

## Q1 2017 Earnings Call

### Company Participants

- Hugo Alberto Segre Junior, Investor Relations Manager
- Luis Fernando Memória Porto, Vice Chairman & Chief Executive Officer

### Other Participants

- Lucas Marquiori, Analyst
- Luiz Alves, Partner & Portfolio Manager
- Samuel Alves, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning. Welcome to the Q1 Results Conference Call. Right now, all the participants will be in the listen-only mode and later on we will have a Q&A session when we will supply more instructions. So, you can participate in this quarter. Locamerica will have time for press professionals also to ask questions after market analysts.

This teleconference has simultaneous translation in progress and questions maybe asked by participants from abroad. Also, you can also send questions through the Internet through by webcast. We'd like to remind you that this teleconference is being recorded. The audio will be available at the company's site in the next 24 hours.

In case you don't have a copy of the release, you can obtain it in our site, [www.locamerica.com.br/ri](http://www.locamerica.com.br/ri). This teleconference together with the slide presentation is being translated simultaneously by the Internet, also you can have access through the company site.

Before we proceed, I would clarify that any declarations that maybe made during this conference concerning business perspectives of the company as well as projections, operational goals and financial goals concerning the growth potential are forecast based on the expectations of management in relation to the future of the company. These expectations depend on the performance of the sector, general economic conditions of the country and conditions of the domestic and international markets. Therefore, they are subject to change.

Together with us, we have Mr. Luis Fernando Porto, Chairman; and Mr. Hugo Segre, Manager of Investor Relations.

I would like to pass the floor to Mr. Luis Fernando Porto. Sir, you may proceed.

## **Luis Fernando Memória Porto** {BIO 17175861 <GO>}

Good morning to all. It is with great pleasure that we begin our teleconference with the earnings. Once again, we're very satisfied with the performance of the company in this quarter. Before going to the main operational financial indicators of the company, I'd like to talk about the progress of the main strategic initiatives of Locamerica.

Going directly to slide number 4, we comment on the status of the integration of the fleet acquired from Panda de Itú in October 2016. During Q1 2017, the contracts acquired began to be managed by Locamerica and the revenue from these clients has really had a positive impact on the numbers we are reporting.

In general, these contracts are having a performance above the expectations of management. So, those guaranteeing assuring us the expected returns from this transaction. In the quarter, we anticipated the renewal of 25% of the fleet. The type of transaction that we have with Panda represents an opportunity to have a long-time relationship with the clients acquired and brought to Locamerica.

Also in Q1 2017, we announced the joint business together with Auto Ricci S.A. The merger has already been approved by the regulating agency, CADE, and now is subject to a formal agreement in shareholders' meeting. At the same time, we began the integration process and the mapping of synergies in which where we hope to capture significant savings by optimizing the capital structure of Ricci and also based on the equalization of funding between Ricci and Locamerica.

Later on, we will talk more about the Ricci acquisition, because we believe that it is an event that will transform our history.

Finally on slide 5 (04:26), we mentioned that we purchased the cars also very similar to Panda de Itú. Here, we'd like to say that we see this acquisition of smaller fleets as an important venue of growth and consolidation.

Going on to slide 5, we talk more about the indicators of the company in Q1 2017. Here, we'd like to highlight the continuity of the expansion movements and the better profitability that we began in 2015. On the graph on the upper left, we see that we continue to increase our gross margin in semi-new cars, Seminovos, due to a greater participation of the sales in our retail stores. We closed Q1 2017 with 12 retail stores, an expansion 5 stores in comparison with Q1 2016.

On the graph here beside it, we see once again in Q1 2017 we had a record EBITDA margin, which in the period was 63.8%. Now, concerning the capital allocation, we have on the lower left, the optimization of working capital mainly due to the reduction of the inventory and accounts receivable, which had a positive impact on financial leverage, which closed the quarter in 2.4 times net debt/EBITDA. This is the lowest level in the company's history.

Finally, as a result of these factors, we showed that in the quarter reached a net profit of BRL 12.4 million more than double the one obtained in the same period last year and representing a growth of 59.6% in comparison with Q4 2016, reaching a net margin of 12.1% and an annual ROE of 16.5%.

Going on to slide number 7, we comment a little on the performance of the automobile market in Q1 2017. Here, we'd like to mention the strong growth of the used car market, at the same time, as we see the first signs of stabilization in the new car market. On the graph below, we showed that market of semi-new cars made up of cars with up to three years of use, which continues to have a very strong growth, 27.1% in relation to the previous year.

Finally, we highlight that we have been able to have a net performance that is even better than the market in Seminovos, since the volume of cars sold by Locamerica grew 32.8%, reaching 3,700 cars in Q1 2017.

On slide 9, we highlight some operational indicators. On the upper part, we show that we maintain the volume of lapped opportunities in Q1 with approximately with a market that is worth 22,000 cars. We continued our success rate in new contracts. We reached 1,200 cars similar to the previous quarter.

Here, we have the average fleets of our fleet – the average age of our fleets, 20.2 months. We'd like to mention this suffered an impact due to the acquisition of the fleet of Panda de Itú and management has already begun to renew the contract. Therefore, we hope to have a drop of the average age of the fleet in the next quarters and this will have a positive impact on our maintenance cost.

On the graph here, we show the consolidation of the usage of the company cost, 96.8%, and this is very good in terms of surplus capacity. Also, we see that there was a relative stability in operational cars in comparison with Q4 2016, 23,000 vehicles and especially a significant growth in the volume of cars being implemented that will generate revenue as soon as they are delivered after the customization of these vehicles.

On the graph on the right, we see that for the eighth consecutive quarter, we were able to decrease the part of the fleet and inventory due to robust growth in the sales of semi-new cars together with the disciplined process to optimize working capital.

Now, I'd like to pass the floor to Hugo Segre and he will talk about the main financial indicators of Locamerica.

## **Hugo Alberto Segre Junior**

Good morning. Going on to slide 12, we see the evolution of daily rates with 6.8% in comparison with Q4 2016. The drop in the average tariff is due to the acquisition of Panda de Itú fleet. We have a lower ticket in Panda de Itú. With the result, we see in the graph here that in Q1 2017, the net revenue from rental reached BRL 102.8 million, a growth of 3.5% in comparison with Q4 2016.

FINAL

Talking about semi-new cars, we see that on slide 13 that the expressive growth in revenue came due to an expansion of sales through our retail stores. In the quarter, they represented 63% of the billing from semi-new. Here, we can see actually the price of impact from the profitability of the segments in Q1 2017. Once again, we had a record growth result at BRL 11 million in profit, which has compensated the investments made in the stores and thus the EBIT of semi-new cars was positive in the period.

On the next slide, we see the margins of EBIT and EBIT (10:30). As we mentioned before, with the increase of the average age of the fleet due to the purchase of Panda de Itú resulted in the growth of maintenance expenses reaching 29.4% of the rental revenue.

On the same graph, we see that the higher expenses in maintenance was compensated by a drop in depreciation expenses. Since when we acquired the fleet from Panda, we recorded these higher maintenance costs in the accounts and also due more expenses with SG&A due - that were compensated by the expansion in semi-new cars making our EBIT and EBITDA margins reaching 40.5% and 63.8% respectively. These are the highest margins already reported in the history of Locamerica.

Slide number 15, we see the cash generation and corresponding net debt. However, in the quarters have a positive impact in financial expenses in the quarter, BRL 25.4 million, a drop in the expenses of 15% in comparison with the previous years. With the result, net profit (11:41) had an expressive growth of 126%, reaching BRL 12.4 million.

On the graph on the left, we see the return on ROE (11:49). As you can see, the increase of the profitability due to consistent operational work and optimization in capital allocation made our ROE reached this 16.5%, two times higher than in the same quarter 2016. We believe we have consistent evolution of profitability for shareholders together with a solid capital structure, share the success that we have in all the initiatives and creating value in the last few years.

On slide 16, we see the evolution of net debt in the last 12 months. As we can see, during this period, the net debt dropped 12%, reaching BRL 613.2 million at the close of the quarter. In the period, the cash generated in rental operations was more than sufficient to finance the CapEx in vehicle acquisition and also interest payments and also compensation of shareholders. If you look at the covenant, the company has a net debt/EBITDA of 3 times in Q1 2016 and going to 2.4 times dropping in Q1 2017.

On here, we see below, the comfortable cash position of the company. Since the availability of BRL 195 million, it's more than sufficient to pay the amortization in this short term.

Now, I'd like to pass the floor to Luis Fernando and he will talk about the merger announced with Ricci and then, we will begin the Q&A session.

**Luis Fernando Memória Porto** {BIO 17175861 <GO>}

FINAL

Thank you. Going to slide number 17, we comment briefly on the main points that supported the joint business agreement with Ricci. We'd like to stress that this merger creates the largest fleet rental company in Brazil, increasing even more our scale and strengthening one of the main pillars which is competitiveness.

Also, we'd like to highlight a better geographic coverage as a result of the merger. And also, those two companies are both focused in selling semi-new cars with their own retail stores.

Concerning the financial bill, we'd like to stress that Ricci has leveraged very similar to Locamerica. And also, a debt/EBITDA very close to 2.4 times. So, we see the capital structure. Ricci is one the main sources of synergy when equalizing the cost of funding of the two companies and we will be working on this.

Finally, we show that the performance of the transaction based on exchange of shares will enable a reinforcement for us and also we also received Mr. Dirley Ricci as part of the board of the Company and this will guarantee the alignment of interest in capturing value for the shareholders. Also, we'd like to facilitate even more the understanding of this transaction.

So, on slide 18, we have side by side the results of Locamerica and Ricci, as we can see, Ricci close Q1 2017 with a rental billing upwards of BRL 51.3 million, healthy margins from semi-new sold and EBIT margin of 45.7% (15:24), a net profit in Q1 2017 was BRL 4.7 million, a level which is in line with our expectations. Added to the net profit of Locamerica, the two companies would have had a net profit of BRL 17 million (15:39) in Q1 2017 and a total EBITDA of almost BRL 100 million.

Also, we show the equity of Ricci at the end of Q1. Here, we'd like to stress that Ricci also works with a strong focus on the use of optimization of working capital with a good collections effort. At the end of March, Ricci had levels of leverage that are very similar to Locamerica with the net debt of approximately BRL 250 million (16:14), 2.4 times EBIT in the last 12 months.

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

## Q&A

### Operator

Ladies and gentlemen, we would like to begin the Q&A session. Our first question comes from Mr. Samuel Alves from BTG Pactual.

### Q - Samuel Alves {BIO 18720076 <GO>}

Good morning, Luis, Hugo. Congratulations for the results. I have two questions. The first, in the profitability in semi-new cars with up to three years of use, we see the gross margin

Bloomberg Transcript

improving, penetration in retail. Could you give us an idea of the EBITDA annually only semi-new cars and also the G&A in relation to the increasing retail?

The second question, talking about the acquisition of Ricci, could you talk about the next steps in the next quarter? I believe in the next quarter, it would be consolidated. Thank you.

## A - Operator

Okay. Thank you, Samuel. The first question, the EBITDA of semi-new cars. We have EBITDA zero - zero EBITDA. We believe that in the next quarters, this EBITDA should generate a positive margin, because we still have some expenses. And any of that will be diluted, will be increased in sales in the next periods. Same for semi-new EBITDA, that's the expectation.

Now, concerning Ricci, what has really happened, we have the approval from the regulating agency, CADE. That's an important step. And then, what is missing now? The next step was to consolidate the numbers, DSD (18:25) the approval by shareholders of the two companies. This should happen on May 11. So, after that, the numbers will be totally consolidated.

In the next quarter, we will have a report where Ricci, as of May 11, will be included in our numbers. (18:5) from now on, it depends on us on our shareholders to close the deal. And this should happen on May 11.

On the other hand, we have the two companies focused on the integration steps. And we have specialized consultancy taking care of this. And we believe that by the end of June, we will have a plan, so we can have the best practices capturing the synergies by the end of this year.

Almost done. So, these are the next steps for Ricci.

## Q - Samuel Alves {BIO 18720076 <GO>}

Thank you very. Very clear. Thank you.

## Operator

Thank you. Our next question comes from Mr. Lucas Marquiori, Safra Bank.

## Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. Two questions concerning semi-new car sales, you said, you want to reduce the average age of the fleet. I imagine that you will be selling off very strongly the cars. The current number of stores you have, retail stores, is it enough or do you intend to open new retail stores to sell semi-new cars? That's my first question.

FINAL

Bloomberg Transcript

The second, in ROE, you reached a very high ROE. I'd like to know what is the target for this year, ROE? Thank you.

## A - Operator

Thank you, Lucas. Well, you're first question, yes, as of the next quarters, we will begin a process to renew the fleets. We will increase our efforts to renew the fleet with a better average age. And, yes, we should be opening at least another 2 stores by the end of the year, maybe 3, with 14 or 15 retail stores in Locamerica. In Ricci, we're still analyzing and this will become more clear, the number of stores as of June. But at least another two stores will be opened by the end of year.

Concerning ROE, our target for ROE is 20% and we intend in the next six to nine months to have this in our numbers.

## Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you.

## Operator

Our next question comes from Mr. Luiz Alves from GTI.

## Q - Luiz Alves {BIO 19346769 <GO>}

Gentlemen, congratulations for the results. I'd like to ask you if you have an update on the synergies to be captured with the acquisition of Ricci as a result of the consultancy services that you hired.

## A - Operator

Good morning. Thank you for the participation. The synergies we're dividing in three steps. The first step has to do with the debt. By the end of the quarter, we should conclude also to have numbers like Locamerica. This will generate 3 percentage points to 4 percentage points of reduction in Ricci's debt.

The second, the acquisition of vehicles, cars in our initial project, we made an accrual or provision, Ricci by 2 percentage points to 3 percentage points in the worst conditions in Locamerica. Right now, we have concluded the equalization of the discounts on new vehicles we buy and this - well, now on, this synergy will begin in the next purchases and this will be part of our numbers. The challenge now when we buy more companies, we want to improve to get a better discount buying cars for the two companies. This will take some time.

Finally, operational synergies and administrative synergies, as I said, right now, we have expectations, but I prefer not to give you the details, because we're still in the beginning of the process with our teams and consultancy companies. We have an estimate that as we normally do, we prefer to really announce when we already have everything ready.

Maybe by the end of the next quarter, we might know well what's the synergies that we will capture in administration.

**Q - Luiz Alves** {BIO 19346769 <GO>}

Thank you.

**Operator**

Thank you. Since there are no more questions, the Q&A session with analysts is concluded. Before going on to the Q&A session with press professional, I'd like back to pass the floor to Mr. Luis Fernando for his final comments.

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

Right now, I would like to thank you once again for your participation in this teleconference. I'd like to say that our Investor Relations team is always available for analysts and investors. I'd like to also highlight our satisfaction publishing a result that is well aligned with our discourse of the efficiency and profitability of the company will continue to create, focused on creating value to shareholders with very differentiated and robust capital structure. Good afternoon.

**Operator**

Now, we would like to begin the Q&A session with press professionals. Since there are no more questions, the teleconference of Locamerica will be concluded. Thank you.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*