

## Q1 2012 Earnings Call

### Company Participants

- Roberto Mendes, CFO
- Silvio Guerra, Director

### Other Participants

- Augusto Ensiki, Analyst
- Daniel Spielberg, Analyst
- Stephen Trent, Analyst

### Presentation

#### Operator

Good morning. Welcome to the First Quarter Results Conference Call of Localiza Rent a Car. Holding this event today are Mr. Roberto Mendes, Chief Financial Officer, Silvio Guerra (and Mario Lamati), Investor Relations.

We would like to inform that the numbers in this presentation are stated in millions of Brazilian reais and based on US GAAP until 2010 and based on IFRS from 2011 on. The presentation will be recorded and all participants will only be able to listen to the conference call during the Company's presentation and exactly afterwards we will start the Q&A session for analysts and investors, when further instructions will be provided.

(Operator Instructions)

The audio of the conference call and the accompanying slide presentation are being broadcast simultaneously over the Internet at the address [www.localiza.com/ir](http://www.localiza.com/ir). The slide presentation can be downloaded at the same address by clicking on the banner, 1Q12 Webcast.

Before proceeding, we would like to clarify that any statements made at this conference call concerning the business outlook of the Company, forecasts, and operating and financial targets represent the opinions and assumptions of the Company's management, which may or may not occur. Investors must comprehend that economic conditions and other operating factors may affect the Company's future and may lead to results materially different from those stated in this call. I would like now to turn the presentation over to Mr. Roberto Mendes, who will begin the presentation. Please, Mr. Roberto, you may now begin.

## **Roberto Mendes** {BIO 7289124 <GO>}

Good afternoon, and thank you for your attendance to our conference call. On slide number two, we present some highlights of the First Quarter '12. Localiza had its grade rating upgraded by Standard & Poor's to investment grade in global scale and AAA in national scale. In general, the Company was included in Bovespa and IBRx50 Indexes and its average daily trading volume increased to BRL32 million in the First Quarter '12, 34% growth over 2011. In addition, the Company reached another a number of 500 rental locations in South America. Now I will turn the floor to Silvio Guerra, who will present the First Quarter '12 results. Silvio, please?

## **Silvio Guerra**

Thank you, Roberto. On slide number three, we present the growth of the main indicators. In the First Quarter 2012, net revenue grew 13.7%, EBITDA grew 12.8%, and the net income increased 14.3%. On slide number four, we present the growth evolution of the car rental division in the First Quarter 2012. Even with the lower pace of GDP growth in the First Quarter, car rental grew 8.7% in rental volumes. Average rental rate increased by 4.7% and net revenues grew 15%. A high speed of growth in economic activity expected for the second half of this year showing positive impact to car rental volumes.

Fleet rental division, which is less dependent on the GDP growth, continued to represent solid growth as we may see in slide number five. In this division, where contracts are long-term, revenue growth in First Quarter 2012 was up 23.8% due to the growth of 15.9% in the volumes and 6.2% in the average rental rate. In slide number six, we present evolution of the net investment in fleet. In the First Quarter 2012, 8,753 cars were purchased and 13,285 cars were sold. We did this investment of BRL133.8 million.

Let us move to slide number seven, where we present evolution of utilization rate. The fleet of car rental division is reduced in the First Quarter of each year after the peak of demand of summer vacation and carnival in Brazil.

Slide number eight presents the end of period fleet. Despite of the fleet reduction post peak of demand, fleet in the First Quarter 2012 increased 8.5% when compared to the same period of last year.

Slide number nine presents the evolution of Seminovos network. With the renewal of 67,000 cars in 2012, the Company intends to increase the number of points of used car sales by 14. Currently, eight stores are under construction.

On slide number ten, we present consolidated net revenues evolution. In the First Quarter 2012, consolidated net revenues grew 13.7% due to the growth of 17.8% in rental revenues and 9.6% in the used car sales revenues. Used car sales volume was 14.7% superior to the one presented in the First Quarter 2011. The average used car sales price decreased 5.5% due to the mix of cars sold by the fleet rental division.

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On slide number 11, we present the EBITDA evolution. EBITDA grew 12.8% in the First Quarter 2012. The EBITDA margin in the car rental division was two percentage points lower than in the First Quarter 2011 due to the lack of gains of scale in this quarter.

Personnel expenditures represent roughly 60% of the fixed costs in the car rental division. At the beginning of every year, we anticipate wage increases that are discounted from the union's agreements throughout the year. In 2012, this anticipation was of 5%.

In the fleet rental division, margin of 66.2% in the First Quarter 2012 remained stable when compared to the same period of last year. In the Seminovos, the 2.6% margin reflects the success of the Company in forecasting the future value of the cars as well as its selling expenses after the used in the car and fleet rental divisions.

Let us now move to slide number 12, where we present the evolution of depreciation. For the totals of the car depreciation, we take into consideration the difference between the acquisition price of the vehicle and its estimated market value on the expected date of its sale net of the sale expenses, as determined by IRFS and ratified by the Accounting Pronouncement Committee, CPC 27.

The lease of the (current sale lots), advertising, wages and commissions are pressured by inflation. Furthermore, the leases' values were impacted by the heated real estate market. Since the car prices are stable, selling expenses reached 9.7% of the selling price of those assets; and consequently, it increased average depreciation per car in the car rental division.

On slide number 13, we present the net income. Net income increased by 14.3%, totaling BRL72.2 million in the First Quarter 2012, above the 12.8% growth of the EBITDA. Now let us talk about cash generation, shown on slide number 14. The BRL225 million cash generated before interest was used to reduce by BRL211.8 million the accounts payable to the OEMs. The balance of this account increases by the end of each year due to the cars purchased to service summer vacations' peak of demand.

On slide number 15, we present the debt profile. The Company maintains a strong cash position. The debt profile is very comfortable with terms beyond seven years for the amortization of the principal. On slide number 16, we present the debt ratios. These ratios reflect a conservative policy of the Company.

On slide number 17, it is presented the spread between ROIC, return on invested capital, and the cost of debt after tax. In the First Quarter 2012, the spread between ROIC and the cost of debt was eight percentage points, and it is a result of the competitiveness of the pricing strategy of the Company and value creation to the shareholders. I will now turn the floor to our CFO, Roberto Mendes, who will conclude this presentation. Roberto, please?

**Roberto Mendes** {BIO 7289124 <GO>}

Thank you, Silvio. On slide number 18, we present Localiza's ratings. The Company's financial discipline was recognized by the three main rating agents. Localiza was rated investment grade by Moody's, Standard & Poor's, and Fitch. In national scale, the Company is AAA by Standard & Poor's, which (stresses) its competitiveness and (diversity) to raise the money for a longer term and in (various conditions). Let us now move to the Q&A session.

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## Questions And Answers

### Operator

Excuse me, ladies and gentlemen. We will now begin the question-and-answer session.

(Operator Instructions)

And our first question comes from Mr. Daniel Spilberg with Barclays.

### Q - Daniel Spilberg {BIO 16863949 <GO>}

Hi, Roberto. Hi, Silvio. Good morning. My question is about the used car sales. I think that in the Portuguese call you gave -- you reiterated the guidance to sell 67,000 cars per year. I think that now you need to sell about 6,000 cars per month every month until the end of the year to achieve that goal. My question is whether you were surprised with the 4.4 monthly sales in the First Quarter, or if that was already in your business plan?

### A - Silvio Guerra

Daniel, thank you for your question. And on the timing of these 67,000 cars, we are on budget. We intend to keep selling this level of around 4,500 moving up to 5,500 and, like you said, like you mentioned, 6,000 by the end of the year, which brings us an average of around 5,580 cars per month, leading to the 67,000. What we have felt is that we have increased the number of cars -- the percentage of number of cars sold to all sellers from 25% to 30%, but this was the main change. On regards to the volumes of cars, we forecast to keep selling the 67,000 cars as we announced in the Third Quarter 2011.

### Q - Daniel Spilberg {BIO 16863949 <GO>}

Okay. Thank you very much.

### Operator

And our next question comes from Mr. Stephen Trent with Citigroup.

### Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good day, everybody, and thank you very much for the call. Two questions from me, if I may.

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The first pertains to one of your big competitors; it looks like they're linking up with a US car rental company. At least my take is perhaps it's not a bad thing for that company's consumers going overseas, but for foreigners going to Brazil, I would surmise that very few of them are arriving in Brazil and renting cars, as most foreigners don't speak Portuguese, among other issues, and it doesn't seem to be incremental from the domestic market perspective. I was wondering if you agree with that. And my second question kind of more broadly pertains to what sort of growth or momentum are you seeing from Brazil's insurance replacement market? And let me leave it at that. Thank you.

### **A - Silvio Guerra**

Okay. Thank you, Steve. I would start agreeing with you on your question on regards to the number of foreign tourists and what they represent to our volumes. If you look at the volumes derived from foreign tourists (ex-Latam), which means (zero) in the United States, they represent roughly 1% of the car rental revenues.

In overall terms, the car rental industry worldwide, we have two strong global players like Hertz and Avis; both of them are present in the country in Brazil. And the arrival of National and Alamo might eventually impact those two players that are competing with the existing foreign visitors that come from Europe and the United States.

Worldwide car rental industry is strongly based on the domestic markets. In Localiza's case, it's also 80% business-related, not tourism, and 80% derived from the internal market and GDP and per capita GDP. So there is another issue, which is Localiza prefers not being tied to any specific brand since it might eventually hurt any possibility for future strategy. So on regards to this compensation or this agreement, we will follow, but we don't think that this will be a major thing on regards to our current strategy; we remain with the same strategy.

On regards to the replacement market, it's a market that Brazil has 35 million cars circulating fleet; 15% of this fleet (crashes) every year and we believe this market has a good potential, on average around the 20% pace of growth. And it's a market that is not dependent on weather; it's dependent on one single competitive advantage, network, and Localiza has 500 agencies (it's captured) in South America to service this market.

### **Q - Stephen Trent** {BIO 5581382 <GO>}

Great, Silvio. Thank you very much for the color. And just a minor point, just to clarify, the 1% foreign tourism that you mentioned, ex-Latam, that, I'm guess, pertains to the entire industry? You're talking about Brazil-wide and not just Localiza?

### **A - Silvio Guerra**

Could you repeat again, Steve, please?

### **Q - Stephen Trent** {BIO 5581382 <GO>}

Certainly. You mentioned foreign tourism, ex-Latam, coming to car rental market in Brazil. This roughly 1%, this is talking about the entire industry; (inaudible), Avis, Hertz -- and not

just Localiza?

## A - Silvio Guerra

Yes, you're right, Steve, it's just 1%. And I believe you're right, that probably we will be seeing some more out bound instead of in bound. But in any case, it will remain at the level of 1%.

And Steve, just to correct one thing that I think I missed the last part. When I mentioned to you about the replacement market, I mentioned to you 30% growth is not a growth, it's a share of its size in our car rental division. So we do not provide guidance in any sort of sectors, as you know. Thank you.

## Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very clear, and thanks for the time, Silvio.

## Operator

(Operator Instructions)

And our next question comes from Mr. Augusto Ensiki with Morgan Stanley.

## Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi. Good afternoon, gentlemen. This is a bit of a follow-on to Daniel's question earlier regarding used car sales. I realize that there's moves by the government to increased credit availability and what-not, but in the event that car sales may be slow and turned down and you're not getting the sales velocity that you're hoping to get, would you be more inclined to aggressively increase marketing or even reduce prices further, or would you kind of hold the line to where you guys are right now?

## A - Silvio Guerra

Thank you for the question, Augusto, and the objective is the following. We intend to keep having the same financial cycle timeframe that we present every time we present to investors. So we need to sell the cars. We are going to go into more advertising, other channels, other auctions, and this would be our aim, and we are going to analyze all the alternatives from the point of view of the cost benefit analysis for the Company. You know that we have currently a very good strategy, which is the current sales division that presents a cost at around 10%, and we intend to remain at this level, of course, for selling our assets.

## Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. Great. And sorry, one second question is kind of a little bit specific to the release. And this is kind of minor, but if you could humor me, the revenue tax for car rental in Fourth Quarter was quite a bit lower than what it usually is and then it kind of kicked back up this quarter. Was there -- if you could just remind me if there's a specific reason that the revenue tax was lower in the Fourth Quarter versus what it normally is.

## A - Silvio Guerra

Well thanks for the question, Augusto. In overall terms, you have seen a fluctuation throughout the last three quarters between 4.5% to 2.3%, and now you're seeing this level. And we forecast this level to remain at the level of 3.5%.

## Q - Augusto Ensiki {BIO 15988025 <GO>}

3.5%, okay. And so what was the cause of the fluctuation?

## A - Silvio Guerra

In overall terms, what we had was that in terms of the legislation, the legislation allows us to take credit over revenues, which means that we are able to pay and to deduct the credit. So in that sense, we are taking advantage of the credit deduction, which lowers the percentage of tax on revenues.

## Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. And so it's 3.5% going forward. That's great. Thank you very much.

## A - Silvio Guerra

You're welcome.

## Operator

(Operator Instructions)

Excuse me, this concludes today's question-and-answer session. I would like to invite Mr. Silvio Guerra to proceed with his closing statements. Please go ahead, sir.

## A - Silvio Guerra

I would like to thank the attendants to our conference call and to inform that our Investor Relations Department is available for any further questions. Thank you, all and have a good day. Bye-bye.

## Operator

That does conclude the Localiza audio conference for today. Thank you very much for your participation. Have a good day, and thank you for using Chorus Call.

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