

Q4 2014 Earnings Call

Company Participants

- Eugênio Pacelli Mattar
- Nora Lanari
- Roberto Antônio Mendes

Other Participants

- Gustavo H. Gregori
- Leandro Fontanesi
- Renato Salomone
- Rogério Araújo
- Sami Karlik
- Stephen Trent

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and welcome to the fourth quarter 2014 conference call of Localiza Rent A Car. Hosting the event today are Mr. Eugênio Mattar, CEO; Roberto Mendes, CFO; and Ms. Nora Lanari, Investor Relations Director. We would like to inform that the numbers in this presentation are stated in millions of Brazilian reais and based on U.S. 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.

The conference call audio and the accompanying slide presentation are being broadcasted simultaneously over the Internet at the address www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking on the banner Fourth Quarter 2014 Webcast.

Before proceeding, we would like to clarify that any statements made by the conference – in the conference and 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.

I would like to invite the company's CEO, Mr. Eugênio Mattar to start the teleconference of the fourth quarter of 2014.

Eugênio Pacelli Mattar

Good afternoon to all, and thank you for attending our conference call. 2014 was another year of consistent growth for Localiza, despite the weak macroeconomic scenario with periods of technical recession inflation at the top of the target and uncertainties in the political scenario. The country's investment levels were at lower than the historical ones.

The World Cup event was in line with the company's expectations, since the lower demand from business groups was compensated by the demand from leisure trips. The elections which historically presented additional demand could not have a significant impact on the third quarter of 2014. In addition, the downs in the outcome - concerning the outcome of the elections left the country in an uncertainty situation and investment decisions were postponed.

2014 was the year when we invested in revealing our process. We improved our productivity. We diversified the customer base. We improved the debt profile and the cash position. We grew our revenues and sustained our performance indicator, ROIC. With discipline and a determination, we managed to overcome the effects of more - the challenging scenario.

2015 will not be any easy year. It will be a year of adjustments in public accounts recovery of controlled prices and the risk of an energy and hydro crisis. It will be with the same discipline that we will seek for new operational efficiency gains and to adapt the strategy of our business to overcome the market context and maximize the return on invested capital. We count on a highly experienced and qualified team motivated to sustain our superior performance.

I would like now to turn the floor to our CFO, Roberto Mendes, who will present the 2014 highlights.

Roberto Antônio Mendes {BIO 7289124 <GO>}

Good afternoon, and thank you for attending. In slide number two, we present some highlights of the quarter and also the year 2014. In 2014, Localiza increased its consolidated net revenue by 7.4% in the fourth quarter, 5.2% in rental revenues and 9.4% in Seminovos stores. Net income in the fourth quarter 2014 grew 13.6% when compared to the same period of 2013. The cash generation, before the new investment in the headquarters and interest, grew 11.5% in 2014. The company's ROIC grew 1 percentage point in the 2014, partially compensating the 2 percentage points basic increase in the interest rate after taxes. The 9.5 percentage point spread guaranteed value generation for shareholders.

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And now to present the results of the fourth quarter of 2014, I would now pass the floor to the Investor Relations Director, Ms. Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon. In slide number three, we present the growth evolution of the Car Rental Division in 2014. Daily rental revenues in this division grew 10.4% when compared with 2013. Such increase was due to 8.2% in car volumes combined with 3.4% increase in the average rent rates. The average rental rate of BRL 87.71 in 2014 was 3.4% higher than the average of BRL 84.85 in the - of the previous year. As per the last quarter, net revenues increased 6.7% due to 5% growth in daily rental volumes and 2.6% in the average rental rate, when compared with the fourth quarter of 2013.

On the next slide, number four, we present the evolution of the Car Rental network. In 2014, 18 rental locations were added to Localiza's corporate network. Localiza and its franchisees currently hold 540 locations in nine countries in South America.

In slide number five, we present the Car Rental Division's utilization rates. The focus on fleet optimization allowed a significant increase in the utilization rate of the Car Rental Division that went from 66.8% in 2013 to 69.9% in 2014, when considering the anticipation of the purchase of 7,600 cars in the fourth quarter, due to their reinstatements of IPI tax for new cars in 2015.

In the next slide, number six, we present the volumes and revenues of the Fleet Rental Division. In 2014, daily rental volumes reduced by 4.4% in relation to the same period of the previous year. The increase of 4.3% in the average daily rates partially offset the volume reduction resulting in a net revenue reduction of 0.7%.

As for the fourth quarter of 2014, net revenues in the Fleet Rental Division increased by 2.7%, the reduction of 0.9% in volume was compensated by 3.7% increase in the average daily rates charge. The lower growth in daily rental volumes in 2014 was mainly due to the competitive pricing environment. The company maintains its conservative approach in order to provide return to the invested capital, adding value to its shareholders. However, it is possible to know there is a positive trend in the contracted revenue evolution that went from BRL 647.3 million on December 30, 2013 to BRL 808.3 million on December 31, 2014, a 25% growth.

On slide number seven, we present a fleet - net investment evolution. Due to the IPI tax reinstatement, the company anticipated the acquisition of 7,600 cars in 2014. For that reason, in 2014, the company added 9,183 cars to its fleet and made a net investment of BRL 465 million. It is important to mention that such increase did not affect the free cash flow of the year, because of better payment terms from...

On slide number eight, we present the end of period fleet evolution. By the end of December 2014, the fleet was comprised of 111,885 owned cars, plus 13,339 cars of our franchisees, totaling 125,224 cars. The average rented fleet in the Car Rental Division grew

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8.9% in 2014. The number of cars in the Fleet Rental Division totaled 34,312 cars. 1,942 cars were in preparation to be delivered to our customers.

On slide number nine, we have the consolidated net revenues evolution. In 2014, the company's net revenue grew 11% in comparison with 2013 due to a 6.5% growth in both car and fleet rental revenues and 15.5% increase in the revenues from the car sale for fleet renewals. In 2014, in the fourth quarter, the net revenue grew 7.4%.

On slide number 10, we have the EBITDA evolution. The EBITDA in 2014 totaled BRL 969.8 million, a 5.8% growth. In the Car Rental Division, the quarter's EBITDA margin remained stable in comparison with the same period in 2013. The EBITDA of this division was impacted in the fourth quarter by expenses with strategic consultancy, freights and accessories due to the anticipation of car acquisition and the supplements in the accrual related to the bonus and profit sharing plan of the employees allocated in the state of Minas Gerais according to the collective bargaining agreement occurred in December.

In the Fleet Rental Division, the EBITDA margin was 55.5% in the quarter. It was impacted by consultancy expenses, freights and accessories cost, supplements in the accrual for the bonus and profit sharing plan of the employees allocated in Minas Gerais. Moreover, there was an increase in the contracts tenor, which tend to have lower rental rates, but also lower depreciation rates since depreciation for year is lower in the contracts with longer term. The conservative position of the company on estimating the residual value of cars is once again demonstrated in the Seminovos EBITDA margin.

Slide number 11, where we present the average depreciation per car in both Car Rental and Fleet Rental Divisions. This quarter annualized depreciation per car in the Car Rental Division was BRL 1,270 and in Fleet Rental Division, the depreciation was BRL 4,202. The per car sales expenses reduction due to the increasing productivity in Seminovos stores with the sale of 80 cars per store associated to the market conditions led to a reduction in depreciation expenses, that contributed to an ROIC of - in 2014.

On slide number 12, we present the net income evolution. In 2014, the company presented a net income of BRL 410.6 million, a 6.8% growth. In the fourth quarter of 2014, net income was BRL 102.2 million, with the growth of 13.6% growth in comparison with the fourth quarter of 2013.

On slide 13, we have the free cash flow in 2014. In 2014, the company had presented a free cash flow BRL 410.2 million, before the investments in the new headquarters and interest expenses. This year, BRL 55.7 million were spent in the new headquarters construction, and BRL 92.6 million of the funded amounts are deposited in an escrow account to be invested in the construction. The amount is invested in long-term securities and therefore is not considered cash equivalent.

On slide 14, we present the changes in debts. The strong cash generation in 2014 was enough to cover the financial expenses, dividends, and the investment for the new headquarters' construction. The net debt at the end of year remained at the same level of debt of the previous year.

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On the next slide, number 15, we present debt ratios, which reflect the financial discipline of the company. The company has very comfortable leverage ratios. Localiza is prepared for growth and consolidation opportunities in the car rental market.

On slide 16, we present the cash and debt amortization schedule. If we consider the securities investments being held in an escrow account to be invested in the construction of the headquarters, the company's total cash position would be roughly BRL 1.5 billion. The company monitors the market and alters its debt portfolio in order to adjust it to the best possible profile. The company continues to present a strong cash position and a comfortable debt position.

And now, I'd like to pass the floor to our CFO, Roberto Mendes.

Roberto Antônio Mendes {BIO 7289124 <GO>}

Thank you, Nora. Localiza is prepared to – for the adverse scenarios expected in 2015 and opportunities that may appear. The expectations are high inflation, high interest rates and virtually no GDP growth. We need to constantly seek new productivity gains, new sources of revenues and a focus on results in order to have sustainable growth with profitability.

On slide 17, we see that even with the adverse scenarios, we had ROIC of 17.5% in 2014. This increase in ROIC of 1% increase contributed to partially offset the rise in the interest rates and to maintain the spread in its – in historical levels.

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

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. The first question comes from Renato Salomone from BBA – Itaú BBA.

Q - Renato Salomone {BIO 17292431 <GO>}

Good afternoon, Eugênio, Roberto, Nora. Could you please detail more about the strategy for the fleets including the company's focus in having longer term contracts, and how this will affect the ROIC of the segments?

A - Operator

Renato, thank you for the question. We have – we are – have been have – we have longer-term contracts. We see a trend to have three-year contracts. Now to increase the terms with the longer-term contracts, we can increase the depreciation. So we can therefore charge lower rates even with lower retail – (17:02) with having a lower depreciation of the car sale, ROIC will not be affected by this change in strategy. Renato, just to add an

example, how this works in terms of depreciation, reminding you that the price of a contract is fixed for three years, and with only increases by inflation.

Now, in the high end, fleets of the cars lose value 30% during the first year, 20% in the second, 10% in the third year, thus totaling 60%. So by year, the car loses its value by 20%. If this contract work for two years, it will lose the first - the same 30% in the first, and 20% in the second, with 50%. So the percentage per year is 25%. It is within this line that we set that a longer contract has a lower depreciation by year, therefore we can have a more competitive price.

Q - Renato Salomone {BIO 17292431 <GO>}

Thank you.

Operator

Our next question comes from Rogério Araújo from Brasil Plural.

Q - Rogério Araújo

Good morning. Thank you for the opportunity. I've two questions. The first has to do with the franchisees. We see a drop in revenue of 15%. This might be linked to the purchase of these franchises, and the margin dropping a lot, when we look at the historical level. So, I'd like to understand that better and projections for the future for this segment, although it has a low relevance in the consolidated numbers.

The second question has to do with the competitive environment for 2015 in car rental. How do you expect other - what is your expectation in terms of other players concerning prices, expansion in market niches, we see on one event (19:11) pressure on all players in the market due to the economy, and then we see some players expanding their fleets at the end of the year. What are your expectations in relation to competition in 2015?

A - Operator

Thank you, Rogério. Concerning the first question, franchisees, they have - they represent 1% of our revenue, they have an important role. (19:37) They are relevant in terms of geographic distribution. So the drop in revenue and the drop in EBITDA margins that you saw has to do with the - the new stores, 18 were added and a relevant part of this, really is part of the franchisees.

Concerning competition - Rogério, thank you for the question. The car rental history in Brazil is one of strong competition, fierce competition. We have 2,500 companies and as time goes by, the competition among the largest players has changed the positions from time-to-time. Now, we have a new competitor with expressive growth, but it's a new company, it is being implemented and we will have to wait for some time to see the relevance of the results, their actions. So we hope that this competition will happen at a good level. There are marketing issues to be solved, and not only the market that Localiza has. We have a strategy with services and premium prices, and I don't believe that the competition wants to be aggressive in this segment that is ours. Let's wait a little and we

will be able to give you a more detailed response in terms of their strategy, the strategy of the new competitor. Thank you.

Our next question comes from Gustavo Gregori, HSBC.

Q - Gustavo H. Gregori {BIO 16209398 <GO>}

Good morning. My question has to do with the purchase. I believe that we had a quantum leap than CapEx. So looking at 2015, do you believe this will be at a higher level or even increase - an increase in this account?

A - Operator

Well, Gustavo, the suppliers account had an impact due to the anticipation in the purchase of 7,000 - roughly 7,000 cars at the end of the year. And thus expenses were higher with suppliers. During 2015, we will be paying these debts and then, I believe, this account will go to - back to its normal levels.

Q - Gustavo H. Gregori {BIO 16209398 <GO>}

Do you believe that this will continue to be - this account will be higher?

A - Operator

Well, we're negotiating. We expect better payment terms, longer payment terms. So we are now working on conditions and payment terms are part of this package. Thank you.

Our next question comes from Marcus Peçanha from Opportunity. (23:13)

Hello, good afternoon.

Good afternoon, Roberto and Nora, I would like to understand first of all, with now IPI tax coming back, have you analyzed the depreciation you will have in the future? Will this represent lower prices in the future? My second question has to do with the stores that now belong to Localiza franchises that the - now are owned by the company. How much did these generate in revenue in 2014, please?

Well, Marcus, (23:53) thank you for the question truly, within the used scenario, increase in price of the new cars, not only because of IPI tax, but also inflation, OEMs can no longer absorb the higher costs, since they don't have (24:14). So new cars may cost more, we imagine the price will go up and consequently, older cars may also appreciate in price may - so this depreciation is lower initially. Now, this doesn't mean that, we will really pass on all these increases through our prices. It depends on many factors.

So on our pricing strategy, we have maintained - price is stable for more than 10 years, with the exception of a small increase in 2018.(24:52) So all these years without increase. So in fact we are reducing prices, we are being able to maintain our profitability with more

competitive prices. So this is an opportunity to really consolidate our position in the market.

Now, concerning the franchises that we acquired, represented 1.5% of the revenue, organic growth, that we had in 2014.

Thank you.

Our next question comes from Stephen Trent, Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you everybody and good morning and thank you for taking my questions. Just two from me, very quickly. The first pertained to Rental Brazil and the build out of your new headquarters. How long should we think about that, timeframe wise, in that - (26:02) completed and how should we think about the earnings generation capability of Rental Brazil going forward?

A - Operator

Thank you, Kevin, (sic) [Steve] (26:16) for the question. Concerning Rental Brazil, we opened the company to build the new headquarters. We have a loan, BRL 109 million, it has generated financial, also interest, so now we have to recognize this is the company's result. The BRL 6.8 million that we mentioned have to do with the third quarter and fourth quarter. We should see this amount dropping as time goes by, as the construction goes on. And this value deposited in this escrow account will be used little by little.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great. Thank you very much and just a one other quick question, if I may. You mentioned some newcomer such as Movida. I was curious, generally speaking, can you tell us how your market share position kind of evolves (27:26) segment over the last six months, has any late movements or whether it's - or has that been stable?

A - Operator

Steve, thank you for the question. Unfortunately, we only have the information concerning market share once a year, when the Brazilian Association of Car Rental Companies really gives us this information. This should happen at the end of March or beginning of April. We do not expect a loss of market share as a result of this newcomer.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, it's very helpful. I will let someone else ask the questions. Thank you.

Operator

Your next question comes from Sami Karlik, Votorantim Corretora.

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Q - Sami Karlik {BIO 16221284 <GO>}

Eugênio, Nora, and Mariana, (28:22) my question has to with growth. What do you see in the market concerning the good financial position, a healthy cash generation and assets depreciated? How do you see M&A, would it make sense in your growth strategy?

A - Operator

Thank you for the question, Sami. While Localiza in the turbulent years, Localiza always has a strong cash position and for these market uncertainties, changes in interest rates, changes in credits. So our opportunities, we always look at investing in our business, also grow when a market opportunity appears using much of the cash through buyback shares or an opportunity in M&A. The company is always open to analyze all the opportunities. If any opportunity makes sense, with the exception of payment of dividends or buying back shares or organic growth, yes, the company may use its cash for this. Now, we don't have any news about this. What we can say is that's our radar is always on and evaluating the opportunities we have in the market.

Q - Sami Karlik {BIO 16221284 <GO>}

Thank you.

Operator

Our next question comes from Leandro Fontanesi, Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good morning. My question is about, the expenses with strategic consultancy. Please give us details about this. Is that only in the fourth quarter or do you still have this?

A - Operator

Thank you, Leandro, for the question. In reality, the company is a company that is always preparing itself for the future. We believe that the situation of the economy of the market is not easy to obtain results. So the company is strong. We have a lot of experience in using all the consultancy companies in the market to evaluate the situation in Brazil, in the world. And also how to explore the company's potential to maximize the results in years where we have challenges. We're investing strongly to overcome the challenges of 2015 and 2016. We believe these will be years of recovery for the country.

So, how can we work better in times of low performance in the economy? So, we evaluated all the alternatives to explore in a better way the market. Also, how to increase operational efficiency to be more productive and also to renew our business strategy through consultants? So how to do really and make our brand, our customers more loyal to the brand? We do this all the time, and when the company is in a period of low growth, we really look inside the company, also looking at the market and looking for opportunity that sometimes are not very visible to our internal team.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Thank you. One more question, if you allow me. You mentioned dividends, will this have a term? I understand that you pay this at the end of the year. So it's already published, can we expect dividends in the next few months?

A - Operator

Well, since we see 2015 as having many uncertainties with the new economic team of the government, we have to analyze the stability of the new economic team of the government, so we are leaving this decision for the second semester.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Thank you.

Operator

Our next question comes from Sami Karlik, Votorantim Corretora.

Q - Sami Karlik {BIO 16221284 <GO>}

Thank you for the opportunity, once again. A question concerning the new headquarters, how are - does it make sense to recognize it in the balance sheet or a sales pack - with the sales pack, will it make sense to sell and then rent the new headquarters?

A - Operator

I'd like to remind you, we were not able to find a building that would be adequate for us to rent. And we know that, we're building this headquarters, it will be ready with - without any luxury, a simple headquarters and all opportunities to monetize. The building will be evaluated. We don't want to have this asset in our balance and that's why we made this investment outside the balance sheet in a separate company to facilitate future decisions.

We'd like to conclude the Q&A session. I'd like to pass the floor to Ms. Nora Lanari for her final remarks. Ms. Nora, you may proceed.

A - Nora Lanari {BIO 18838335 <GO>}

We'd like to thank you all for participating in our conference call, and inform that our Investor Relation team is available for any further clarifications. Thank you.

Operator

This concludes the Localiza Rent A Car audio conference for today. Thank you for your attendance. And have a good day.

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