

## Q4 2017 Earnings Call

### Company Participants

- Eugênio Pacelli Mattar, Chief Executive Officer & Member of the Board of Directors
- Nora Lanari, Director of Investor Relations
- Roberto Antônio Mendes, Chief Financial Officer & Investor Relations Officer

### Other Participants

- Bruno Amorim, VP - Equity Research
- Lucas Barbosa, Analyst
- Murilo Freiburger, Analyst
- Victor Mizusaki, Analyst
- Vitor Sanchez, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, and welcome to Localiza Rent A Car Conference Call for the Fourth Quarter and 2017. Hosting the event today are Mr. Eugênio Mattar, CEO; Roberto Mendes, Statutory CFO; Mauricio Teixeira, CFO successor; and Mrs. Nora Lanari, Investor Relations Officer.

We would like to inform that the numbers in this presentations are stated in millions of Brazilian reais and based on IFRS. The presentation will be recorded and all participants will be able to listen to the conference call during the company's presentation. Immediately afterwards, there will be a Q&A session for analysts and investors when further instructions will be provided.

The conference call audio and the accompanying slide presentation are being broadcast simultaneously over the web 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 4Q17 and 2017 Webcast.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the company, forecasts, as well as operating and financial targets represent the opinions and assumptions of the company's management which may or may not occur. Investors must understand that economic conditions and other operating factors may affect the company's future and lead to materially different results from those stated in this call.

To start the fourth quarter 2017 conference call, I would like to turn the floor to the CEO, Eugênio Mattar.

## Eugênio Pacelli Mattar

Good afternoon, ladies and gentlemen. Thank you for the presence. In 2017, our team set audacious goals for growth, value creation, customer satisfaction, brand positioning, even in an adverse macroeconomic scenario in a very competitive environment. The team embraced the challenge, innovated and achieved impressive results. We grew generating value.

Our fleet reached 194,000 cars, with 27.1% increase in rental days and we sold more than 90,000 cars. We increased our distribution by 51 corporate rental locations and 15 Seminovos stores. Our net revenues increased 36.5% and net income grew 37.6% as a result of our focus on operational excellence. The spread between ROIC and the cost of debt reached 8 percentage points and RENT3 was the 35th most traded share in B3, the Brazilian Stock Exchange in 2017.

Localiza has expanded its unquestionable leadership in quality and service, thanks to our employees' strong culture of customer focus and passion for serving. Localiza won several awards throughout the year, such as the best car rental company by Folha de São Paulo newspaper and Época Reclame Aqui awards, the latest for the third consecutive year.

Localiza was one of the five Brazilian brands that appreciated the most in 2017, reaching the 24th place among the most valuable brands in Brazil but Interbrand ranking. Localiza Fidelidade, the loyalty program, has reached 7-point million (sic) [7.6 million] (00:04:01) participants and has distributed more than 2.3 million free rental days to its members, being Latin America's largest car rental loyalty program. We have reached 1.5 million fans on Facebook, the biggest fanpage of the category in the world.

We are moving forward in innovation and digital transformation. The innovation was important in all segments of Localiza with significant improvements in the customer experience. We also invested in the digitization of internal processes, increasing our productivity to gain scale while also increasing control during accelerated growth process.

We have successfully conducted the integration of Hertz's operations in Brazil. Two months after the acquisition, Car Rental, Fleet Rental and Seminovos used car sales operations were fully integrated, ensuring business continuity and maintaining the highest standard of excellence in relationships with our customers. By the end of 2017, our network of corporate and franchised locations, as well as all our reservation channels, already exhibited the new Localiza Hertz brand. At the same time, we have moved forward in the long-term strategic partnership with The Hertz Corporation, making reservations worldwide through our reservation channels and displaying Localiza brand at major international airports.

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All these results would not have been possible without the enormous commitment, sense of urgency, passion to serve and ownership mindset of our more than 7,700 employees. In the context of rapid evolution and transformation of market and technology, Localiza continues to invest in the development of its employees to weather future challenges, meeting the expectations of our customers.

We closed 2017 pleased with the achieved results in key aspects of the business, which makes us motivated for a 2018 that begins with a more positive economic scenario, despite uncertainties of an election year. What does not change, regardless of the environment, is our clear vocation for a sustainable growth and position to continue to expand our market leadership.

We appreciate the trust of our customers, employees, investors, suppliers and partners and reaffirm our determination to write another chapter of growth and superior results in 2018.

And to present the highlights of 2017, I now turn the floor to CFO, Roberto Mendes.

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

Good afternoon, and thank you for attending our conference call. The operational highlights are on slide 2 - 3. In 2017, the results in growth in profitability were significant in all business divisions and we surpassed the market by 190,000 cars in our fleet. RAC did a fantastic job throughout the year, highlighting the fourth quarter that it grew almost 50%, already on top of a strong base from the previous year.

Fleet Rental also had a relevant performance in terms of growth than presented (00:07:34). This quarter, the first results with the full impact of Hertz Brazil contracts. The company sold more than 90,000 cars last year with an increase in the average sales price of 12.9% and a sharp decrease in selling expenses as a percentage of sales, reinforcing its capacity and efficiency. The result of all this growth was reflected in our P&L, as you can see, on slide number 4, from top to bottom line, growth range from 30% to 40%.

To present more details of the fourth quarter results, let me give the floor to Nora Lanari, IR Officer.

### **Nora Lanari** {BIO 18838335 <GO>}

Good afternoon, everyone. Thank you. To give you more detail on the quarter's results, I would like to start with the Car Rental Division. On the fourth quarter, the company once more accelerated the pace of its growth rate year-over-year and revenues climbed up by impressive 44% due to 48% growth in volume. The lowest average daily rate was partially offset by the higher utilization rate and higher volumes that allowed (00:08:54) operational leverage. By the way, in regards to the utilization rate, from this quarter on, we will present another calculation methodology. The new figure shows the utilization rate considering only the period in which the cars are available for rental at our allocation and

facilitates comparison with the industry. The rate we used to present included activation and decommissioning periods as well.

In the Fleet Division, the volume growth rate also accelerated in the last quarter due to higher organic growth in addition to the fact of Hertz contract, which were incorporated by the Fleet Rental Division. In this segment, lower daily rates reflected drop in interest rates and depreciation, which were passed onto rates as well as the mix with Hertz contracts which (00:09:46) prices. We remind that part of the debt related to this division has pre-fixed rates. So the drop in average rental rate should not immediately impact the ROIC to cost of debt spread.

In 2017, we grew our network in 51 locations including franchises that were incorporated and seven locations from Hertz Brazil which remained operational after the acquisition. The Seminovos network also grew by 15 stores. Speaking of Seminovos, we sold over 26,000 cars in the last quarter and we're able to keep a low cost of selling, which contributed to the lower average depreciation per car. We have added more than 52,000 cars to the fleet, representing a net investment of BRL 2.3 billion.

As a result of growth in addition to cost control and operational leverage, the EBIT margin increased by 3.2 percentage points, and here we highlight the margin for the RAC Division. The record profit for the year and for the quarter reflects our discipline for growth with profitability. As of this quarter, we have distributed the change in accounts payable to OEMs between the renovation CapEx and growth CapEx in order to better reflect cash generated by the company before growth. We highlight the growth on cash generated before investments in Fleet, but the strong growth demanded a net investment of BRL 1.9 billion, impacting the year's cash generation.

The 2.9 times debt ratio is consistent with growth acceleration. The company is somewhat conservative when managing its debt, leverage on cash flow, and continuously monitors the market and search for better maturity terms and rates. In 2017, we raised more than BRL 3.2 billion in debentures and promissory notes. So the more we concluded the issuance of a certificate of real estate receivable last month in the amount of BRL 370 million, 15-year maturity and 99% of CDI rate. We have already reinforced the cash position anticipating the funding that should be raised in 2018.

Finally, I would like to highlight the better spread. ROIC was stable and the average cost of debt increased 2.6 percentage points, which fulfills an objective of value generation.

We remain at your disposal now for any questions you may have.

## Q&A

### Operator

Ladies and gentlemen, we will now begin the Q&A session. First question from Bruno Amorim from Goldman Sachs.

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**Q - Bruno Amorim {BIO 17243832 <GO>}**

Good morning, everyone. I have two questions. The first one is about growth in Rent a Car. Could you give us an idea of how much the same-store sales volume is growing? And I understand - well, is there a maximum size for the stores like any limitation in terms of the patio where cars are parked or the size of stores or anything that would prevent you from opening more stores in the future to continue growing at the same rate? And the second question is more technical. You have mentioned an expense of monetary correction of provisions. I would like to understand this is just an adjustment in your provisions or you feel this is going to be repeated next quarter?

**A - Eugênio Pacelli Mattar**

Thank you, Bruno. Good morning. Thank you for your presence. With the growth of Rent a Car is basically same-store sales, there has been some growth in new stores and franchises, but the strong part of our growth comes from the older stores and same-store sales. Of course, we'll continue to seek increasing our production, but not necessarily in new cities, but in same cities. So this growth in production will continue since - as it has been the case since the IPO.

**A - Nora Lanari {BIO 18838335 <GO>}**

Bruno, this is Nora speaking. We are already investing in current stores as well as in new stores to increase the capacity to serve our customers. And you already see significant improvements in customer service in our more agile service. We're able to serve more customers, keeping customer satisfaction levels according to our goals.

**A - Eugênio Pacelli Mattar**

Okay. Completing now. Thank you, Nora. So the goal is to serve customers as fast as possible as they come to the stores. As for the provisions that we have updated or monetarily corrected for inflation is last year, while we have civil one (00:15:16) tax contingencies or the rest was 1 to 9 or 8 to 9 (00:15:22).

**Q - Bruno Amorim {BIO 17243832 <GO>}**

Okay, so this - one-off, I'm sorry. This half that is not a one-off adjustment will continue or is this adjustment is for the whole year.

**A - Eugênio Pacelli Mattar**

No, this adjustment at the fourth quarter is for the whole year.

**Q - Bruno Amorim {BIO 17243832 <GO>}**

And it will always happen at the fourth quarter.

**A - Eugênio Pacelli Mattar**

Well, this amount must be adjusted and we only did this at the last quarter of the year.

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**Q - Bruno Amorim** {BIO 17243832 <GO>}

Okay. Thank you.

## Operator

The next question is from Victor Mizusaki from Bradesco BBI.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Thank you. Congratulations on your results. I have two questions. First, looking at the leverage and credit rating of the company, the company has increased its debt profile. I would like you to maybe give us an idea of what is the maximum leverage that the company could reach and still maintain the AAA, and looking at investments for 2018, my second question, given the size of the fleet in 2017, what can we consider as already stated for growth and volume for 2018?

**A - Nora Lanari** {BIO 18838335 <GO>}

Okay. Answering your first question before, as we mentioned, we have already in cash the amount necessary to support our debt – short-term debt for growth. As for the leverage rate at 2.9, we are very pleased with this level. It's a very interesting level that adds a lot of value for shareholders. And you know that the covenant is 4 times. So we don't have any intent to reach anything near that. But I would like to reinforce that we want to maintain the AAA rating. And we will try to increase the profile of our debt and look for better rates.

**A - Eugênio Pacelli Mattar**

I would like to complement Nora. You asked about the fleet. A very rough figure that would be an interesting amount, but that we have vacation, summer vacation, and we'll adjust that throughout the year. The Hertz integration process has been completed.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Do you – is there anything recurring there?

**A - Eugênio Pacelli Mattar**

No, it has all been completed. We've made all the integration. Now we only have to capture the most benefit from it.

## Operator

The next question comes from Murilo Freiburger from Bank of America.

**Q - Murilo Freiburger** {BIO 17385357 <GO>}

Good morning, Eugênio, Alberto, and Nora. Before anything else, congratulations on your results. I only have two questions. First, looking at the accelerated recent growth, the company has been growing between 26% to 35% in the last quarters in the Rental Car

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Division, but this had a particular growth, particularly strong growth in this last quarter. What has changed when compared to other quarters? This is just more gain of market share or is it just recovery, economic recovery. Has there been an improvement in activities? And my second question is about depreciation. Because it's a bit counterintuitive for us usually when the economy is not doing well and you can - the OEMs don't sell much, you're able to decrease depreciation and the opposite is also true, but what happened was the opposite. So you had a more performance in Seminovos with the - where is this marginal improvement in depreciation coming from?

#### **A - Nora Lanari** {BIO 18838335 <GO>}

Murilo, this is Nora. Let me start with the first one. This is a result that we've been doing from several months, first, in diversification of products and the market, brand positioning. Localiza is more and more present, but also there has been a change in habit in terms of affordability, sensitivity. But of course, the economy had some role in this improvement, but it's very little.

As for your second question, about depreciation and also we'll answer a question that came from the web. Please. The question is could you say if there's strong increase in used car prices was the change of the mix in cars or wholesale channel? To answer both questions, Murilo, this improving price is a result of mix, but also the increase in new car prices, I'd say half and half. But if you look there's also a decrease in the average age of cars sold, there's a consequence of kilometers. We have been very efficient in the turnover of the fleet and also in negotiating at the end. So selling expenses when compared to revenues from Seminovos has been very low, which led us to decrease the depreciation, especially in the fourth quarter.

#### **A - Roberto Antônio Mendes** {BIO 7289124 <GO>}

Murilo, this is Roberto speaking. Just to add to what Nora said, actually it's counterintuitive, but Seminovos, our used cars are one-year old cars and it really accompanies the prices of new cars. So when prices of new cars go up, our Rent a Car cars as the majority goes up with that, and complementing on the answer to the engineering (00:22:06) question, an increase in sales of the wholesale market would even decrease the average price and not increase it. So, that's the result.

#### **Q - Murilo Freiburger** {BIO 17385357 <GO>}

Okay. Thank you, Roberto and Nora.

#### **Operator**

Next question comes from Vitor Sanchez from Morgan Stanley.

#### **Q - Vitor Sanchez** {BIO 20765535 <GO>}

Good afternoon. Thank you again for the opportunity, and congratulations on your results. I have two questions. First, if you could comment a bit more, what was the change in the old methodology that you used and a vision for growth for 2018. Since you talked about

this 15%, we expected this transfer. If you could update that a bit, if you could grow – talk about growth in addition to that 15%. Anything that you could finance with your own cash?

### **A - Roberto Antônio Mendes** {BIO 7289124 <GO>}

Yes. This (00:23:24) account must be mixed now at the end of the fourth quarter, but I would like to say that the fourth quarter is the end of the year, so the fleet increases a bit, and then – but this account of transfer is a bit better, and of course Localiza is well positioned to capture the opportunities of growth for this year. And we have very solid drivers such as individuals that are more – have more affordability to changing their consumption pattern and economic activity. Everything plays is favorable to the growth. And so, Localiza has gone through a relevant growth and we expect to grow even more, but we don't give any guidance as to figures.

But in terms of utilization rate, what has changed is that we remove the activation and decommissioning dates – rate figures from the fleet. So, that is more comparable both to domestic and international figures. When you look at results 2015, you see a variation of 3 percentage points and that can be considered as a preparation time; of course, in-house this measure continues effective, because this capital has been invested already. So, this has a direct impact on our rates (00:25:06). Just for comparison purposes, however, we chose to change the methodology.

### **Q - Vitor Sanchez** {BIO 20765535 <GO>}

Okay. Thank you, Nora.

### **Operator**

We have two more questions via webcast. The first, two from Florian (00:25:32). Thank you, Florian (00:25:33).

First, do you have any idea of Localiza's market share in Rent a Car, and what scale the small players are suffering?

### **A - Eugênio Pacelli Mattar**

Unfortunately, the market share published once a year and we can only show you some gain in market share in April when the Brazilian Association of Car Rental Companies publishes their yearbook of statistics. But no matter whether it has been smaller or larger, the players that are entered this business now will suffer because they have to reinforce cash. They have market intelligence pricing because we have all this and we are even stronger.

### **Q - Operator**

The second question of Florian (00:26:33) is about the breakdown of customers in Rent a Car.

### **A - Eugênio Pacelli Mattar**



Florian (00:26:42), unfortunately, we don't give the breakdown by segment, this is strategic for us. But once again I would like to highlight that the growth has happened in all lines of business. So, all lines of business from Rent a Car have grown throughout the year and in the fourth quarter.

## A - Operator

One more question from the web. It's about the debt. It seems that now it's been closer to the highest historical levels of the company, what is the main tradeoff between capital and growth? Would you need to issue shares by equity in order to be able to sustain such growth level?

## A - Eugênio Pacelli Mattar

Well, thank you for the question. The message we wanted to say is that, Localiza constantly monitors the debt and equity markets to assess our options and we are very proactive in this area. This is why in 2017 we raised BRL 3.3 billion between debentures and promissory notes in the beginning of this year. In February, we have added BRL 370 million in the certificate of real estate receivables, increasing the maturity of our debt, 15 years and anticipating the need to access this debt market in 2018 to avoid any risk of volatility. So, we already have enough cash in-house to support our needs in terms of short-term debt and growth. Of course, the company has an appetite for growth, and we will look at opportunities if needed.

## A - Roberto Antônio Mendes {BIO 7289124 <GO>}

I would like to add that there is a gap between investments and the generation EBITDA of those investments. So, closer to the end of the year, all this development and this disbursement to cause the fleet to grow by 52 cars - 52,000 cars has been done, so the EBITDA will be generated in the next months. So, the EBITDA to debt is done based on the past investment. So, this ratio would improve throughout the year, if we only maintain the fleet as it is now. So, cash generation from Localiza and the EBITDA of these cars that have been sold tends to cause the EBITDA to stay at a level that won't justify any new movement in the short run.

## A - Operator

Another question from Axo Returns (00:29:40).

Thank you for the question. Please comment on your pricing strategy from now on and in the Uber and monthly rental segments?

## A - Eugênio Pacelli Mattar

Okay. The pricing strategy, it has been implemented since the beginning of 2016. We continue to calibrate and learn from that. We have to use pricing tools to make the best of the affordability of society and we don't give any guidance to the segment. But as a general review, I'd say that part of this segment is within - this growth is within the monthly rental, but it doesn't explain all the growth of the company. Other segments have grown significantly, including all sectors that are more greater accessibility.

## A - Operator

A question from Pedro (00:30:51).

The drop in EBITDA, increase in debt since 2012...

## A - Eugênio Pacelli Mattar

No, Pedro (00:30:58), I would like to correct. The EBITDA is not going down. The EBITDA is not going down since 2012. The increase in debt especially in the last year, as Roberto Mendes mentioned in the previous answer, is to support the more accelerated growth rate. So, we make a debt today to buy cars that will generate EBITDA throughout the next 12 months in-house operating cycle. So, we believe that this EBITDA - net debt to EBITDA ratio will improve throughout the year.

## Operator

A question from Lucas Barbosa from UBS.

## Q - Lucas Barbosa {BIO 20412168 <GO>}

Good afternoon. Thank you for the opportunity. Congratulation on your results. I would like to hear from you about the Seminovos segment. What do you expect from margins in 2018? Do you think we'll maintain the same margin that you delivered in the fourth quarter? And the level of sales of cost per store, it's very strong. Did the company do anything specific to have that, and you do intend to maintain the same level?

## A - Eugênio Pacelli Mattar

Thank you, Lucas. As we have been saying, the EBITDA margin in Seminovos is above the levels "normalized." We've been calibrating depreciation this semester; I think this quarter is a bit downwards, too. So, I think it will converge to a lower level. But I would like to remind you that this convergence will not happen very quickly.

I imagine that you won't see any strong movement in 2018 as to margins. But depreciation has been already adjusted. And margins are more normalized. As for cost of store, we have been revisiting all key indicators of the company, looking for constant improvements. We have talked a lot about operation leverage (00:33:21) in Rent a Car. But the same applies to fleet operations and Seminovos because they have a strong cost structure due to the shop stores.

So, we need to sell more cars in 2018. Due to the accelerated growth of 2017, we have opened 15 new stores in 2017. Throughout 2018, we'll open new stores as well thinking about sales of 2019. So, the number of cars per store will remain at a healthy level, but we have to consider distribution and capillarity to maintain the rate of renewal of our fleet.

## Q - Lucas Barbosa {BIO 20412168 <GO>}

Thank you.

## Operator

Excuse me. I will now turn the floor to Mr. Eugênio Mattar for his final comments.

### A - Eugênio Pacelli Mattar

To close today's call, I would like to announce that in April 2018 we'll complete the succession process of our super CFO, Roberto Mendes. Roberto has been with us for more than three decades and now he finally concludes his succession process and passes the chair on to Mr. Mauricio Teixeira who takes over the Finance and IR Officer position at Localiza. Roberto had a - was a very successful profession at the market, has been chosen as the best IR program in the market. His performance has been spectacular in the market and he will remain as a senior advisor with us for at least three more years to support Mauricio and the company in maintaining its excellence in corporate governance standards.

To Roberto, our most sincere thanks for having chosen Localiza to develop your professional career and for improving our financial management, IR, and corporate governance. To us, Roberto is an officer, founder, and leaves behind a huge legacy to our financial intelligence. On behalf of the whole Localiza team that admires you so much, our deepest gratitude. To Mauricio who will be leading the next earnings release, we wish you success. We trust that you will conduct your work with the greatest excellency as had of Localiza's Finance and IR Officer position, continuing the legacy of Roberto.

Roberto, would you like to make any comments?

### A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Thank you, Eugênio. It was a great pleasure to work at Localiza. It's always a pleasure to be able to continue to contribute to the success of the company. Please continue to count on me, you, Mauricio and the entire team. I'm so proud of all of you.

### A - Eugênio Pacelli Mattar

I would like to close this conference call, thanking you all for your presence. And now our IR team is available to answer any further questions you may have. Thank you.

## Operator

This concludes Localiza Rent A Car audio conference for today. Thank you very much for attending and have a good day.

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