

Q4 2013 Earnings Call

Company Participants

- Eugenio Mattar, CEO
- Nora Lanari, IR

Other Participants

- Alexandre Falcao, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Good afternoon. Welcome to the Fourth Quarter 2013 Conference Call of Localiza Rent a Car. Hosting the event today are Mr. Eugenio Mattar, CEO, Mr. Roberto Mendes, Chief Financial Officer, and Ms. Nora Lanari, Investor Relations. We would like to inform that the numbers in this presentation are stated in million of Brazilians real 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. Immediately afterwards, we will start a Q&A session for analysts and investors, when further instruction will be provided.

(Operator Instructions)

The conference call audio and accompanying slide presentation are being broadcast simultaneously over the internet at the address, www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking on the banner, 4Q13 and 2013 Webcast.

Before proceeding, we would like to clarify that any statement made in this conference call concerning the business outlook of the Company, forecasts, as well as the operational and financial targets, represent 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 materially different results from those stated in this call.

I would like to now turn the presentation over to Mr. Eugenio Mattar, who will be begin the presentation. Please, Mr. Eugenio, you may now begin.

Eugenio Mattar {BIO 3986664 <GO>}

Good morning, everyone, and thanks for attending our conference call. 2013 was a challenging year for Brazil. Bad macroeconomic expectations in the first month of the year led to push. Brazil ended the year with lower GDP growth and inflation pressures that forced an increase in the base interest rate. On the other hand, airport and road concessions that we did in the last month of 2013 indicate investment levels are likely to increase.

Even in this tough scenario, the Company (presented) rental and car sales revenue growth, (had good income), and a strong spread between ROIC and cost of debt after tax. Strong cash generation enabled a BRL250 million extraordinary dividend distribution without compromising the Company's comfortable leverage ratios. Fitch as well as Standard & Poor's attributed a AAA credit risk to Localiza in national scale.

Market expects 2014 to be another year of lower GDP growth, stable by high inflation and higher average interest rate. Despite this challenging scenario, events such as FIFA World Cup and the elections may benefit current demand. Localiza is a Company committed to delivering value to its shareholders and having a long-term strategy to sustain its growth with profitability. The Company is prepared to benefit from the growth and consolidation opportunities in the Brazilian car rental market.

And to present more details on the results, I will turn the floor to the head of the IR, Nora

Nora Lanari {BIO 18838335 <GO>}

Good afternoon, everyone, and thank you for attending our conference call. On slide number two, we present some highlights of the Fourth Quarter and 2013. In spite of the low GDP growth, the Company's consolidate net revenues grew 21.2% in the Fourth Quarter '13 due to the 6.9% revenue growth in the car rental, 3.6% in the fleet outsourcing, and 39.4% in the used car sales for fleet renewal.

The Company presented a 4.5% bottom-line growth in the quarter. In the year, consolidated net revenues grew 10.7% and net income, 59.5%, totaling BRL384.3 million, a record for the Company. Localiza also presented record free cash flow generation.

On slide number three, we present the growth evolution of the car rental division. In the Fourth Quarter '13, rental days grew 4.3%, still reflecting the performance of economic activity. The average rental rate grew 2.9% in the Fourth Quarter '13 visibly. As a consequence, rental net revenues grew 6.9% in the Fourth Quarter '13. And as for the full year, net revenues grew 6.4%.

On the next slide, slide number four, we present the evolution of the car rental network. In 2013, 14 rental locations were added to Localiza's own network in Brazil. 13 new locations were added to our franchisees' networks abroad. Localiza's systems currently holds 542 locations in nine countries in South America.

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On the next slide, slide number five, we present the volumes and revenues of the fleet outsourcing division. In the Fourth Quarter '13, revenues grew 3.6% as a result of a 4.2% increase in the average daily rental rates, partially offset by a 0.8% decrease in business volume.

In 2013, net revenues increased 7.5% compared with 2012, leveraged by the growth of 2.3% in business volumes and 4.3% in the average rental rate. The lower growth in 2013 daily rental volumes was mainly due to the competitive pricing environment. The Company maintains its conservative approach in order to provide return on invested capital, adding value to the shareholders.

In the next slide, number six, we present fleet net investment evolution. This quarter, fleet was increased by 589 cars, a net investment of BRL48.2 million, due to the purchase of 18,588 cars and the sales of 17,999 cars. Fleet increased 7,103 cars in the year with a net investment of BRL278.9 million. Part of the 18.9% increase in purchases was due to the delays of the OEMs on delivering new cars ordered in the Fourth Quarter 2012 and delivered by the first half of 2013.

Slide number seven presents car sales evolution. The lower decommissioning levels due to the OEMs' delays on car deliveries reduced sales volumes in the first half of 2013. As deliveries were normalized in the second half of the year, sales reached 6,000 cars per month, an average of 81 cars sold per store. In 2013, 62,641 cars were sold.

In the next slide, slide number eight, we present end-of-period fleet evolution. The Company ended the year with 103,526 cars, a 6.5% growth when compared with 2012. Including franchisees' fleet in Brazil and abroad, fleet totaled 117,759 cars. The highest sales volume in the second half of 2013 resulted in a reduction of the average age of cars sold from the car rental division, 14.9 months, in the Fourth Quarter 2013.

Slide number nine presents consolidated net revenues evolution. In the Fourth Quarter 2013, consolidated net revenues grew 21.2% due to the increase of 5.9% in the rental revenues from car rentals and 39.4% in Seminovos decommissioned car sales for fleet renewal. For the year, revenue growth was 10.7%, being 6.8% in the rental revenues and 15% in car sales.

Slide number 10 presents the EBITDA evolution. EBITDA in the Fourth Quarter '13 totaled BRL 236 million, 4.3% higher compared with the same period last year. In 2013, the Company presented a 4.7% EBITDA growth totaling BRL916.5 million.

In the car rental division, the EBITDA margin, adjusted by the fact of freight and accessories costs, was 39.9% in the Fourth Quarter 2013, 3.2percentage points lower than the same period of the previous year. Such reduction was a reflection of lower gains of scale and the inflation effect on costs, mainly personnel and real estate rental, not passed on to price.

Additionally, a non-recurrent complement for profit sharing provision was made in the amount of BRL1.5 million. Management remains with its strategy of maintaining car rental

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rates stable, aiming at market consolidation, as long as it does not compromise the targeted spread between the ROIC and the cost of debt after taxes.

In the fleet outsourcing division, the EBITDA margin, adjusted by the effect of freight and accessories costs, was 65.2%, presenting a decrease of 2.6percentage points when compared with the same period last year. Such reductions is mainly due to the non-recurrent profit sharing complement in the Fourth Quarter 2013 totaling BRL1.5 million.

Seminovos' EBITDA margin remains above historical levels. Sales expenses were reduced to 8.9% of net sales revenues in the Fourth Quarter 2013, compared with a 10.6% in the Fourth Quarter 2012. Productivity gain in the Fourth Quarter '13 was due to strong sales rhythm in Seminovos without an increase in costs nor a reduction on car sales price.

Let us now move to slide number 11, where we present the average depreciation per car in the car rental and fleet outsourcing divisions. In 2013, average annualized depreciation per car in the car rental division was BRL1,452, and in the fleet outsourcing division it was BRL4.592, in line with management's expectations.

On slide number 12, we present the net income evolution. In 2013, the Company presented the record net income of BRL384.3 million, 59.5% increase compared with the same period last year. Excluding the additional depreciation expense accounted in 2012 due to the ICI tax reduction for new cars, growth would have been up 14.3%. In the Fourth Quarter '13, the Company presented a net income of BRL90 million, a 4.5% increase when compared with the Fourth Quarter 2012.

Slide number 13 presents the free cash flow in 2013. Localiza presented the record free cash flow before interest of BRL361.3 million, even after growing 7,103 cars in the fleet. On slide number 14, we present the change in 2013 debt. The strong cash generation enabled a distribution of BRL250 million in extraordinary dividends without compromising the Company's leverage.

On slide 15, we presented the debt amortization profile. In the Fourth Quarter 13', the Company concluded the issuance of BRL500 million in debentures with tenor of eight years and prepaid BRL160 million in existing loans with smaller tenors, improving the debt profile. The Company ended 2013 with a cash position above BRL1 billion and a comfortable debt amortization profile.

On the next slide, slide number 16, we present debt ratios, which reflect the financial discipline of the Company. The Company holds strong cash position and comfortable leverage ratios, even when distributing BRI250 million of extraordinary dividend. Localiza is prepared for growth and consolidation opportunities of the car rental market.

In slide number 17, we present a spread between the ROIC and the cost of debt after tax. The spread between ROIC and cost of debt grew 0.7percentage points in the year, reaching 10.5% due to a 0.4percentage point increase in the ROIC and the reduction of 0.3percentage points in the cost of debt after tax.

Let us now move to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Alexandre Falcao with HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good afternoon, everyone. My first question is regarding used car market. I just wanted to get a feeling from the Company, what -- for 2014, what is the expectations for the price of used car sales, first? And what should happen with the new cars market as well?

And in terms of not only the amount of cars sold, globally and Brazil, but also, and most important, what's going to happen to the price of new cars so if they still increase and all the VAT taxes increase? That would be very helpful as well. Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Falcao, thank you for the questions. On regards to the used car market and new car market in Brazil, we expect prices to stable and Seminovos prices following the new car prices, the flattish price from the market. So we do not expect a big change in terms of depreciation because flattish prices both for new cars in our sales is expected. You saw the volumes of cars sold in the second half of 2013, so we are assuming a good level of demand passing through 2014 as well.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thanks so much.

Operator

Our next question comes from Stephen Trent with Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Yes. Good day, guys, and thanks for taking my questions. Just two from me, if I may. The first one is how are you thinking about the balance sheet, your vis-a-vis rising SELIC rate? I recall that you had locked in some of your floating rates then to fixed, and I'm wondering what you're thinking there. And that's my first question.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you, Steve. On regards to balance sheet, we have nowadays a very comfortable debt ratio, 1.5% net debt to EBITDA. You are right, we locked our debt related to the fleet rental division a couple of years ago when interest rates were at a lowest level, so we still have roughly one-third of our net debt locked into fixed rates.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Great. Thank you, Nora. And just one other question, if I may. In terms of 2014's growth, how should we be thinking about the outlook with not just the World Cup, but elections, and what -- how you guys are thinking about the opportunity this year for volume growth?

A - Nora Lanari {BIO 18838335 <GO>}

Thank you for the question, Steve. As a matter of fact, we expect positive outcomes from both events. On regards to FIFA World Cup, we are more conservative because we know, in one hand, we have more leisure fleets; on the other hand, the corporate travels tend to reduce. Net/net, we expect a positive spread, but -- a positive number, but being conservative on the business expectations.

Elections, on the other hand, tends to provide a decent level of volumes in the car rental since campaigns started mid August until October, or eventually November if we have the second round in elections. And this is Presidential elections, government elections, and Senate elections, so we should benefit in the full country nationwide.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful, Nora. Thank you. I'll leave it there. I appreciate the time.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Ms. Nora Lanari to proceed with her closing statements. Please go ahead, ma'am.

A - Nora Lanari {BIO 18838335 <GO>}

We would like to thank you all for participating in our conference call and to inform that our IR team is available for any further query. Thank you.

Operator

That does conclude the Localiza Rent a Car audio conference for today. Thank you very much for your participation and have a good day.

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