Q2 2016 Earnings Call

Company Participants

- Jose Carlos Wollenweber Filho, Chief Financial Officer and Investor Relations
- Luis Fernando Memoria Porto, Chairman

Other Participants

- Rodrigo Glatt, Analyst

Presentation

Operator

Good afternoon. Welcome to Locamerica's teleconference, where we will present the results of the Q2 2016. Right now, all the participants are connected only in the listen mode. Later on, we will have a Q&A session when we will give more instructions for you to participate. This quarter, Locamerica will have also professionals from the press and they may also ask questions after the market analysts. (Operator Instructions)

We'd like to remind you that this teleconference is being recorded. The audio will be available in the Company's site in 24 hours. If you do not have a copy of the release, you may obtain it at the Company's website www.locamerica.com.br/ri. This teleconference together with a slide presentation is being transmitted simultaneously via the Internet, also in the Company's website.

Before we continue, I'd like to clarify that any declarations that may be done during the teleconference concerning business perspectives of the Company, as well as projections, operational goals and financial goals concerning its growth potential are forecasts based on the expectations of the management in relation to the future of Locamerica. These expectations depend on the performance of the sector, the economic performance of the country and also market conditions in Brazil and abroad. Therefore, they are subject to change.

With us, we have Mr. Luis Fernando Porto, Chairman; and Mr. Carlos Wollenweber, CFO and Investor Relations Director. Now, I'd like to pass the floor to Mr. Luis Fernando Porto. Sir, you may proceed.

Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Good afternoon. We're very happy with the results reported in Q2 2016. We would like to begin our presentation with the highlights of the quarter, as they're resulting from our focus on management and operational efficiency.

On slide four, we have the -- a graph on the upper left corner. In line with our expectations, we have been capable of decreasing consistently the level of inventory of cars being demobilized. At the end of the Q2 '16, it was only 6.1% of the total fleet, one of the lowest levels already reached by the Company. Even more important, we noticed on the graph on the right, apart from reducing the inventory volume, at the same time, we have improved significantly, the gross margin of this segment, which had a positive result for the fourth consecutive quarter. We will give you more details of the initiatives that resulted in this improvement in the next slides.

The transformation of the results of semi-new [ph] cars, together with an efficient management of the fleet and optimization of administrative expenses have resulted in an improvement of the EBITDA margin, a significant improvement of the EBITDA margin apart from a reduction in indebtedness. We finished Q2 with a net debt of 615.4 million, 108 million less than the debt of Q2 '15. Apart from this, we highlight also the improvement of the leverage indicators, with the stress, with a significant drop of net-debt-to-EBITDA, which closed June at 2.5 times.

On slide number five, we present an expressive significant improvement in results in EBIT margin delivered in the Q2. We report an EBIT result of BRL37.3 million in the quarter and BRL73.5 million in the semester, a growth above 20% for both periods. Net profit, we delivered BRL7.6 million in Q2 and BRL13.1 million in the semester, a growth of 38% and 10%, respectively.

Now going on to slide number seven, we comment the scenario of semi-new cars in the last months. In line with what we have seen since the beginning of 2015 and while the economic crisis has affected significantly the new car markets, the used car market has remained relatively stable, with a marginal drop of only 2.6% in Q2 '16. This migration of demands from new cars to used cars is very visible in the graph at the bottom, which shows the relation between each used cars sold for each new car sold. So this was always 2.5 times. Today, it is 5 times, 5 times more used cars, the highest ever. Here, we'd like to stress that when we separate the segment of semi-new cars, made up of vehicles with up to three years of use, we noticed an increase that is very recessed [ph] upwards of 20% and it is in this sub-segment of semi-new cars that we are inserted.

Now going onto slide nine, I'd like to comment on the operational highlights of the Company. As in the previous quarters, in Q2 '16, although the sales pipeline has remained robust with more than 23,000 cars in the -- we see really that it is taking longer slowness in signing contracts due to the uncertainties of the economy. This reason with a conservative position on the part of the Company and credit analysis for new clients, results in a lower volume of contracts, as we can see on the graph on the upper right corner.

On the graphs below, we show on the left, that this lower number of contracts has generated a marginal increase in the average age of the car. But we will see this increase in the average age of the cars has not impacted our maintenance costs, especially due to the operational efficiency of the Company, the increase in the operational efficiency. On the graph at the bottom, we see for the fifth consecutive quarter, we maintained a utilization rate upwards of 96%, which also explains this gain in efficiency.

Now going to slide number 10, we see the composition of our fleet. Here, we'd like to stress that, in spite of 4.8% in the total fleet, we were capable to increase the operational fleet, which is the fleet that is rented and which generates revenue. This reduction of the total fleet is explained by the significant drop of the fleet being demobilized and this decrease of the -- in the inventory allowed a good rhythm of sales due to the resilience of the semi-new market for cars and especially due to the opening of new retail stores and increase of productivity per store.

Now, I'd like to pass the floor to Carlos and he will comment the financial results of Q2 2016.

Jose Carlos Wollenweber Filho {BIO 16884477 <GO>}

Good afternoon. It's a pleasure to present the financial results of Q2. Going on to slide 12, we present the evolution of the revenue from rental. We had a net revenue of 103 million in Q2 and 202 million in the first semester, a growth of 5% and 4%, respectively. The growth in revenue is due to the number of daily rentals, which went up 7% in 2015. This growth was compensated by a reduction of 3% in the value of daily rentals and the price of daily rentals, as a result of the change in the mix of our fleet.

Here on the next slide, we see the sale of semi-new cars, 88 million in Q2 and 162 million in the first semester. We'd like to stress the retail segment, which represented 50.6% of the sales of Q2 '16 versus 25.7% in the same period last year. This increase is a result of the qualification efforts of the fleet and also because we left the segment of severe usage cars. We delivered for the fourth consecutive quarter positive gross margins and we expect to continue to do this in a sustainable way.

On slide 14, we present the evolution of our margins. We delivered in Q2 '16, an EBITA margin of 60.8% and EBIT of 36.2%, an evolution of 5.4 and 5.8 percentage points, respectively. The great contribution for this impressive improvement of margins came from semi-new cars as we explained in the previous slide.

On the graph on the left in the next slide, we see the evolution of financial expenses. These rose 22% in relation to Q2 last year for two reasons; an increase in the interest rate and the high cost of carrying cash. We'd like to remind you that discipline of Locamerica maintaining a sufficient cash to amortize the short-term debts. With the increase of the spreads, this discipline has a higher cost, but we understand this fundamental, especially in periods when the credit market is more restricted to have more cash.

On the graph on the right, we present our net profit, 7.6 million, 13 million in the year, 7.6 million in the quarter, an expressive -- impressive increase of 38% and 10%, respectively.

On slide 16, our net cash generation in the last 12 months totaling 108 million. As a result, we reduced our leverage measured by net debt over EBITDA of 3.4 to 2.6 times and we see this from -- and also on the fleet from 75 to a lower number.

Now, we would like to begin the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we would like to begin the Q&A session. (Operator Instructions) Since there are no questions, the Q&A session with analysts is ended. Before we go on to the Q&A session with journalists, I'd like to pass the floor to Mr. Luis for his last comments.

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Before anything else, I'd like to thank the participation of all of you and stress that the Company will continue working to maintain and intensify all the visible victories in Q2 '16. In spite of the adverse macroeconomic scenario, we continue believing in the resilient character of our rental business based on a value proposal that is very objective. Apart from representing a funding alternative for our clients, it's also an excellent opportunity for lower costs and expenses. The year of 2016 has been very challenging, but we will continue taking the necessary measures to guarantee a greater operational efficiency and the maintenance of a differentiated capital structure.

We would like to have you again in the next call. And once again, our team is available to clarify any points. A good day to all of you.

Operator

Now we will have the Q&A session from the press. (Operator Instructions) Thank you. We have a question from webcast, Mr. Rodrigo Glatt.

Q - Rodrigo Glatt

Due to the deleveraging of the Company in a faster way, the Company -- will the Company increase its fleet in a consistent way?

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Good afternoon. Thank you for the question. Yes, we understand that Locamerica for two years has had a project, a strong project focused on four pillars; two of them were operational and administrative, one of them semi-new and the other financial and leverage. As you saw, we were able to anticipate our goals in two quarters -- by two quarters and we're improving our position delaying the debts, extending the debts and this may give us a comfortable position to grow once again.

It is a delicate moment to talk about growth. We still have a very adverse macroeconomic scenario, but you can expect in the next months, we should have a new sales vision that will bring us growth in the short and medium-term. This will be one of the goals, without forgetting leverage and without forgetting profitability. But yes, we believe that we have conditions to once again grow.

Operator

(Operator Instructions) We have one more question from Mr. Rodrigo Glatt on the web.

Q - Rodrigo Glatt

In semi-new, what level do you expect to reach in terms of sales for semi-new cars in 2017?

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Thank you, Rodrigo. Well, we hope to reach in 2017 50% of sales in retail, but we are already -- we have already reached this level. We understand that it's possible for next year to go to a new level close to 60% or 70% of sales through retail. Locamerica has been making a change in the mix of cars for 3.5 years. And also in the mix of clients for rental, we are finishing this project this year in 2016. We believe we have in our portfolio, clients that will have vehicles that will give us a higher level, higher than 50%. This is the level that we reached one year before we had anticipated. So we might get to 60%, 70% of sales of cars in 2017 in retail.

Operator

(Operator Instructions) Since there are no more questions, the teleconference of Locamerica has ended. We'd like to thank you and have a nice day. Thank you.