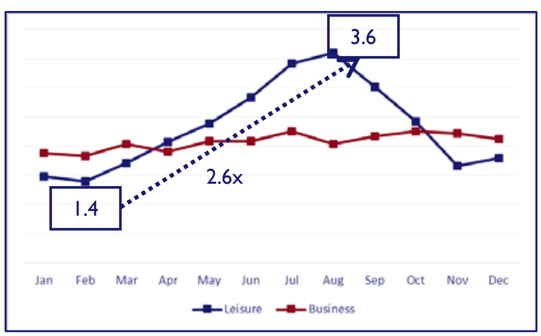
It is interesting to see that despite Europcar and Hertz having a very different business mix (see Table 6), their seasonal profiles are pretty much identical, thereby giving credence to this being the true seasonality of the car rental market in Europe.

Table 6 Europcar and Hertz International Business Mix by Revenue in 2014[26]

	Business	Leisure	Airport	Off-Airport
Europcar	45%	55%	42%	58%
Hertz	59%	41%	55%	45%

Different client segments also have variances in seasonality, as seen in the monthly demand profile of Europcar, split by leisure and business.

Figure 11 Europcar's monthly demand profile in 2014[27]



The key takeaway here is the relatively stable nature of the business segment throughout the year whereas the leisure segment sees a significant variation in demand depending on season. Most of the seasonal

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[25] Sources: Europcar listing document (June 2015), Hertz 2014 annual report
[26] Sources: Europcar listing document (June 2015), Hertz 2014 annual report
[27] Source: Europcar listing document (June 2015)

demand variation seen in Figure 10 can accordingly be attributed to the leisure segment with its peaks and troughs, e.g. Europcar where the demand trough in 2014 was in February with 1.4 million rental days and the peak demand was in August with 3.6 million rental days, i.e. 2.6x February demand.

Creating a more balanced profile, both seasonal and by client segment, can therefore be considered a real reason for becoming an acquirer in a consolidation scenario.

Looking at recent transactions in the car rental space, we see some clear patterns that we can relate to the above rationales. We see the Hertz acquisition of Dollar Thrifty falling into the category of building a multi-brand operation catering to different client segments. Enterprise acquiring Burnt Tree, a UK van specialist, and Avis Budget acquiring Zipcar represent examples of building or expanding presence in market segments. Finally, Enterprise's acquisition of Citer and Atesa is an example of both of growth and expanding one's geographical footprint.

There is no lack of medium term structural opportunities in the European car rental market. What is important for all actors is to define where they fit and what they want to achieve in order to maximize their potential.

5.3. Implications of potential consolidation to operators

Working on the premise and assumption that the European car rental industry will consolidate, what are the possible implications? To us, one clearly has to distinguish between the majors and the independents. The former may very well be both acquirer and target whereas the latter can position itself either to remain a stand-alone operator, focusing on a geographic or segment niche, or be acquired.

5.3.1. Majors

For the majors the main question is what role to play. A consolidation necessarily implies that one or two of the majors will be acquired, alternatively one or two mergers. Consequently, the operators will need to position themselves according to their long-term objectives as well as keeping in mind what would be the most value creative option for their stakeholders. The disparate nature of the majors, in terms of size (revenue, valuation) and financial and operational performance but also with regards to business mix and footprint, means that certain options can clearly be excluded, but there are numerous options potentially on the table.

We see feasible scenarios where each major can act as a consolidator. With regards to being consolidated, we see some of the majors as more likely than the others and we more or less exclude this possibility for some. Drivers include the financial strength of each, business mix and complementarity and perceived strategic objectives and priorities.

5.3.2. Independents

For the independents, the picture is clearer, i.e. they remain independent or they get acquired, we do not see the potential for a sixth major to come forward. The question is thus how to derive the most value from a consolidation process. To us, this means having a clear strategy in place, based on the specific strengths of the operator, which either means that the organization is sufficiently strong to continue as a stand-alone operation or that there is a real and significant value add for a potential acquirer. We also see this as an opportunity for owners of independents to monetize their investment.

5.4. Impediments to consolidation

As we have seen, the European market is more fragmented than in the US, why is this the case? What are the specificities of the European market that has left it behind in terms of consolidation compared to North America? And to what degree will these specificities slow and hinder a potential consolidation?

We see the main obstacle as being the fact that Europe is, for car rental purposes at least, not one single, homogeneous, fully integrated market. In the introduction we referred to the cultural differences between countries, there are also a number of legal and regulatory issues. Examples include the difficulty in sourcing vehicles on a pan-European level, e.g. for tax reasons, and restrictions with regards to renting a vehicle outside its country of origin etc. Accordingly, one is required to operate the fleet on a country by country basis, thereby limiting the potential for economies of scale of a pan-European fleet procurement process.

Another question is to what degree there are actually real economies of scale available from a pan-European operation. If one takes the example of Europcar, this is the clear market leader, but its consolidated financial performance has historically been weak, with net losses in 2012, 2013 and 2014. Compare this to Sixt, the market leader in Germany but generally number 4 or 5 in other markets, who has shown consistently profitable operations. Sixt does not disclose profitability by country, but we consider it reasonable to assume that Germany is the main contributor to its consolidated earnings. Larger independent operators also tend to be profitable, e.g. Goldcar in Spain. From a financial performance point of view, whether big is better and operational efficiencies are achieved through a pan-European presence, there is no clear cut evidence, which leaves the financial attractiveness of consolidation open for further analysis.

On the flipside, the European car rental market is not likely to see significant growth going forward. As mentioned earlier, the Europcar listing document provides a growth forecast of 2.0%+ p.a. through 2017. For operators looking to grow their market share, M&A is the most direct option. We believe that this aspect outweighs the potential negatives and that as a consequence further consolidation is a more likely scenario than the current state remaining.

5.5. Potential post-consolidation landscape

Would consolidation lead to a less competitive European car rental market or is the structure such that competitive pressure would remain? To analyze this we have simulated what would happen to the Herfindahl index assuming #2 and #3 in each market merges. For simplicity we assume that post-transaction market shares would be the sum of the merged entities and no impact on competitors. This being a purely a theoretical exercise for illustrative purposes, it does not represent an opinion on how a consolidation scenario is likely to play out.

Table 7 Consolidation impact on market concentration and competitiveness[28]

	Europe	France	Germany	The UK	Spain	Italy
Current						
C4 concentration	57%	43%	74%	77%	50%	77%
H4 concentration	842	515	1'638	1'717	638	2'115
After transaction						
C4 concentration	67%	48%	79%	85%	60%	80%
H4 concentration	1'295	804	2'191	2'333	1'050	2'644
Transaction delta						
C4 concentration	10%	5%	5%	8%	10%	3%
H4 concentration	453	289	553	616	412	529

The European Union has published guidelines in on the assessment of horizontal mergers[29], which indicates to what degree consolidation in the European car rental sector will pass governmental antitrust reviews. The indicative Herfindahl index levels review are

Table 8 Herfindahl index transaction review levels

Post-merger HHI	ΔHHI
<1000	Any
1000–2000	<250
>2000	<150

If one considers individual countries, one sees that Germany, the UK and Italy all represent markets that can be characterized as concentrated with an H4 concentration above 2000 post-transaction in our theoretical scenario. On the other hand, France would remain below 1000 and Spain only slightly above, so these remain unconcentrated even if #2 and #3 by market share were to merge.

We do believe, however, that for the purposes of concentration in a consolidation scenario Europe as a whole is the relevant market. What we see here is that were the majors to go from 5 to 4, on a European level, the car rental sector would remain an unconcentrated market with a Herfindahl concentration less than 1500. In case of a transaction, a review is likely as the index threshold of 1000 would be crossed with a delta greater than 250. We do, however, not see major roadblocks to at least one transaction occurring.

The fact that certain markets show significant concentration post-transaction is to us not an impediment to European consolidation. For the reasons outlined in section 3.3., we believe that from a market concentration perspective, Europe is the most relevant. Having said that, we see it as likely that country level concentration will be considered, though in our opinion the most likely outcome would be for certain concessions to be made by the merging entities, alternatively that operations in some countries may be excluded from a potential transaction. Taking country level combined market shares into the equation, we

[28] Source: Europcar listing document (June 2015) for raw data, our analysis
[29] Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings, Official Journal of the European Union (2004/C 31/03)

see some constellations that are unlikely to pass the cut, but by and large, we remain convinced that the European car rental sector is ripe, ready and structured for further consolidation.

To conclude, on a European level, the car rental industry is only moderately concentrated and by the most commonly considered measures, i.e. Herfindahl concentration, we see limited, if any, barriers to further consolidation going forward.

6. CAR RENTAL VALUATION

How do investors look upon the car rental sector? With a possible upcoming round of consolidation, what does this imply for both potential consolidators and potential targets and owners looking to cash out?

A common proxy for what a company is worth is to compare with its peers. Below we look at the valuation both of currently listed car rental operators as well as multiples paid in recent transactions in the sector.

6.1. Listed peers

There are a number of listed car rental companies. The two European majors, Europcar and Sixt, are listed in Paris and Frankfurt respectively and some of the independent companies, e.g. ADA and Ucar in France are also listed. For private companies, current trading multiples give an idea of what their operations are worth.

Table 9 Valuation metrics and multiples of selected, listed car rental operators[30]

€M[31], FY14	Avis Budget	Hertz	Europcar	Sixt	ADA	UCAR
Market Cap[32]	3'328.9	5'924.8	1'697.3	2'047.3	23.4	22.5
Net Debt	9'977.3	13'917.0	2'005.9	1'349.9	10.8	-11.4
Ent. Value	13'306.2	19'841.9	3'703.2	3'397.3	34.2	11.1
Sales	7'748.9	10'087.8	1'978.9	1'796.2	45.3	55.8
EBITDA	1'015.5	1'018.3	252.9	186.8	6.0	1.9
Net Income	223.7	-74.9	-111.7	110.0	3.2	1.0
P/Sales	0.4x	0.6x	0.9x	1.1x	0.5x	0.4x
EV/EBITDA	13.1x	19.5x	14.6x	18.2x	5.7x	5.8x
P/E	14.9x	NM	NM	18.6x	7.2x	22.3x

The above is based on the standard definition of enterprise value and EBITDA. We are familiar with the concept of corporate enterprise value and corporate EBITDA, where fleet depreciation, fleet debt and fleet interest are treated differently, but to ensure a like-for-like comparison we have preferred using non-adjusted GAAP figures.

6.2. Previous transactions

A number of transactions have taken place in the car rental industry over the last few years, both in Europe and elsewhere. The largest ones were Hertz' acquisition of Dollar Thrifty in 2012 and Avis Budget's takeover of Zipcar in 2013. In Europe, Avis Budget acquired both Maggiore and its Scandinavian franchisee in the last 12 months and late 2014 InvestIndustrial acquired 80% of Goldcar, the leading independent operator in Spain.

30 Source: Capital IQ
31 Converted at USD/ EUR 1.09
32 23 December 2015

Table 10 Highlights of selected car rental transactions[33]

EUR M	Car Rental Transactions[34]					
Target	Maggiore	Avis Scandinavia[35]	Goldcar[36]	Zipcar	Dollar Thrifty	Citer S.A.[37]
Buyer	Avis	Avis	InvestIndustrial	Avis	Hertz	Enterprise
Closing Date	09.04.2015	29.01.2015	18.12.2014	14.03.2013	16.11.2012	01.02.2012
Stake Acquired	100.0%	100.0%	80.0%	100.0%	100.0%	100.0%
Transaction Value (TV)	159.2	44.2	300.0	483.5	3'266.0	440.0
Implied Equity Value	159.2	44.2	375.0	382.9	1'940.2	440.0
Financials Yr	2014	2014	2014	2012	2011	2011
Sales	158.5	28.3	190.4	214.6	1'219.9	291.2
EBITDA	9.5	2.7	83.3	35.8	279.5	37.7
Net Income	2.0	2.1	39.4	11.3	125.7	7.6
TV/Sales	1.0x	1.6x	2.0x	2.3x	2.7x	1.5x
TV/EBITDA	16.8x	16.7x	4.5x	13.5x	11.7x	11.7x
TV/E	80.6x	20.8x	9.5x	42.8x	26.0x	57.9x

The above serves as a valuation guidance, for potential buyers and potential sellers. However, as each company and each transaction is different, which is evidenced by the disparity in multiples paid, this should only be considered indicative if one is looking at an operator for the purpose of an acquisition or if one is looking to shop an operator in the market.

[33] Source: Capital IQ
[34] Transaction values and financial data converted at exchange rate on day of transaction
[35] EBIT and TV/EBIT
[36] All multiples are based on Implied Value (100%)
[37] Financials represent sum of Citer and Atesa

7. CONCLUSION AND WRAP-UP

Mobility is a megatrend and is likely to see both growth and new solutions and service offerings going forward. With regards to ground transportation, the car rental industry is a key service provider at the heart of the mobility universe and should be able leverage its existing capabilities to deliver mobility solutions adapted to an evolving market environment. This represents a potential growth driver for the sector, both in current and adjacent segments. The question is how to position oneself to best take advantage of the mobility megatrend.

Further, we see clear potential for structural change in the European car rental landscape. Compared to the US, Europe is a fragmented market, which we see as ripe for consolidation, both amongst the 5 majors and the independent operators. How this will play out is currently an open question, but we see a scenario where one ends up with 3 or 4 majors controlling 75-80% of the market as realistic. We believe that each operator needs to make a clear choice with regards to what role to play and how to extract the most value for its stakeholders. Accordingly, to us this is currently one of the most significant strategic questions for the various operators, majors and independents, across Europe in the short, medium and long term.

The process of consolidation has begun, mainly driven by Avis Budget and Enterprise to date, and we expect the pace to accelerate going forward.

About us

Nedrelid Corporate Advisory is an independent advisory and consulting boutique based in Geneva, Switzerland. Our service offering includes travel, transport and mobility consulting, strategic planning and other corporate advisory related activities.

Nedrelid Corporate Advisory

Chemin des Papillons 18
Case Postale 565
1215 Geneva
Switzerland

Phone:	+41 79 782 4996
Mail:	info@nedrelid-ca.com
Web:	www.nedrelid-ca.com

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