

Research Update: Enterprise Rent-A-Car Upgraded One Notch To 'A-' On Strong Financial Profile; Outlook Stable

(Standard & Poor's) Jan. 13, 2006 – On Jan. 13, 2006, Standard & Poor's Ratings Services raised its long-term ratings on Enterprise Rent-A-Car Co. and its wholly owned finance subsidiaries, ERAC USA Finance Co. and ERAC Canada Finance Ltd. The corporate credit rating on Enterprise Rent-A-Car was raised to 'A-' from 'BBB+'. The outlook is stable. The upgrade reflects the company's strong and improved financial profile, which is expected to be maintained despite increased debt to fund growth opportunities. Enterprise's credit ratios have been, by far, the strongest in the car rental industry, and the gap will widen with the Dec. 21, 2005, debt-financed acquisition of Hertz Corp.

The ratings on St. Louis, Mo.-based Enterprise Rent-A-Car reflect its dominant market position in the stable off-airport (replacement and local) segment of the car rental industry, and good earnings and cash flow generation. Although Enterprise operates primarily in the U.S. and focuses on off-airport rentals, it has surpassed Hertz (primarily on-airport rentals) as the largest global car rental company, with \$8.2 billion of revenues generated in fiscal 2005 (ended July 31). Ratings also incorporate the potential negative effect on the company's earnings from reduced proceeds if used car pricing were to weaken somewhat from current levels and/or additional competition from on-airport car rental competitors in the off-airport segment.

Enterprise's major business is the rental of autos for replacement needs, a segment in which it is the largest participant, by far, with a dominant market share. Replacement car rental companies primarily provide cars to people who have lost the use of their own vehicles due to accidents, theft, or service problems. Demand tends to be much less seasonal and cyclical than that for auto renters that rely on business and vacation travelers, such as Hertz Corp. Customers are involved in accidents and thefts throughout the year, and everyday use of autos is essential in many cases. As a result, Enterprise's utilization rates tend to be quite high. Enterprise's costs are lower than those of the on-airport renters due primarily to the locations of most of its rental offices (suburban residential neighborhoods and commercial areas, rather than airports) and limited hours of operation (extended business hours rather than 24 hours a day). Because only a small (but increasing) percentage of Enterprise's business is derived at airport locations, it was affected to a much lesser extent by the reduced level of air traffic during the 2000-2003 period than other car rental companies. Enterprise also benefits from its leading presence in the local/suburban market, which has been growing as customers increasingly rent cars to reduce wear and tear on their own vehicles and to avoid airport delays and congestion when taking shorter trips.

Unlike on-airport car rental companies, who return most of their cars to auto manufacturers under predetermined repurchase programs, Enterprise disposes of virtually all its vehicles on its own. This tends to put some pressure on its earnings in periods of weak used-car markets. However, in the past, the company has demonstrated its ability to adjust its fleet to offset the negative effects of a weak used-car market by extending the average holding period and thereby reducing capital spending requirements.

Enterprise's financial profile is the strongest in the industry. Its earnings and cash flow measures are very strong (privately held Enterprise does not disclose financial results to the public), having actually improved during the 2001-2003 period of reduced travel and a weak used-car market, both of which have since recovered. The strong cash flow, along with a period of slower growth (which has since accelerated) for the company, resulted in reduced debt leverage. For fiscal 2005, the company's pretax interest coverage was over 3x, EBITDA interest coverage over 8x, funds flow to debt around 50%, and debt to equity around 2 to 1.

Short-term credit factors

Enterprise's short-term rating is 'A-2', which reflects its good cash-generating ability and moderate financial policies, offset to some extent by significant capital expenditure requirements. Enterprise primarily relies on internally generated cash and lines of credit to meet liquidity requirements. It has a \$1.5 billion unsecured revolving credit facility, which matures in August 2009. This facility includes various financial covenants, including a minimum fixed-charge coverage ratio, maximum debt to net worth, and limits on restricted payments and secured borrowings. The company is expected to remain in compliance with covenants.

Enterprise's capital spending, primarily for the purchase of new vehicles, is significant. We expect that internally generated cash, proceeds from vehicle sales, and the company's credit facilities will be sufficient to meet near to intermediate term capital spending plans. In addition, the company has accessed the capital markets through the issuance of unsecured notes many times. With strong funds from operations and the proven ability to curtail capital spending, Enterprise should continue to have the ability to fund vehicle purchases and service debt.

Outlook

The outlook is stable. Enterprise's strong credit profile is expected to be maintained over the near to intermediate term. Earnings and cash flow are likely to continue to benefit from healthy demand and rising rental rates. These trends should offset increasing debt levels associated with higher vehicle

prices and incremental vehicles to meet growth opportunities. If earnings were to weaken because of reduced demand, intensified competition, or reduced proceeds from used vehicle sales, the outlook could be revised to negative. An outlook revision to positive is considered less likely.

Ratings List

Ratings Raised	To	From
Enterprise Rent-A-Car Co. Corporate credit rating	A-/Stable/A-2	BBB+/Positive/A-2

ERAC USA Finance Co. ERAC Canada Finance Ltd.

Senior unsecured debt	A-	BBB+
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Ratings Affirmed

ERAC USA Finance Co. Commercial paper	A-2	A-2
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Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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