Q4 2012 Earnings Call

Company Participants

- Joel Kos, Chief Financial Officer
- Luis Fernando Porto, Chief Executive Officer

Other Participants

- Howard Siegelbaum, Analyst
- Leonardo Silva Pinto, Analyst
- Renato Opice, Analyst

Presentation

Operator

Good morning. Welcome to the teleconference of Locamerica to discuss the results for 4Q12 and for the whole year of 2012. Right now, all participants are in a listen-only mode. Later on, we will open for questions when further instructions will be given. During this quarter, Locamerica is opening up space for journalists who want to ask questions to do so right after the market analysts. (Operator Instructions) This teleconference is being simultaneously translated into English and questions may be asked by participants connected from abroad. You can also ask questions via the Internet through the webcast platform.

I would like to remind you that this conference is being recorded and the audio will be available at the company's site within 24 hours. In case you don't have a copy from the release by Locamerica made public on Wednesday, March '13, you can obtain it at www.locamerica.com.br/ri. This audio conference together with the slides is being simultaneously transmitted via Internet also with access through www.locamerica.com.br/ri or www.ccall.com.br/locamerica/4t12.htm for Portuguese and www.ccall.com.br/locamerica/4q12.htm for English.

Before going on, I would like to clarify that any statements made during this conference relative to future perspectives of the company as well as projections, operating and financial targets regarding the company's potential growth are projections based on management's expectations vis-a-vis the future of Locamerica. Such expectations will depend on the industry's performance, the country's economic scenario in general and the domestic and international markets performance and therefore they are subject to changes.

Together with us, we have Luis Fernando Porto, CEO; and Joel Kos, Financial and IR Vice President. Now, I would like to turn over to Mr. Luis Fernando Porto. You may proceed.

Luis Fernando Porto {BIO 17590082 <GO>}

Good morning, everybody. Thank you very much for participating in this Locamerica conference call on the results for 4Q12. First of all, I would like to highlight a reported net profit of BRL10.8 million in this quarter, up 121% as compared to 4Q11. Excluding higher depreciation as a result from IPI relief, our net income amounts to BRL14.1 million and annualized ROE of 18.9%. In the year, our reported net income of BRL3.7 million would have been more robust, if the effect of the IPI and non-recurring financial expenses were to be excluded and would reach BRL36.3 million, up 61% vis-a-vis 2011.

A second highlight is the 55.3% growth in sales of used cars in the quarter vis-a-vis 4Q11. This means that we sold 7,066 units in 2012, exceeding the target set at the time of the IPO. During the first two months of 2013, we sold 1,925 cars, up 269.5% vis-a-vis the 521 cars sold in the same period in 2012.

We also highlight a sequential growth of our rental revenue of 4.2% in 4Q12. New contracts in the last quarter and the strong pipeline of deals closed in first quarter of 2013 suggest the scenario of higher growth in 2013 as compared to 2012. EBITDA margin, which remained flat in 4Q12, excluding the annual provision of profits and results sharing already shows an upward trend for 2013.

Finally, in February 2013, S&P raised the rating of Locamerica to brA in response to the successful implementation of the company's capital structure optimization, which resulted in, one, debt lengthening from 1.7 to 4.5 years; two, release of collateral, the percentage of fleet in guarantee which fell from 68% to 37%; three, spread reduction CDI plus 5.5% to current CDI plus 2.9%; and number four, deleveraging of the company with our ratio net debt/EBITDA falling from 3.4 to 2.6 times in fourth quarter of 2012 in addition to the net debt over the fleet value, which was also reduced from 74% to 59% by the end of 2012.

The next four slides, before discussing our operating performance, will show you the main indicators, the key indicators. In slide number three, we see a growth of 16.1% in our consolidated net revenue for 4Q12 as regards the same period for 2011. This is mainly due to a 32.8 increase in revenues from sales of used cars and 9.2% revenue increase in the car rental business.

Slide number four. If we exclude impairment effects, our EBITDA totaled BRL168.5 million in 2012. This represents an average growth in the last three years of 31.2% and a margin of 55.5%. During the quarter, the company's EBITDA was 42 million, a margin close to 54%. With the strong pipeline in deals closed in the first quarter of 2013, we expect to dilute our costs and improve our EBITDA margin.

The next slide shows that in 4Q12, we had a net income of BRL10.8 million, up 120.9% increase over 4Q11 or BRL14.1 million if non-recurring effects of IPI are disregarded. This represents a new profitability level for the company. On slide number six, we see a growth of our fleet of 7.3% to 29,252 vehicles in the quarter against the same period in the previous year and we reaffirm our focus on quality growth with an increasingly diversified and decentralized client portfolio.

The next four slides will briefly discuss some of the trends in our segment for the last quarter. Slide number seven. Here we see the excellent performance in new car sales growth in Brazil, pushed mainly by the tax relief to the industry with the IPI reduction between May and December.

In the fourth quarter of 2012, light-duty truck sales totaled 968,000 for this quarter, up 7.7% over the same period for the previous year. In 2012, sales hit a record of 3,635,000 cars sold, 6.1% above the previous year. Slide number eight. The market of the used cars has also showed a positive performance in 2012 with sales about 9 million units, up 1.7% over 2011.

Slide number nine shows that we believe the car industry sales trends for this year are sustainable, mainly because the full levels are expected to improve with more financing as a result. The chart to the right shows car financing drop from 6% in September to 5.3% in December. As IPI makes a comeback and the price of new cars increases, used cars become more competitive and so we expect a relative increase in used car sales over the new cars in 2013. Preliminary data gathered in February suggest this trend has already started.

Slide number 10 shows the evolution of prices for both new and used cars in Brazil in the last year. On the left-hand side, we see continuously increasing of the spread between new and used cars. On the right, we show that the prices for old and new cars have been below the inflation rate. In 2012, the average price has dropped 10.7% in Brazil.

On slide 11, a breakdown of our fleet is shown totaling 29,252 cars by the end of the year, up 7.3% over 2011. Again the highlight of the quarter is shown in the chart to the right. A decrease in the number of cars in stock for sales representing 11% of the total fleet, in line with the same period in the previous year.

On slide 12, the average utilization rate is shown. It has improved for the second consecutive quarter to 95.4%, a result of our efficiency programs implemented by the company and the dilution of the effects of the crisis in this quarter. On slide 13, our net lease revenue is highlighted with an annual growth rate of 9.2% and a sequential growth rate of 4.2%. This is the result of substantial number of deals closed in 3Q12. Along 2012, our vehicle lease revenue, which represented 71% of the company's gross revenues, increased by 11.5% due to higher volumes plus 8.4% and an average rate of plus 2.6%.

On slide 14, we highlight the importance of our gross revenues coming from a wide variety of resilient sectors of the Brazilian economy, including major companies in the telecom, beverage, manufacturing, services, food, government and financial sectors. The chart to the right shows that we have been following our policy of diversifying markets and customer portfolios. By focusing on more profitable segments of small and medium business, we reached a total of 289 clients by the end of 2012, up 44% over the previous year.

On slide 15, we should highlight a 55.3% growth in sales of used cars in 4Q12 over the previous year, we ensured -- sales of 7,066 units, and this exceeds our sales target set at the time of the IPO. In January and February 2013, we sold 1,925 cars, up 269.5% over the same period in 2012. The chart on the left shows most importantly that we have average selling price has began to rise in the last few months, a result of a new sales mix.

On the next slide, the growth strategy for used cars is highlighted. Currently, we have 12 used car stores, eight in wholesale and four in the retail segment. In 2013, we expect to open another four retail stores in this segment in retail and that will double our representativeness in this retail and this is in line with our channel diversification strategy.

Our investments focus on our used car platform. This year for the first time in the company's history, our used car selling capacity will exceed our selling needs. As a result, we will have a strategic renewal of our rented fleet of some of our clients even before their contracts expire, which helps to reduce both depreciation and maintenance costs.

On the next slide, as a result of the reduction of the IPI tax in May, it was necessary to accelerate the depreciation curve of our entire fleet to reflect the new residual value estimate. On December 19, the government announced a gradual IPI return to 7% as of July, but it is important to say that we have not expected any reevaluation of fleet value to reflect this increase.

The graph on the right shows a total vehicle depreciation of 9.2% over the average fixed assets in 4Q12 or 6.5% if one excludes an additional depreciation of BRL5.1 million recorded in this quarter with the effect of the IPI. We estimate that the depreciation over average fixed assets ratio should remain between 7% and 7.5% in 2013. This is a consequence of a gradual increase in the spread between new and used car prices and also an expectation of having higher vehicle sales expenses.

On slide 18, the company's consolidated EBITDA reached BRL42 million in 4Q12, up 3% over 3Q12. The EBITDA margin over rental revenue was 53.4% in this quarter, slightly below the 3Q11 level due to the annual provision of profit-sharing plans. Without this, this EBITDA margin would remain stable at 54.1%. With this strong pipeline of deals closed in 1Q13, cost dilutions are expected and this will improve our EBITDA margin.

On the next slide, our operating income over EBIT ratio excluding the effect of IPI totaled 29.2 million in 4Q12 and this represents a 37.1% margin of our net lease revenues, which remained stable as regards 3Q12 margin of 37.2%. On slide 20, net income of BRL10.8 million was reported, an accelerated growth of 120.9% in relation to 4Q11. If we exclude the extraordinary effects of the IPI, our net income would be BRL14.1 million. In 2012, our net income totaled BRL3.7 million or BRL36.3 million if you exclude the nonrecurring effects of IPI and debt prepayment and this represents a 61% increase over 2011.

In the chart on the right, our ROE in the last 12 months, excluding the effect of the IPI and prepayment of debt, hit 16.5% in the quarter, the highest historical level the company has ever achieved. The annualized ROE for the quarter in turn is close to 19%.

Now, I would like to give the floor to our CFO, Joel Kos, who will speak about our investments and capital structure.

Joel Kos {BIO 17590108 <GO>}

Good morning, everyone. On slide 21, our investment to increase the fleet is shown for every fiscal year. In 2012, we benefited from the reduction of the IPI for fleet purchase and overhaul purposes. In that year, we acquired 9,522 and sold 7,066 vehicles with a net investment of BRL141 million. In 2013, the company expects to make a gross investment of approximately 400 million in vehicle purchasing and overhaul.

The next slide shows our capital structure. Throughout 2012, we strived to optimize our capital structure. We raised new funds amounting to BRL400 million under better conditions and terms without fleet in guarantee of that and prepaid higher debt amounting to BRL410 million. Thus we reduced our debt spread from CDI plus 5.5% to plus 3.1% at the end of 2012 and our current value is already CDI plus 2.9%. The chart to the right shows that we also reduced the percentage of vehicles sold in guarantee from 68% in 1Q11 [ph] to close to 37% by the end of 2012, thus increasing the company's financial and operational flexibility.

In addition, on the next slide, we significantly increased our debt duration from 1.7 to 4.5 years and also remarkably improved maturity distribution before we had a high maturity concentration in 2012 and 2013. It should be highlighted that out of our total gross debt, only 12% is short-term debt compared to 32% on December 31, 2011. If you consider our current investment plan, the cash flow position and the expected cash flow for this year, we will only need new debt funding in 2014.

On slide 24, we show the company deleveraging gradually. Our net debt/EBITDA ratio excluding the effect of the IPI is at 2.6 times. An even more transparent debt Index, the ratio of our net debt over the value of the fleet improved 74% at the end of 2011 to 59.2% at the end of 2012 in spite of the fact of the IPI reduction effects which reduced the value of our fleets by 7% to 8%.

And on the last slide, as a result of debt [ph] restructuring, 35% reduction of our net financial expenses in 4Q12 was achieved over 4Q11 and this amounted to 18.6% of our net lease revenues in 4Q12 as compared to a historical level close to 30%. The result of these efforts, as we said, is that in 2012, we achieved two major credit ratings agencies, in February 2013 S&P raised again our national rating again from brA- to brA.

On this note, we can move on to our Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now proceed to the Q&A session. (Operator Instructions) We would like to remind you that journalists will be allowed to ask questions right after the end of the questions with the market analysts. (Operator Instructions) Our first question comes from Renato Opice from Pavarini Opice.

Q - Renato Opice {BIO 6240148 <GO>}

Good morning, Luis, Joel. Congratulations for your results. I would like to ask a question about the investment plan. You estimate 400 million in vehicle acquisitions. I would like to know what you are projecting for sales, what will be the net result?

A - Luis Fernando Porto {BIO 17590082 <GO>}

Good morning, Renato. Thank you very much for your question. Our total investment plan is exactly around BRL400 million and the net investment, excluding the revenue with sales should be around 200 million, 220 million.

Q - Renato Opice {BIO 6240148 <GO>}

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Howard Siegelbaum from HNC Capital.

Q - Howard Siegelbaum {BIO 17609560 <GO>}

Hi, thank you for taking my question and congratulations on an excellent set of results. I am wondering, if you feel that you have now optimized your retail sales points versus your wholesale sales points and your mix of retail selling volume and if not what the plan is for the coming year? Thank you.

A - Luis Fernando Porto {BIO 17590082 <GO>}

Good morning. Thank you very much, Howard. For the last two years, we have been investing in order to improve our channels for used cars. The focus of the investment is actually retail. We currently have between 10% and 15% of our sales in this channel and then we have direct sales to users amounting to 3% to 5% [ph] and the remainder is concentrated in the wholesale channel.

All the investments we have been making and we have been preparing ourselves in the last two years for this, we expect that the share in other channels, retail and direct sales, we expect this share to grow to 50% of our total sales within the next four years. In 2013, we expect to open another four stores, thus doubling our sales capacity, our retail sales capacity. But these stores will naturally open along the year and we will only feel the full impact of these openings in 2014.

However, the expectation is to improve this share reaching between 15% to 20% of our sales in 2013 through direct sales and retail channels. Therefore, I say that we are still not in optimal position, but we are investing, increasing our investment in order to do that in times of difficulty, so that during crises, we can use these channels and thus have a lower impact on the results of the company.

Q - Howard Siegelbaum {BIO 17609560 <GO>}

Okay, great. And so, you said that 50% of sales within five years will be via retail channels? Is that right?

A - Luis Fernando Porto {BIO 17590082 <GO>}

Yes. In four years, we expect to have 50% wholesale and 50% in retail or direct sales.

Q - Howard Siegelbaum {BIO 17609560 <GO>}

Okay, great. Thank you very much.

A - Luis Fernando Porto {BIO 17590082 <GO>}

Thank you. Have a good day.

Operator

(Operator Instructions) Our next question comes from Renato Opice.

Q - Renato Opice {BIO 6240148 <GO>}

Sorry, Luis. I should have asked this before, but you talked, a number of times you said that you have a very strong movement, you have seen a great movement, very strong in the first quarter. Could you give us an idea of what you expect the fleet to grow in 2013?

A - Luis Fernando Porto {BIO 17590082 <GO>}

I would rather talk about rental revenues, since the contracts for small cars, you have a certain revenue and if it is for trucks or for executive, you have fewer vehicles and higher revenues. So, our expectation is something between 10% to 15% up vis-a-vis 2012, so better growth rates and it is very important in order to fulfill this growth that the contracts be finalized by first quarter, by the end of 1Q. We believe that we have this movement in first quarter, because last year when IPI dropped clients postponed their purchasing, because they were expecting to buy for a lower price.

Now, we see the opposite movement, people are closing -- rather running to close deals because prices of cars are expected to increase and we will have to increase our absolute values. This does not mean a change in margins, because we put different prices, or our pricing goes differently for each contract. So, what we see and what we expect is to have a higher growth than in 2012 and we expect this increase to be 10% to 15% above 2012.

Operator

Our next question comes from Leonardo Silva Pinto from CGD Securities.

Q - Leonardo Silva Pinto {BIO 20522092 <GO>}

Good morning. Congratulations for your results. My question has to do with the impairment that was presented in the fourth quarter. I would like to know whether you expect for the next quarters, whether you expect a reversal in impairment. The second question relates to vehicles purchasing. What do you expect to be the net result for buying and selling vehicles for next year?

A - Luis Fernando Porto {BIO 17590082 <GO>}

Thank you very much. The second question I could not get it very well, but let me answer the first one about the impairment reversal. Well, we still have vehicles with impairment to be sold, so this should happen but at a lower rate, at much lower rate because the more vehicles we sold from the previous inventory, the faster the impairment reversal was. We still have a small inventory but much smaller than the previous quarters.

The second question, could you repeat again?

Q - Leonardo Silva Pinto {BIO 20522092 <GO>}

I would like to know what the net result will be from buying and selling cars, how many do you expect to buy and how many do you expect to sell in 2013?

A - Luis Fernando Porto {BIO 17590082 <GO>}

We expect to sell between 9,000 and 10,000 cars and we expect to buy between 12,000 and 14,000 cars.

Q - Leonardo Silva Pinto {BIO 20522092 <GO>}

Thank you very much.

A - Luis Fernando Porto {BIO 17590082 <GO>}

This will depend on the mix, therefore I am giving you a higher percentage because it will depend on the car mix. We may buy more economic cars and then we will buy more cars; if we buy more executive cars, we may have fewer vehicles. So it will depend on the mix; but our budget, what we project for growth is between -- is 400 million to buy and 180 million to 200 million for sales.

Q - Leonardo Silva Pinto {BIO 20522092 <GO>}

Going back to impairment, when do you expect to have the results, the final results for impairment?

A - Luis Fernando Porto {BIO 17590082 <GO>}

In a couple of months tops [ph].

Operator

(Operator Instructions) The Q&A session with analysts has now come to an end. Now, we will open for journalists. (Operator Instructions) If there are no more questions, I would like to turn over to Mr. Luis for his final words.

A - Luis Fernando Porto {BIO 17590082 <GO>}

Thank you very much for attending our call and we are very happy with the results reported for 2012, chiefly due to the fact that when we prepared ourselves to go to the capital market, we worked for four years very diligently. So, after such a difficult year, with very strong impacts on our figures due to the IPI tax relief by the government, in spite of all that, we were able to bypass all these hurdles and go back to the levels and margin with much better profitability, way above what we had before the IPO and this is proof that our IPO was important. We needed that capital injection in order to deliver even better results to our shareholders.

I would also like to reaffirm that for 2013, we intend to privilege profitability, in other words, the bottom line and from now on, with the picking up of the economy even at a slower pace, we have a performance that is detached from the GDP. We expect to grow four to five times the GDP for the country. We are going to maintain a strict financial discipline, we are going to proceed to reduce our costs in terms of debt, a low leverage attitude and posture and it will be very important for Locamerica to go on being one of the players, consolidators of the fleet market in Brazil.

Thank you very much and see you next quarter.

Operator

Locamerica's teleconference now comes to an end. We thank you very much for your participation and have a nice day.