Y 2015 Earnings Call

Company Participants

- Jose Carlos Wollenweber Filho, Chief Financial Officer
- Luis Fernando Memoria Porto, Chief Executive Officer

Other Participants

- Felipe, Analyst
- Felipe Pinedo, Analyst
- Mario Bernardes Junior, Analyst
- Rodrigo Glatt, Analyst

Presentation

Operator

Good morning. You are all welcome to the teleconference of Locamerica where we will present the results of Q4 2015.

Right now all the participants are connected only in the listen mode and later we will have the Q&A session when we will give you more instructions.

In this quarter, Locamerica will allow press professionals also to participate and ask questions after market analysts. (Operator Instructions) This teleconference has simultaneous translation into English and questions maybe asked normally by participants connected from abroad. Also we may have questions through the Internet through the webcast platform.

We would like to remind you that this teleconference is being recorded. The audio will be available in the company's website in 24 hours. If you don't have a copy of the release, you may obtain it in the company's site www.locamerica.com.br/ri. This teleconference together with the slide presentation is being transmitted simultaneously through the Internet and it can be accessed through the company's website.

Before continuing, I would like to clarify that any declarations that may be made during this teleconference concerning the business perspectives, and projections, goals, concerning growth potential of the company are based on the forecasts and based on the expectations of management. These expectations depend on the performance of the sector, the country's economic performance, conditions in the domestic and international markets and are subject to change.

So, we have Mr. Luis Fernando Porto, CEO; and Mr. Carlos Wollenweber, CFO and IR Director. Now I'd like to pass the floor to Mr. Luis Fernando Porto. Mr. Luis, you have the floor.

Luis Fernando Memoria Porto {BIO 17590082 <GO>}

It is with great satisfaction that we will present the operational and financial results of Locamerica for Q4 2015. Before going through this presentation, I'd like to talk about some trends in our markets that we observed during the quarter.

On slide 3, we see a restricted credit scenario for vehicle financing with an increase of 0.2% in the default of the segment which was 3.9 in Q4 to 4.1 in Q4 2015. In the graph on the right we see the resources released for vehicle financing dropping 16.6% in the year and 28.7% in the fourth quarter of 2015, both in comparison with the same period in the previous years. This lower availability of credit, as we can see on slide 4, had a direct impact on the sale of new vehicles.

On the upper left graph, we see that the sale of light new cars dropped 25.6% in 2015 when compared to 2014. Still on this graph, we see that the sales of used vehicles maintained or continued strong and had a drop of 0.6% in 2015. We believe that part of this difference in behavioral between new cars and used cars maybe explained apart from the lower availability of credit, as mentioned before, and also the rise in the price of new cars. According to IBGE this year, year-to-date, we had an increase of 4.8% as a result of excise tax being reinstated and also inflation and exchange rate. The increase in the spread between new and used cars has motivated the migration of demand towards used cars.

We can see on the lower left graph, with that in the last month, the relationship between new and used cars arrived at 4.4 times more sale of used cars, historical -- highest historical average. In the graph we see that in 2015 Locamerica had an even better performance, but our market share is only 0.13% or in a scenario of softening of the sale of used cars we were capable of compensating our current sales volume by increasing our participation in the market.

On slide five, we show the breakdown with an aging of used vehicles in Brazil, although the stability in the number of used cars sold in 2015 can be seen. We had a significant increase of 33.6% in the sales of used cars, representing 30% of total sales in comparison with 23% in 2014.

Now with the operational and financial highlights on slide seven. We see on the left, the global value of our contracts signed end of Q4 2015 totaling 92 million and 2,364 cars. The commercial pipeline for the next three months maintain strong with approximately 25,200 cars in tender, a growth of 8.4% versus Q3, 2015. We'd like to remind you that in spite of this pipeline, due to the uncertainty of the economy as a whole we have noticed that the process is taking longer at companies, which therefore takes longer for companies to sign the contracts.

On slide eight, we see the breakdown of our fleet, which ended the year with 31,184 cars, a growth of 2.5% versus last year. The operational fleet had a growth of 0.6% in the period, totaling 23,319 vehicles at the end of December. Apart from the increase in the operational fleet, we had efficiency gains due to a better utilization rate. It's also important to stress that at the end of 2015, the fleet was already 6.3% larger than the one observed in the previous quarter.

And also is worthy of mentioning its composition was healthier because we already had more operational vehicles and under implementation with a lower volume of vehicles in inventory. The record number of cars in implementation shows a growth of the operational fleet in the next period. As long -- as soon as the customization of the ecosystem and they are made available to the clients.

On the graph to the right, we see at the end of Q4 2015, the normalization of the decommissioned fleet, both in absolute terms with a reduction of 1,511 vehicles in inventory and the total participation in the fleet which at the end of December will reach 9%, a reduction of 5.2 percentage points in comparison with the peak seen in the first quarter of 2015.

As you will see the next slide, in the fourth quarter, we were able to decrease our inventory without putting pressure on the sale price with a record of BRL26,900 per vehicle in Q4. The company sold 2,918 cars in the fourth quarter of 2015 contributing for a growth of 10% in sales in the year of 2015 in comparison with 2014. And the volume of demobilized cars in the Q4 had a drop of 46% in relation to Q4 2014, going back to the level of the first nine months of the previous years.

Now I'd like to pass the floor to Carlos, our CFO and he will give you the financial highlights.

Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Good morning. It's a great satisfaction to talk about the financial highlights. In Q4, on slide 11, we presented our net rental revenue which totaled 100 million in Q4, 392 million in 2015, a growth of approximately 5% due to an increase in the rate of 7%, offsetting a small drop of 2% in the volume of daily rentals. The increase is a result of the addressment of contracts and also the increase in the price of new cars and higher interest rates too.

On the next slide, we see the volume of cars sold by Locamerica totaling 12,729 units in 2015, a growth of 10% in relation to the same period of last year. The average sales price during the year rose 12% to BRL24,800 per car, as a result of the change in the profile of the fleet with higher value added vehicles and also greater participation of sales in the retail, which represented 43% of total sales in Q4 versus 28% in the previous year. As a result, we delivered in Q4 a net revenue of used cars of 78 million and 316 million in the year, representing a growth of 2% and 24% respectively.

It's important to stress on slide 13 that the improvement in the segment of used cars we delivered in 2015, a gross profit of used cars of 7 million versus a marginal loss of 800,000 in 2014. In Q4 our gross profit was 3.3 million, representing a margin of 4.2%, this sustainable improvement is the result of the greater participatory -- participation of sales and a lower volume of vehicles in severe use in the fleet and a more conservative depreciation strategy which represent a 11% in Q4.

On slide 14, we show a comparison of the margins between 2015 versus 2014. Our maintenance costs dropped 2.8 percentage points due to the constant improvement of cost management and a lower average age of the fleet.

Our SG&A expenses increased 2 percentage points due to more accruals for bad debts. It's important to stress that we upgraded our credit analysis and also we have a more strict process for collection. And we have the largest total gross profit totaling 7 million, we delivered an EBITDA of practically 57%, 3 percentage points above the one reported in 2014 with a more conservative strategy. In depreciation, our EBIT margin in 2015 was 31.7%, representing a gain of 0.5 percentage points in relative to 2014.

On slide 15, we show the average age of the fleet, which is 15.7 months, 1.2 months below the average age of Q4 2014. Also in the Q4 2015, we reached a usage rate of 96.7%, highest since the first semester in 2011 [ph].

On the next slide, financial results. Financial expenses went up 19% in 2015, and this is due to higher interest rates and also a more conservative liquidity strategy reflecting also the cost of cash. In 2015, we delivered a net profit of 18.6 million and we'd like to remind you that we have hedge accounting. We adopted hedge accounting and if this value -- were this -- used the same strategy as the previous year, our reported net profit would have been 23.4 million in line with last year. In Q4, our net profit totaled 2.4 million and suffered a strong impact due to accruals for bad debts which totaled 4.9 million in the quarter.

On slide 17, we show the free cash generation for the shareholder approximately 60 million in Q4 '15, which resulted in the reduction of our leverage to 2.85 times debt/EBITDA. We began 2016 with 290 million in cash due to the uncertainty in the macroeconomic scenario. In order to strengthen the liquidity of the company, we obtained 50 million in January from the Federal savings banks with 36 months to be paid and this strengthened our cash position by 342 million, 1.5 times the debts we have in the company. We have an average cost for the debt, which is very competitive CDI index was 1.5% a year and a fleet guarantee -- fleet guarantee of 13%. Now we will begin the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we'd like to begin the Q&A session. (Operator Instructions) Our first question comes from Mario Bernardes Junior, Banco do Brasil.

Q - Mario Bernardes Junior {BIO 17363553 <GO>}

Good morning, Luis Fernando, Carlos. I have one question. Thanks for the opportunity. How was the competitiveness in the market, the competitive environments in terms of price in the used car market and rental market, as a result of all this turbulence in the markets and this challenging scenario that we have. Thank you.

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Well, thanks for the question, Mario. This is Carlo speaking. What we have noticed is a less competition between the main players of the sector. At the end of the day, so stricter funding does the following, those companies that are more leveraged, they are decreasing their growth rates, we saw this happen with some players who focused more on growth especially in 2013 and 2014, and decreased a little -- decreased their purchases and new contract also at the end of last year, beginning of this year.

So, on one side, we noticed a more cautious competition. On the other hand, looking at the client side, when we send a proposal to renew a contract or even offering outsourcing to the client, our cost, our rates went up in relation to the previous years, especially as a result of the increase in new car prices and also the cost of capital, which is higher for companies in general and also for the companies in our segment, which does the following, in renewal contracts, the clients that see a higher rates, they delay the decision to renew the contracts. Some tried to extend the current contracts, some try to find other alternatives to avoid paying 15 or even more than that 15% in order to avoid a 15% rise in the current contract.

So, on one hand, there is lower competition because the group of companies -- company in the market are being more cautious. On the other hand, you have clients, that are fighting to keep prices at the same level that they had two years ago or a year ago. And this makes the bid process longer, being lengthen, this is what we see today. So one of our pipeline continuous the same size that we have had in the last quarters, but clients are taking longer in their decision making process to renew or to sign contracts.

So in general, we have been able looking at 2015 in relation to the previous year, we have been able to maintain the same level of contract in the company and this is our focus. Our focus is not to grow a lot right now, but we want to take advantage of our cash generation and instead of giving priority to growth, we are giving priority to leverage and being more strict in cost control to improve our operational margins.

Q - Mario Bernardes Junior {BIO 17363553 <GO>}

Interesting. Thank you.

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Thank you.

Operator

The next question comes from the webcast Mr. Rodrigo Glatt, GP Investments.

Q - Rodrigo Glatt

Good morning. I'd like to know, if with a more challenging scenario, should the company continue to deleverage and what is the ideal level and your opinion?

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Glatt, thank you for your question. Carlos again. During the year of 2015, we went in this direction. We went from a leverage of 3.4 times, the debt/EBITDA at the end of the year, we ended with 2.85 and this is an indicator that we follow in terms of leverage, we are cash generating company, free cash generating company and we deleveraged for two reasons; one, in fact, the net cash generation coming from the reduction of our inventory level and also by improving the operational margin, the EBITDA margin of the company.

Our objective during the year of 2016, the current year, is to repeat what we were able to do during 2015. So we don't reveal our guidance in terms of -- at the end of the year, but we understand that the ideal level of leverage for companies in our market would be 2.5% the debt/EBITDA.

We're very close to this indexer level and in fact in times of more turbulence, we will continue giving priority to liquidity. You can see that we have a cash position that is very robust and this really -- this allows us not to go to the market to renew the loans. We have a position of 1.5 times the short-term debt of the company.

We want to maintain this company the same size, but the additional cash generation will help to decrease the company's debts and reduce the leverage levels, thus going to this ideal point of 2.5 times, debt/EBITDA.

Operator

(Operator Instructions) Thank you. The next question through webcast comes from Felipe (inaudible).

Q - Felipe {BIO 15255281 <GO>}

What are the main austerity measures that you have taken or cost cutting measures?

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Felipe, Carlos, thank you for your question. We have been very strict with the DNA of the company. So if you look at, for example, as of the middle of 2013, we have optimized our cost in a very strong way reducing the operational personnel and back office personnel, decreasing headcounts that we use to manage cars and operational fleet. We have been able to do this with success, with a great success.

Our DNA is stable, since DNA values are stable, since 2013 and we're using this decrease to have an increase in revenue. The way we do this without losing quality, lowering the quality of the clients. Unfortunately since 2013, our satisfaction index, through a survey that we have made has always gone up, Satisfaction Index, we have invested in technology and reducing the footprint of the company which has a national presence.

So reducing the number of offices, optimizing our back office, optimizing our contact center, service and facilitating communication between the client and now through our website, investing in technology tools and thus we have been able to optimize headcount within the company. I believe we have been doing this in a very robust and strict way in the last two years, 2.5 years and we will continue doing this during 2016.

Operator

The next question comes from the webcast Mr. Felipe Pinedo, Citibank.

Q - Felipe Pinedo

Good morning, Luis Fernando and Carlos. I'd like to know more about the cost of credit in 2015 and your expectations for the current year? How much is being accrued? We know that the company has been working hard to have a better credit analysis, but there is a concern.

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Well. Okay, Felipe, answering your question. I believe that you must be talking about accruals for bad debts -- provisions for bad debts accruals. The company, in fact, this is the same scenario for all companies that have a portfolio of clients. We have had -- we have all had an increase in delinquency or default. Since 2015, we reinforced a lot the credit analysis area of the company. We understand that Locamerica is funding -- a provider of funding for companies and when we have restrictions, smaller companies that did not outsource their fleet or beginning to look for the service that we provide.

But on the other hand, as a provider of funding in the form of cars, we have to be more strict in terms of the clients -- type of clients that we want. We are focusing a lot on robust companies, most of our portfolio includes important names that have an excellent capital structure, but in fact the contracts that we already had in our portfolio in previous years, before 2015 some clients began to have financial difficulties. And we had to cancel these contract and take the vehicles back.

So we had an accrual for bad debts during the year of 1.8% of our net revenue. We imagine that this will drop during the next quarters and the portfolio that we obtained during 2015. It's a much better portfolio in terms of credit analysis focusing on large companies that where we don't doubt their robustness and will be strong in the next few years in this environment of turbulence credit as we see. So in this sense, we have expectations of a drop during 2016, in comparison with 2015, but the greatest impact will be felt in 2017, when we will have a significant reduction of accruals or provisions, when all our portfolio will have been analyzed using this new criteria being more strict with credit. And then in 2017, we should have an improvement in delinquency levels, default levels.

Operator

The next question from webcast comes from Mr. Rodrigo Glatt, GPI.

Q - Rodrigo Glatt

Does it makes sense to buy back its shares after paying the debt until the middle of 2016. We -- should we see an increase of used cars in retail about 50%. What is the level that you wish to reach?

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Well. Rodrigo, this is Carlos. Concerning buying back shares, it's not the focus of the company right now to buy back shares. We have limited, our liquidity is very low, so our focus, in fact, is to improve profitability, deliver higher return to our current shareholders and future shareholders. So the price of share can really be adjusted by the return, which is our main focus. So two main objectives in 2016.

The reduction of our debt level and improvement of our return by increasing net profit. This is what we want. We believe that delivering this the price of the shares will follow the company, doesn't have to buy back shares. Today, we have a percentage of dividend payments that is reasonable in relation to the profit and we believe that this by itself distributes in an adequate way the results to our investors.

Concerning the sale of used cars, Seminovos, we made a great study in the company, especially beginning in 2014, end of 2013 to improve our fleets, so we reduced in a significant way. The cars that had severe usage in our fleet and this allows us two, three years later, when these contracts signed in the past and now the cars come back and we sell them as used cars, they have less mileage and a better quality and thus we can sell them in the retail segment.

In retail, not the number of cars, but the value in the fourth quarter, we had a result of 43%. Our focus is the following; half of the vehicles should be sold through retail, it's always important to have wholesale to have an adequate level of inventory, especially when we have more -- when we have a large client returning cars. So we don't want to stop wholesale, it's an important type of sale we have in the company, but 50/50 is what we want, 50%, wholesale, 50% retail.

And in terms of value, retail is more representative than wholesale, and we can do this 100% in 2016. But we believe that in 2017, we should get very close of 100% of our objective. And this will affect profit and the margins of used cars they choose and you saw the improvement -- significant improvement that we had after the second semester of 2015, and we believe that this will repeat itself during this year.

Operator

(Operator Instructions) Since we have no more questions, the Q&A session with analysts will end. Before going on to the Q&A session with press professionals I would like to pass the floor to Mr. Carlos for his last comments.

A - Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Well, I'd like to thank you all for your presence in this call and invite you for our next meeting and we're available, our Investor Relations team to clarify any points you may need. So, good day to all of you.

Operator

Now, we will have the Q&A session for the press. (Operator Instructions) Since there are no more questions, Locamerica's teleconference will end. We wish you good day and use chorus call.