

## Q2 2013 Earnings Call

### Company Participants

- Nora Lanari, IR
- Roberto Mendes, CFO

### Other Participants

- Roger Oey, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning. Welcome to the Second Quarter 2013 Conference Call of Localiza Rent A Car. Hosting the event today are Mr. Roberto Mendes, Chief Financial Officer. And Nora Lanari; Investor Relations.

We would like to inform that the numbers in this presentation are stated in millions of Brazilian reals 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. Immediately afterwards, we will start the Q&A session for analysts and investors when further instructions 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](http://www.localiza.com/ir). The slide presentation can be downloaded at the same address by clicking on the banner 2Q13 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 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.

Now, I would like to turn the conference over Mr. Roberto who will begin the presentation. Please, Mr. Roberto, you may begin.

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

Good afternoon, everyone. And thanks for attending our conference call. On slide number two we present some highlights of the Second Quarter in 2013.

This quarter, the economic activity continues to grow at (inaudible) levels reflecting on lower growth (inaudible) volumes. The current market expectation were adjusted to 2.31% in Brazilian GDP growth.

Despite this, the company presented for the second time this year a record net income of BRL103.4 million. Strong cash generation is stable ROIC at 16.1% and 10.7 percentage points spread.

Even in this lower growth pace scenario and high inflation levels, we expected a cost of personnel and real estate (inaudible) the company was able to deliver consistent results.

In other words, the company is prepared to take advantage of opportunities as soon as the market starts presenting strong economic activity, which are most liked to be based on investment including (inaudible).

And to present the Second Quarter results, I will turn the floor to Nora Lanari, the head of our IR department.

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

Good afternoon, everyone and thank you for attending our conference. On slide number three, we present the growth evolution of the car rental division. In the Second Quarter of 2013, rental basic grew 4.8% reflecting the moderate performance of the economic activity but already demonstrates improvements when compared with the 2.9% growth presented in the First Quarter this year.

Net revenue presented a growth of 6.1% mainly due to the growth in rental volumes and increase of 1.3% in average rental rates.

On the next slide, slide number four, we present the evolution of car rental locations. In the first half of 2013, 10 owned rental locations are were added to the Brazilian network; seven of which were former franchisees. Localiza's systems currently holds 533 locations in nine countries where it operates.

On the next slide, slide number five, we present the volumes and revenues of the fleet outsourcing division. In the Second Quarter of 2013, net revenues increased by 11.6% leveraged by the growth of 3.6% in business volumes and 5.5% in average rental rates.

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On the next slide, number six, we present the fleet that investment evolution. This quarter, 7569 cars were added to the company's fleet compared with the reduction of 1306 cars in the Second Quarter last year. 21,238 cars were purchased and 13,669 cars were sold. This represented a net investment of EUR222.1 million.

On the next slide, number seven. And we present the end of period fleet evolution. After a more normalized level of cars delivered by the OEMs, company and take the quarter with a 103,460 cars, a 15.2% growth when compared with the same quarter of 2012.

Cars purchased allowed at restoring the level of cars being commissioned. The vehicles that were sent to Seminovos stores were mainly the ones that had been operating for a longer period and this also resulted in a reduction of the average age of the cars are sold. Including the franchisees fleet, Brazil. And abroad, fleet totaled 117,902 cars.

Slide number eight presents consolidated net revenues evolution. In the Second Quarter of 2013, consolidated net revenues grew 3% due to the increase of 8% in the rental revenues from both car rental and fleet outsourcing divisions.

Seminovos revenues on the other hand were reduced by BRL8.6 million in due to 5.8% decrease in the number of cars sold. And effect of a low were decommissioned cars of volume for fleet renewal.

It is important to remember that the IPI tax reduction for new cars in May of last year stimulated demands for both new and Seminovos cars in the Second Quarter of 2012.

On slide number nine, we present the EBITDA evolution. In the Second Quarter of 2013, EBITDA totaled at BRL225.1 million, 4.4% higher than the same period of last year. In the Second Quarter of 2013, car rental divisions 35.9% EBITDA margin was impacted by the volumes of cars purchased in the Second Quarter 2013 reflecting higher immobilization costs such as a license fees, accessories. And freight and also by the increase in personnel and real estate lease expenses.

This quarter, BRL8 million were spent with accessories and freights for new cars which refers to the 18,616 cars, 77.6% higher than the purchase of last year Second Quarter.

Excluding the car purchasing effect, the EBITDA margin in the car rental division would have been 38.7%.

The company remains with a strategy of maintaining car rental rates stable aiming at market consolidation as long as it does not compromise the target expressed between the return over invested capital and of the cost of that after taxes.

The lower EBITDA margin in the Second Quarter 2013 was offset by the lower depreciation and net financial expenses. Since the basic interest rate started to increase and will continue to do so, the management has been working on gains of productivity to postpone as much as possible increasing rental rates without affecting the bottom line.

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In the fleet outsourcing division, EBITDA margin remained stable at approximately 66%. Seminovos network continues to operate since 2012 that with margins above the 2% a level presented from 2009 until 2011. Part of such margin increase is due to the conservative position of the company in calculating the appreciation, adjustment after the IPI tax reduction for new cars. And in due to the current car purchase and sale scenario.

Let us and now move to slide number 10 where we presented the average of depreciation per car and car rental and fleet outsourcing division. After the government announced the IPI tax exemption on May 2012, the company adjusted its fleet depreciation to reflect the lower market value of its cars.

In the Second Quarter 2013, average annualized appreciation per car in the car rental division that was BRL1233 and in the fleet outsourcing division, it was BRL4884.

The company's conservative position in the depreciation calculation after IPI tax reduction added to less cars available for sales in the Seminovos lots allowed the company to adjust car prices to demand an availability resulting in higher margins in Seminovos and lower depreciation.

On slide number 11, we present a net income evolution. In the Second Quarter of 2013, the company presented a record and net income of BRL103.4 million, 34.6% increase compared it to the same period of last year even after recording the 101.1 million additional depreciation expenses accounted in the Second Quarter 2012 due to the IPI tax reductions for new cars in May 2012.

Net income increase occurred due to the BRL9.4 million net EBITDA increase added to the BRL13 million decrease in net financial expenses partially offset by the BRL0.8 million increase in other permanent asset depreciation and BRL42.8 million in income tax and social contribution lines.

Slide number 12 presents free cash flow generation in the first half of the year. This semester Localiza presented a free cash flow before growth of the BRL261.1 million, the purchase of 6984 new cars for fleet increase was partially financed by cash generation and by the car suppliers' account which presented a positive variation of BRL94.9 million.

On slide number 13, we presented the changes in the first half of 2013 debt. We started the year with a net debt of BRL1.231, BRL159.7 million of a free cash flow were generated and the company paid a BRL44.1 million in net financial expenses, BRL35.5 million in interest on capital and dividends. And also purchased a BRL36.8 million of companies owned stock for treasure.

We ended the quarter with a total net debt of BRL1.188 million, a reduction of BRL43.3 million in this semester.

On slide number 14, we presented the debt amortization profile. Company has BRL854 million in cash and a comfortable debt profile.

On the next slide, slide number 15, we present debt ratios which reflected the financial discipline of the company. A moderate growth scenario in the first half of 2013 allowed a reduction of the main debt ratios which contributed to the low average and two quarters of the record incomes. The company is prepared for a growth opportunity as soon as the economic activity accelerates.

On slide number 16, we present the spread between the ROIC and the cost of debt after tax. ROIC remained stable in comparison with the 2012. Lower-cost of tax due to a lower interest rate in the beginning of the year allowed a spread improvement of 0.9 percentage points reaching 10.7 percentage points.

Let us now move to the Q&A session.

## Questions And Answers

### Operator

Excuse me. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Mr. Kevin Keznika [ph] with Citi.

### Q - Unidentified Participant

Hello. I'm on the line for Steve Trent at Citi. We were wondering what sort of competition you guys are seeing on the car rental segment side.

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

Kevin, thank you for your question. On the car rental, it's pretty much more of the same. We have a still very fragmented market so the biggest competition is still coming from the smaller players independent a local operators.

### Q - Unidentified Participant

Okay, thank you. That was very helpful.

### Operator

Excuse me. If you would like to pose a question, please press star one. Our next question comes from Mr. (inaudible) with McLain and Partners [ph].

### Q - Unidentified Participant

Hello. My question is the average age of cars used in car rental division increased by seven months year-over-year and the price increase seen in Seminovos and division was 3.4% so I was just wondering how this is happening in given that your cars are getting older and you are getting higher-priced for those cars.

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

Thank you for your question. We need to take a look into the separate average age of cars sold from each car rental and fleet rental division. When we look to the fleet in the car rental division, it aged in this quarter from 16.1 months to 15.8 months.

And so the average age reduced 0.3 months. If you compare to the first half of 2013, we see average age of the cars pretty much stable. The problem with comparing consolidated car-rental and fleet rental is that might give you a difference in regards to the mix of cars bought and sold. So we advise you to look separately into car-rental and fleet rental divisions.

### **Q - Unidentified Participant**

Okay, thanks.

### **Operator**

Again, if you would like to pose a question, please press star one.

Excuse me. Our next question comes from Mr. Roger Oey with Banco Espirito Santo.

### **Q - Roger Oey** {BIO 3694984 <GO>}

Hello. Congratulations on the results. I wonder if you could talk about the car rental margin for the year. In the First Quarter as I understood, you expected this to come up to around what historic levels would be. So I was just trying to understand if this changed or not so if you do expect this to improve, how about cost-cutting programs also discussed in the First Quarter, how it is developing. Thank you.

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

Thank you, Roger, for your questions. Let me start from the last one.

The cost-cutting program is still going on. We are focusing increasing profitability to do more with less. This is pretty much what we have in mind but with regards to the EBITDA margin of the car rental, we have an impact of freight and accessories similar to what you saw in the First Quarter of this year.

If you compare Second Quarter with a Second Quarter 2012, we bought 77% more cars. This impacts freights and accessories and licensing costs of those cars. If we take this out of the EBITDA margin, you would see a pro forma EBITDA margin of 38.7%. Is so we are assuming that the EBITDA margin is going to be around this level for the full-year for the next semester.

### **Q - Roger Oey** {BIO 3694984 <GO>}

Okay, thank you.

### **Operator**

Excuse me. If you would like to pose a question, please press star one.

Excuse me. Our next question comes from Mr. (inaudible) with McLain and Partners.

### **Q - Unidentified Participant**

Thanks for taking my question. One more question and this is about your car rental locations. As so what I see in this franchise these branches, you have a decline in the number of branches which is 202 to 194. So I was just wondering what were the reasons for this decline in the number of branches in this particular segment.

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

Thank you, again for the question. As a matter of fact, it's part of our strategy franchising the smallest market, the market that the company does not intend to operate directly. But we have or we give them an active that strategy. When the market becomes interesting for the company we can buy some of our franchisees back.

So we reduce seven franchise locations because they were incorporated it to the company. So from the 10 new owned locations we opened, seven were former franchisees and that we acquired. But we are also franchising new cities.

### **Q - Unidentified Participant**

Okay, that helps. Thanks.

### **Operator**

Again, if you would like to pose a question, please press star one. Excuse me, our next question comes from Mr. Mark Smith [ph] with Charter (inaudible).

### **Q - Unidentified Participant**

Hello. Could you talk about how you think you're performing in terms of market share? Obviously the environment is tough. How do you think you are performing relative to the overall market? And indeed, when growth, when the environment does improved, do you feel that you are better placed, well-placed to take share?

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

Mark, thank you for the question. Again, let's segregate car-rental from fleet rental division. In the fleet rental division, we are seeing a strong movement from our competition in terms of pricing aggressively. We were able to maintain our market share levels but remember that in the fleet rental division, we take a more conservative approach. We grow with profitability and this is the goal of the company.

In the car-rental on the other hand, where scale matters, still is an important barrier to entry. We are increasing our market share.

Unfortunately, our Brazilian car-rental association only provides the numbers a once a year so I cannot give you any insight on that after the first half. But we are not seeing in the car-rental division any aggressive movements.

So we've been able to increase market share in the car-rental with the strategy of maintaining rates pretty much flat and try to squeeze a little bit of competition by not raising rates in an inflationary scenario with higher interest rates as well.

### **Q - Unidentified Participant**

And do you think that the tough operating environment will accelerate the process of consolidation in the car-rental business?

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

It is possible because again, Localiza is the strongest car-rental company in Brazil. We have an investment rate so lower cost of that. We buy more cars than our competitors. And we have a more solid financial position.

So it is -- there is a chance of that accelerating because of the tougher environment scenario and that's one of the reasons and that makes us not want to increase our rates. We want to maintain that. We have solidity to be able to provide you a fair and decent spread between ROIC and the cost of debt without raising the rates.

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

This is important, I would like to add here our goal is not to increase market share but to have sustainable growth. It to me is that we want to have this nine percentage point spread over the cost of that (inaudible) cost of debt after income tax and the (inaudible) is this.

But, at the same time, we had planned to increase our leadership because we know the bigger you are the more competitive you become (inaudible) because scale is the name of the game in (inaudible). Scale is very important because of the fixed cost (inaudible) is very strong. It is more focused in the car-rental and (inaudible) in the fleet rental.

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

So by the end of the day, Mark, our goal is in the car rental, grow with profitability, market shares going to be a consequence of it.

### **Q - Unidentified Participant**

Okay, thank you.

### **Operator**

(Operator Instructions). Excuse me, this concludes today's question and answer session. I would like to invite Ms. Nora Lanari to proceed with her closing statements. Please go

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ahead, ma'am.

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

We would like to thank you all for participating in our conference and to inform that our IRP is available for any further queries. Thank you, all.

## Operator

This concludes Localiza's of rental car audio conference for today. Thank you, very much for your participation. Have a good day. Thank you for using chorus call.

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