

## Q1 2015 Earnings Call

### Company Participants

- Jose Carlos Wollenweber Filho, CFO and IRO
- Luis Fernando Memoria Porto, CEO

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Good morning. Welcome to the teleconference for Locamerica where we'll be presenting the results for the first quarter of 2015. At this time, all participants are on a listen-only mode. And later on, we will open for questions and answers, where you will receive further instructions.

This quarter, Locamerica will also be taking questions from the press just after the questions from the market analysts. (Operator Instructions) This conference call is being simultaneously translated into English and questions may be made normally by participants connected abroad. You can also send your questions over the Internet through our webcast platform. It is worth noting that this teleconference is being recorded and the audio will be available at the Locamerica's website in 24 hours. If any of you still need a copy from the earnings release document, you can download it from [www.locamerica.com.br/ri](http://www.locamerica.com.br/ri). This call and the slides are being aired simultaneously through the Internet and also via the Locamerica website.

Before we proceed, I would like to remind you that any statements made during this teleconference concerning the prospects of the business of the company, as well as on projections, operational and financial targets concerning the company's growth potential are based solely on the expectations of management in relation to the future of Locamerica. Such forward-looking statements depend substantially on the performance of the sector and the general economic performance of the country and other domestic and international markets. Therefore they are subject to change. Today, we have Mr. Luis Fernando Porto, who is CEO, and Mr. Carlos Wollenweber, Financial Director and IRO.

I would now like to give the floor to Mr. Luis Fernando Porto. Sir, the floor is yours.

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

FINAL

Good morning, everyone. I am very happy to be here today to present the operating and financial results for Locamerica for the first quarter of '15. Before going through our results, I would like to briefly highlight some strengths we have noted in the industry over the quarter.

On slide three, we've seen a fairly restricted credit environment for financing vehicle, despite a significant decrease of 1.1% in the default rate, which was 5% in the first quarter of 14 and therefore went down to 3.9% in one quarter '15. We can see in the chart on the right that the volume of funds made available for vehicle loans fell by 5.4% in the first quarter compared to the previous year.

Concerning the car market in slide four, we can see that in the first quarter of the year, new car sales fell 16.2% while the used car market proved quite resilient, despite the macro scenario. In the first quarter '15, the number of used cars alone increased by 2.5% compared to the same period last year. On the other hand, in the top right-hand chart, we see that despite the drop in demand, the auto industry has been forced to raise the new car price mainly due to the IPI tax burden and the devaluation of the Brazilian currency against the dollar. According to the IBGE, in the first quarter, new cars were on average 4.4% more expensive whereas the price of used cars remained stable in the period. The price increase in new cars has resulted in a clear demand migration trend in favor of used cars. And this is shown in the lower left chart. Brazil currently sells 3.6 cars for every new car, which is a level far above the historical average of 2.7.

It is worth highlighting that, despite the positive period we are experiencing in the used car market, we continue to invest in strengthening our retail network, which already represents 30% of our sales. And we have what it takes to increase our market shares, which is only 0.14% of the entire market, if the market shrinks throughout the year.

Moving on to the operational highlights of Locamerica, on slide six, we present on the chart on the left the total amount of new leases signed in the first quarter, and they totaled BRL60 million. Despite the commercial pipeline for the next three months having remained robust with over 25,000 cars in dispute, as we can see from the chart on the right, our perception is that companies are taking longer to approve new contracts because of revisions to budget and reductions (inaudible).

On slide seven, we provide the breakdown of the fleet. We ended the quarter with 30,248 cars, an increase by 6.5% compared to the first quarter of '14. While the operational fleets decreased 4.8% compared to the first quarter of '14, the number of cars being built, which are the cars that will shortly be incorporated into operational fleet as soon as the consolidation process fills the customer need is concluded more than doubled and reached 3,694 cars at the end of March.

As we'll see further along, in the first quarter, we were able to make up for the drop in the fleet with efficiency gains from an improved utilization rate. Hence, the total number of daily fees rose 1.4% compared to the first quarter of 2014. In the chart on the right, we see the inventory of cars for sale, which reached 4,307 units, equivalent to 14.2% of the

total fleet. As we will show below, this rising inventory level is mainly due to the high number of cars demobilized in the period since sales remained robust.

We anticipate that on the resilience of used car market, as previously mentioned, and on a strong pace of sales of used cars, which in turn could pick up or should pick up as a result of opening two new dealerships in 2015, the first dealership in Sao Bernardo do Campo will be opened this month. And we expect the gradual return of inventory levels to historical levels during the upcoming quarters and this will not imply a need to be price aggressive.

Slide eight. In Q1 2015, the company broke another sales record in the segment of used cars, selling 3,281 cars. The chart on the left shows that since fourth quarter of 2014, the company has been operating on the sale on a new sales level, which is currently close to 1,100 cars sold monthly. However, the chart on the right-hand side shows the high number of decommissioned cars in the last six months, especially in the last quarter of 2014. And this led to an increase in our inventory.

It should be pointed out that in the first quarter of 2015, there was a decrease in the number of returned cars quarter-over-quarter. We are expecting a gradual decline in returned cars throughout the year, particularly in the second half of this year and a steady pace of sales. Therefore our inventory levels should reach our historical levels as 2015 unfolds.

I would now like to turn the call over to Carlos, our CFO, who will present our financial highlights.

### **Jose Carlos Wollenweber Filho** {BIO 16884477 <GO>}

Good morning, everyone. We are very pleased to present our financial highlights for the first quarter. On slide 10, we highlight an increase in our average car rental monthly rates, which grew 13% year-over-year and generated a net rental revenue of 97 million in the first quarter of 2015, a 15% growth compared to the first quarter of 2014.

The next slide shows the number of cars sold by Locamerica, 3,281 units in Q1 2014, almost 20% rise over the same period last year. The average selling price increased 15% year-over-year to BRL23,600 and this is driven by a change in the profile with greater value-added vehicles.

In the first quarter, we delivered a net used car income of 77 million, a 37% increase quarter-over-quarter. Retail sales represented 30% [ph] of our total sales as compared to 15% in the same period last year. As Luis Fernando mentioned, we will open two additional stores in 2015. Our goal is to continue increasing our market share in retail sales.

On slide 12, we compare our Q1 '15 margins with the same period last year. So maintenance expenses represented 29.4% of our net rental income, and that is 3.5 percentage points lower than the first quarter of 2014. SG&A expenses represented 14.2%, 1.8 percentage points less than the same period last year. Now the used car figures

was very similar to the other period and considering the gains we have in our operational expenses, our EBITDA margin reached 55.7%. And this was compensated by higher expenses, operating expenses and we have delivered an EBITDA margin where percentage -- that increased 4.5 percentage points.

The next slide shows the reasons for the gains made in this quarter. At the end of March, the average age of our fleet was 15.7 months, the lowest in three years, which positively and significantly impacts maintenance costs. In the first quarter of this year, we reached a utilization rate of 95.7%, the highest since the first quarter of 2012.

It should be also pointed out that a series of initiatives to optimize administrative expenses continues. We invested in IT and improved processes that has served our customers remotely downsizing the operating units without impacting the quality of the services provided. In 2015, we'll continue to run projects in that trading value with a constant focus on increasing profitability.

On slide 14, we show an increased depreciation rate. This is a result of car fleet mix with greater value-added vehicles. Financial expenses increased 4 percentage points, driven by both higher CapEx investment into changing the car fleet mix and a higher interest rate. In spite of that, in this quarter, we achieved a net profit figure of 6.4 million and a 28.6% increase quarter-over-quarter.

It is noteworthy that our CapEx investment is 100% hedged. In fact in the first quarter 2015, the company adopted hedge accounting. So mark-to-market hedging mechanisms with non-cash, they are not based on earnings. And then we now control our hedge policy and we have decreased the volatility of our accounting results and also making our figures more easily comparable in the coming quarters.

On slide 15, we present the changes in the company's net debt. So it decreased 11.2 million and that led our cumulative EBITDA over the last 12 months, 3.3 times at the end of the last quarter of 2014. The top right chart shows a comfortable debt profile. At the end of March, we had 230 million in cash and this was sufficient to pay off debt maturing both in 2015 and '16. The bottom of the slide shows the evolution of our company's debt spread and the percentage of the fleet given as collateral, and these indicators show steady improvement in the quality of our financing.

Now we would like to open the floor for questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll begin the question-and-answer session. (Operator Instructions) Our first question comes from (inaudible) Bank of America.

### Q - Unidentified Participant

FINAL

Good morning, Luis and Carlos. I have actually two questions if possible, the first one concerning the pace of hiring that you have shown there was a drop in this first quarter compared to the last quarter. I believe it was 73 million and this year it's 60 million around. Does this indicate that there is a reduction in the pace of the market as a whole, or is this a more competitive pricing strategy in a more conservative market? And will this therefore mirror less significant volume in the next quarters?

And the second question is concerning the business of used cars. The performance was very good. I would like to know if you see a reduction in pace or you expect this pace to be constant throughout the year? So these are the main points I want information about.

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

Good morning. Thank you very much. Well, hiring rentals, we are not seeing a price war as a problem at this moment. Yes, our market is a market which is very intense, but I see that this market as a whole is more cautious than in the previous years. Our costs in terms of interest rates are very high and this is a cost for everyone in the market. And we are also going through a very emphasized [ph] period in terms of overhead costs because there are higher costs for utilities and manpower. And this will enable us to be very aggressive.

In terms of the higher rates, the banks are more selective of the rental market. This is not our case so because we have a very robust cash situation. We have all the resources, if we add our generation of cash expectations, they are necessary in order for us to do all the investments we scheduled for 2015. However, for small and mid-sized companies, the scenario is more complicated.

Therefore, we will close down some businesses. We see that there will be the same levels of the pipeline that we had in the last year, but our clients are more careful and the explanation they give us is that we are reviewing our budget, we are reviewing the headcount in the company. So we are doing that -- they are doing that. And this of course is impacting the time of the entire process.

With this scenario, we understand that this year it is likely for us to have new contracts in a lower number than we had last year. We don't think that it will be as strong as in the first quarter. If you see the first quarter with new hires, new contracts, we had a fall of 20%. We don't think it will be that strong throughout the year because there is a seasonality in our market, where the new contracts concentrate in the second semester. And we do not expect a very good second half. On the contrary, we think that the macro scenario that is going on today will probably take longer. It will take two or three years. And we do not expect to have a macro improvement, but we do expect that in normal situations, we believe that we'll have new hires in the second quarter or third quarter at most. So new hires, that's what I had to say, the difficulties of the clients to finalize and conclude the process for the reasons that are related to the macro economy.

And in terms of the used cars, the major highlight, as you have seen, is that we've changed our sales threshold in terms of Locamerica. As of the second quarter, we had a sales level which is much superior to the three first quarters of 2014. And what we want to

do is that -- to say is that, you can expect at this new level, we maintain throughout 2015 regardless of what happened in the market macro wise.

We have said that we have a participation of 0.14% of the total market there. So we have 48,000 points of sale in Brazil. And we have a position, a financial position, a product position, a team position and a sales platform position that has a very good competitive advantage in terms of all the other (Technical Difficulty) the market, which is a market of dealerships which are more informal and they are suffering, but we are not as much.

So we believe that in used cars, we are already having a very good performance and what we see is that this will probably be the same or even improve in terms of sales, and in terms of margins as well in the coming quarters. So we are at a comfortable position. We're so conservative in the depreciation items because even though we think that new cars are going up so much, used cars will probably not go on the same movement. So the new car -- the used car market is doing well and we believe our performance will be good.

And this is a result of several investments and a maturity of our sales panel and operational improvement in the existing panel. There are channels, which are being explored and being piloted, which will add to these -- the existing ones and we will have news, we have new dealerships and we have a market that is helping us in this area. So we are quite comfortable and we believe that we can keep these levels or even improve them throughout the next coming quarters.

### **Q - Unidentified Participant**

Thank you, Luis, for your answers.

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

You are welcome.

### **Operator**

(Operator Instructions) Our next question comes from (inaudible).

### **Q - Unidentified Participant**

Good morning, everyone. Congratulations for these great results. Can you hear me now?

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

Everything is fine here, Marcos. Good morning. Thank you.

### **Q - Unidentified Participant**

So my question is, can we expect that you will have the same level or a drop of the average fleet age in the next months or utilization rate?

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

Thank you for your question, Marcos. Our expectation for these two items is, first, since last year, we've started working on improving our efficiency, the efficiency of our assets. We want to take everything into account. We have very intense capital levels in our business. As we consider that the fleet is idle, there is a room for improvement. We've already had significant improvement levels, but we are expecting that in the next few quarters, we will have a higher level. So we are expecting to keep up our utilization rate.

As for the average age of the fleet, our investment is programmed. We want to renew and expand this year. It is a very high and strong level. So we want to keep up our levels. We'd already discussed this and we're expecting to reach an average age of 15 months in the next few quarters. So it will be a little lower in terms of the average age that we have now, and utilization rate will be slightly better than the current figures, so 5.5 -- 95.5 or 95.7 will be our new level, the expected new level. And we want to go even higher in the next few quarters. This is a challenge we want to do.

### **Q - Unidentified Participant**

Thank you. Thank you very much.

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

Thank you.

### **Operator**

(Operator Instructions) There being no further questions, the Q&A session with market analysts is now closed. Before we move on to the questions of the press, I would like to give the floor to Mr. Luis Fernando for his final remarks.

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

Well, again, once again I'd like to thank you all for attending our conference call. And as we have been saying, this quarter is another quarter in which we have slowly consolidating an improvement of our margins, especially with the focus on a strict control of operational and administrative expenses with aim to a sustainable growth pattern. And we also have a hedging policy that has reduced the impact of more than 40% of the (inaudible) growth in last year and this combined made us have a much better EBITDA and revenues, which were much better than we had in the first quarter of last year.

The macroeconomic scenario is very challenging. We can see that it's increasingly complex, but we believe firmly in all our policies for controlling costs, in our robust cash position, in our long-term debt profile, and in our operations and costs, which are all under control.

And we also count on the experience of over 22 years of working in this market and this makes us very comfortable and serene in order to be able to travel through this period, achieving, in our view, what we want to do, which is to improve our market share and

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grow. So yes, we have many challenges, but we are very optimistic with Locamerica performance for the year 2015. Thank you all once again. And let's wait for next quarter.

## Operator

Excuse me. We'll now move on to the Q&A session with the press. (Operator Instructions) Our first question comes from Leonardo Francia, (inaudible).

## Q - Unidentified Participant

Good morning, everyone. Can you give us further details about investments? You've talked about opening two new dealerships in Sao Bernardo do Campo. Where will the other store be located? How about fleet investment? What's the total planned for this year?

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

Hi, Leonardo. Thank you very much for your question. Unfortunately the company cannot give you investment guideline -- guidance, but as for the two stores, they are located in Sao Paulo. The first one is in Sao Bernardo. The other one, we're still prospecting. It will only be open in the third or fourth quarter of this year. So because of our policies, the investment that has been planned cannot be disclosed right now.

## Q - Unidentified Participant

Will they be higher than last year's level?

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

We're expecting to be aligned with last year's level at least.

## Q - Unidentified Participant

Great. Thank you very much.

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

You are welcome.

## Operator

(Operator Instructions) There being no further questions, the Locamerica conference call is now closed. Thank you all for attending and have a nice day. Thank you.

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