

## Q4 2011 Earnings Call

### Company Participants

- Salim Mattar, CEO
- Silvio Guerra, Director
- Unidentified Speaker, Unknown

### Other Participants

- Claudia Feddersen, Analyst
- Michelle Yu, Analyst
- Netey Saegio, Analyst
- Stephen Trent, Analyst

### Presentation

#### Operator

Good morning. Welcome to the Fourth Quarter and 2011 results conference call of Localiza Rent A Car. Hosting this event today are Mr. Salim Mattar, Chief Executive Officer, Mr. Roberto Mendes, Chief Financial Officer, Silvio Guerra, Director, Investor Relations.

We would like to inform that the numbers in this presentation are stated in the millions of Brazilian reais and based on US GAAP until 2010 and based on IFRS from 2011 on. The presentation will be recorded. And all participants will be -- 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, investors, when further instructions will be provided.  
(Operator Instructions)

The audio of the conference call and the accompanying slide presentation are being broadcast simultaneously over the internet at the address, [www.localiza.com/ir](http://www.localiza.com/ir). The slide presentation can be downloaded at the same address by clicking on the banner 4Q '11 webcast.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the Company forecast and 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 results materially different from those stated in this call.

I would like now to turn the presentation over to Mr. Salim Mattar, who will begin the presentation. Please, Mr. Salim, you may now begin.

## **Salim Mattar** {BIO 7288067 <GO>}

Good afternoon, everyone. And thank you for your attendance. I'd like to inform that the download of the presentation is available on our website under webcast/presentation as well.

Let's begin with slide number two. Integrated business platform gives Localiza the flexibility and superior performance. Our asset management model, our business scale under the adoption of the best practices system strengthen our leadership, make us more competitive and prepared for continuous growth. We have been adopting the correct strategy for the trend economically and the competitive environment scenarios.

Since the IPO in 2005, the net revenue from the car rental division grew 3.6 times. And the net revenue from the fleet rental division grew 3.2 times. All fleets went from 28,000 cars in the end of 2004 to 96,000 cars in those six years, including there're certain cars for an (inaudible) days in Brazil and the other countries in South America. Companies fleet reached 109,000 cars in December of 2011.

Cash generated before gross and interest totaled BRL450 million in 2011. And this is seven times larger than the cash generated in 2005 year after the IPO. In 2011 we have improved our cash position and debt amortization profile with maturity up to 2018. We were rated investment grade by Moody's and Fitch, which also strengthened our competitive advantage in (inaudible).

Localiza has been adopting the highest levels of corporate governance. The product director has been professional in the attitude with qualified members under the best file the capabilities. Our relationship with the investors and the other stakeholders has been additional to transport.

Now, I would like to turn the presentation over to Silvio Guerra to present the financial and operating data of 2011.

## **Silvio Guerra**

Good afternoon, everyone. And thank you all for the attendance to our conference call.

On slide number three we present some highlights of 2011. EBITDA presented a growth of 26.5% versus 23.4% growth of the net rental revenues. Net income grew 16.4%, mainly impacted by cars depreciation and the increase of the basic interest rate.

On slide number four we present the growth evolution of daily rental and revenues from the car rental division. In 2011, rental days and revenues have kept strong growth, mainly in the first half of the year. The second half was impacted by the 2010 elections that

generated extraordinary demand between August and October 2010. But even excluding this effect, demand for car rental was impacted by the deceleration of the gross domestic product in the second half.

The fleet rental continued presenting solid growth, as you may see in slide number five. In this division, where we have long term contracts, the revenue growth in 2011 was up 26%.

In slide number six, we present the evolution of the net investment in fleet. In the Fourth Quarter '11, 21,790 cars were purchased for fleet renew and to service the pickup demand of summer vacation in Brazil. In the year, fleet was increased by 9,178 cars, with a net investment of BRL308.4 million.

Let us move to slide number seven, where we can see the utilization rate of the fleet in the car rental division. In the Fourth Quarter 2011, even with the increase in the purchase of cars to service the pickup demand of the end of the year, utilization rate was 68.9%, 2.6percentage points above the utilization rate of the same period 2010.

Average age of the operating fleet from the car rental was kept stable when compared to the Third Quarter '11 in 7.3 months. The increase in the average age of the cars sold of around one month did not impact maintenance costs nor the sales prices of the cars deactivated.

In slide number eight, we present the evolution of our network. We ended 2011 with 449 rental locations in Brazil and another 47 in South America. To support company's growth, 11 Seminovos stores were opened. And five of them opened in the Fourth Quarter 2011. We intend to open another 14 points of sale in 2012.

Slide number nine presents fleet evolution. The increase of 9.4% in the fleet as this is the capability of the Company in adjusting fleet to demand in search of gains of productivity.

Slide number 10 presents net revenues evolution. In 2011, consolidated net revenues grew 16.9% due to the growth of 23.4% in the rental revenues and 11.1% in the used car sales revenues. In 2011, used car sales revenues increased due to the 7.4% growth in the number of cars sold and 1.9% growth in the average price of the cars sold.

On slide number 11, we present the EBITDA evolution. EBITDA grew 26.5% in 2011, above the growth of 23.4% in car and fleet rental revenues. EBITDA margins are still consistent since the IPO. EBITDA margin in the car rental division reached 46.9% in the year, 1.6percentage points above the margin presented in 2010.

Fleet rental margin of 68.6% improved 0.6percentage points when compared to the previous year. In the Seminovos, the 2.8% margin remained in line with the one presented in 2010 and adjusted to the Company's goals.

Let us now move to slide number 12, where we present the evolution of depreciation in the car rental division. Year-to-date, average depreciation per car increased BRL147.9

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when compared to the previous year. The spread between the purchase and sale price have not increased. The highest depreciation derived from the increase in the lease of new Seminovos stores due to the heated real estate market and from spending more on advertising to increase the flow of customers in the stores since banks are more selective on the credit approval.

On slide number 13, we see the evolution of depreciation in the fleet rental division. In this division, depreciation reached BRL4,133 per car, was besides the effects of new stores and advertising explained in the previous slide, reflects market conditions for high end cars.

On slide number 14, we present the net income. In 2011, net income increased 16.4%, amounting BRL291.6 million. The increase of 26.5% in the EBITDA was partially consumed by the increase in depreciation and financial expenses by roughly 37%. Financial expenses grew due to the increase in the average basic interest rates, from 9.7% in 2010 to 11.6% in 2011.

Now, let us talk about the cash generation shown in slide number 15. Free cash flow generated before growth and interest payment reached BRL415.5 million. BRL176.2 million were generated after the investment, to add 9,178 cars in the fleet.

On slide number 16, we present the use of the cash generated and the impact on net debt, report BRL115.5 million cash generated before growth was used in fleet expansion and interest payment and dividends. We ended 2011 with a net debt of BRL1.4 billion, or 6.4% growth.

On slide 17, we present debt profile. Debt profile is very comfortable, with eight-year term for the amortization of the principal. Debt duration improved from 3.8 years in 2011 to 4.3 years in 2012. Moreover, the Company engaged in strengthening its cash position for any eventual adverse scenario.

On slide number 18, we present the debt ratios. These ratios reflect a conservative policy of the Company. We highlight the net debt over EBITDA ratio that was reduced to 1.7 times.

On slide number 19, it is presented the spread between the ROIC and the cost of debt after tax. In 2011, the spread between return on invested capital and the cost of debt was 8.5percentage points. And reflects the pricing strategy of the Company in pursuing the consolidation of the car rental market, maintaining profitability. I now turn the floor to our CEO, Salim Mattar.

**Salim Mattar** {BIO 7288067 <GO>}

Thank you, Silvio. On slide 20, we present 2012 macroeconomic scenario. Market expects a growing path throughout 2012 for the GDP. For the interest rate, market forecast a descending path, with the Central Bank announcing the forecasted usher (inaudible) rate.

In 2012, we were improved in the Bovespa Index. Our average daily traded volume is increasing. And the -- our liquidity went from BRL23 million in 2011 to almost BRL30 million in 2012.

(inaudible) was appointed one of the two Brazilian companies among the 50 best stocks in the world by Margin sterling global sales in the 54 2015 report. Since you have so included the Localiza as one of the five top picks Brazil for 2012 in the BRIC out Global Equity Strategy report. And there's some magazine this month in the article Where to Invest 2012, appointed Localiza among the five best companies of the consumer sector in Brazil.

Our commitment to our investors increases with those (inaudible) 12 recommendations from the sell side the analysts. We are optimistic in the commitment to keep the growth with profitability.

Let's now move to the Q&A session.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) And our first question comes from Stephen Trent with Citi.

#### Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good day, everybody. And thank you very much for the call. I apologize in advance, as I had a little bit of trouble on the website with your presentation. But I couldn't hear what you said. You mentioned going from BRL23 million to BRL40 million. And forgive me, I didn't catch that whole comment. If you could repeat, please.

#### A - Silvio Guerra

Steve, we mention that since last year after we were -- we got the Bovespa Index where we got into the Bovespa Index our average liquidity per day increase from last year's BRL23 million to around BRL30 million per day in 2012.

#### Q - Stephen Trent {BIO 5581382 <GO>}

Okay, perfect, Silvio. Thank you. And I was also curious if you have an update with respect to potential ADR launch.

#### A - Silvio Guerra

Steve, you're right. We intend to launch our ADR after the end of the First Quarter 2012 in order to allow investors that would prefer to have a US security traded in US. It would be an ADR Level 1.

**Q - Stephen Trent** {BIO 5581382 <GO>}

ADR Level 1, great. And just one last question and I'll let somebody else go. Just out of curiosity, if you could give us a little color as to what you're seeing with your major competitors (inaudible) and the other franchisee for Avis, I believe that is looking for bankruptcy protection. You know, what you're seeing from your major competitors. And that's it for me. Thanks.

**A - Silvio Guerra**

Steve, you know that since the major change in one of our competitors on regards to the financial environment, they launched a bond and we are just waiting and see the next moves that we believe are going to bring some rational pricing to the market. We believe that this is what's going to happen with the first name you mention.

On regards to Avis, we don't have any specific consideration to do. We are just waiting to see what would be the developments that might occur in the franchise role in Brazil.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Okay. Great. Thank you, again. And I'll let somebody ask a question. Appreciate that.

**Operator**

Our next question comes from Netey Saegio with (inaudible).

**Q - Netey Saegio**

Hi, guys. Thanks for the call and congratulations on another good year. I had a question about depreciation. A lot of -- there's been a lot of talk on depreciation and structural increase, if we're seeing a structural increase in depreciation in the market. Could you give us your thoughts on that? It's obviously a big difference for the returns in your business versus the US car rental companies.

Can you comment on, one, where you think depreciation can hold up going forward? Should we look at the sort of BRL2,000 dollars per car in the car rental side as kind of the level going forward?

And second is if depreciation does increase, could you talk about what you will try to do to offset it? When looking back at mid 2008 to early 2009, you guys took a price increase when the government policy came into place and depreciation increased. Is that something you would start to think about? At what point would you think about that? Or would you try to lever up more, given financing costs are coming in, or any other level? So just give us some context because as you've seen, there's a lot of talk on where depreciation can go and people are getting a little bit worried about sustainability of depreciation in Brazil.

**A - Silvio Guerra**

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Okay, thank you for your question, Netey. And what we intend to do here is just a quick remark on regards to depreciation. Our numbers describe on page number 12 of our presentation, you can see the average depreciation per car in car rental. The number for Fourth Quarter '11 was BRL1.9 -- BRL1,986. We believe moving forward this number would be an acceptable number, or maybe with a little bit of an increase in that number. But not that much.

On regards to our forecast for the average depreciation per car in fleet rental, we believe on page 13 you have a number of BRL4,277. And we believe this would be an appropriate number or with some sort of an increase. But not that much in terms it's not a major worry about the -- this.

What we have seen is that and you could see that from the price of cars being sold in our presentation that the depreciation has increased not because of the drop in price of cars. But mainly because of the hike in SG&A or selling expenses in the used car sales division. Those expenses, as we mentioned in the report, were related to a more selective that credit environment from banks that today require more files to be reported in order to accept the credit finance.

And in that sense we have spent more money in terms of the rentals for space per square meter and also for we have spent more in advertising. What would be the outcome? The outcome would be the resulting 14 new car resale stores that we are opening in 2012 in order to offset this effect, which is the selling expenses hike in the car rental -- in the car resale division.

### **Q - Netey Saegio**

Okay. And has there been any -- has there been any sort of frontloading of those expenses? Are those expenses that you took, are they all -- has any of that to do with the opening of new stores or are those ongoing recurring expenses that you expect to incur to be able to sell cars?

### **A - Unidentified Speaker**

Well, we don't see this as a permanent increase. We believe the level of this cost of sales would remain at around 9.5% to 10%.

### **A - Silvio Guerra**

I would like to add these new stores is like variable cost because we expect to open new stores to achieve high volume. So the average per car we believe will not change.

### **Q - Netey Saegio**

Okay, I see. And how are you guys -- so you think depreciation will stay at the Fourth Quarter level. So there's -- I presume there's no plan, then, to take any pricing increase for this year?

### **A - Salim Mattar {BIO 7288067 <GO>}**

Hi, Netey, it's Salim.

## Q - Netey Saegio

Hi, Salim.

## A - Salim Mattar {BIO 7288067 <GO>}

As you know, we had pricing strategy with the objective to consolidate the car rental business in Brazil. This year we have expectations that the interest rate will be lower than last year. This can be one of -- one way that Localiza can face the growth in depreciation. So to increase the price is not in our mind. We prepare continually having gains of the scale and the productivity efficiency but keeping the same as flat -- the price is flat because this is the way that Localiza will consolidated industry.

We had in our days a spread of 8.5 in percentage points. That we think is a comfortable number for us, a good margin for us. So I believe that is (inaudible) to grow the size of the Company than to increase the price. As we have the opportunity in going -- in reducing the cost of interest rate can be -- can face the growth of depreciation cost. Is it clear for you, Netey?

## Q - Netey Saegio

Yes, it is. Thank you. Thank you, Salim. One other question is you guys did a very good job keeping G&A costs under control in the Fourth Quarter and also in the full year when most of the companies in Brazil faced a lot of increase in selling costs and labor costs. Could you comment a little bit on that, on G&A specifically? Is that something you were able to take one time under control and it's going to grow again with revenues or is there a lot of leverage still to be had from your general and administrative costs?

## A - Silvio Guerra

Well, Netey, you're right, our SG&A for the car rental division dropped from Fourth Quarter '11 against Fourth Quarter '10 around BRL5 million. And the reason for that was that we had -- we did some provisions last year in the Fourth Quarter '10 and those provisions were reversed, which means that we believe we are going to be able to keep a level that is going to be -- in terms of the cost, it would be something like you have on average 14% for the whole year of 2011. This would be the correct idea.

## Q - Netey Saegio

That's for 2012 you mean?

## A - Silvio Guerra

2012.

Yes, if you look the Third Quarter, the lab of (inaudible) need the same as the Fourth Quarter. So the situation that we saw is not in 2011. But in 2010.

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## Q - Netey Saegio

I see, okay.

## A - Silvio Guerra

The number for Fourth Quarter '10 was 18.3%. And now they are at the level 14.7%. We believe 13.5% to 14% would be an acceptable number.

## Q - Netey Saegio

Okay. And my last question is if you could comment on anything that's happened since the end of the year. We've heard some comments about banks maybe loosening up a little bit on auto credit. I'm wondering if that's speculation or if you're seeing any of that.

And then also on rental demand, Q4 obviously had some elections impact. And now that we're into the new year, more normalized. If you could give us a sense of if it's in line with your expectations both on credit or if credit is loosening a little bit more than you would have thought maybe a month or two ago.

## A - Silvio Guerra

Netey, our perspective moving forward is to keep increasing the -- both businesses, the car rental division and the car sale division. You know both of them in the car sale division mainly with the opening up of the 14 new stores. What we have seen so far on regards to the financial conditions in Brazil is that the country will need to loose up a little bit the financial conditions because the selectiveness of credit that were imposed by government one year ago by the macroeconomic prudential polices.

Now it's not a regulation anymore. So I believe banks will be able to loosen up a little bit the tight grip that they are doing in order to, let's say, to reach the same or at least part of the forecasted GDP of around 3.3% to 3.4% by Central Bank. When I talk banks, I am talking both the private banks as well as the public banks.

## Q - Netey Saegio

Okay, I understand. And on car rental days, historically we've looked at 5 to 6 times GDP as where GDP is sort of arranged. Do you guys feel comfortable with that based on what you're seeing so far this year in demand?

## A - Silvio Guerra

Well, up to now you see from the chart on page number 4 we start in 2005 up to 2011, we have been growing at the pace of 24.6% when GDP has -- it equals to something like, let's say, 6 times. We believe it's not a guidance. But we believe that up to now this is a good -- let's say it's a good guess on regards to the pace of growth for the daily rental volumes.

## Q - Netey Saegio

Okay. Sorry, one last question. Are you seeing any geographic difference in where the growth is coming from, which regions are growing faster or stronger? Is it evenly spread

throughout the country?

### **A - Silvio Guerra**

Netey, in overall terms we don't perceive any specific place of the country where you can see that the growth is mainly concentrated in that part of the country. We are seeing growth everywhere. It's distributed according to GDP.

### **Q - Netey Saegio**

Okay. Great. Thanks, guys. Thanks for the questions and all the best for next year.

### **Operator**

(Operator Instructions) Excuse me, our first -- our next question comes from Ms. Claudia Feddersen with Banco Espirito Santo.

### **Q - Claudia Feddersen** {BIO 15964923 <GO>}

Good afternoon. I have just jumped on this call. So sorry if my questions have already been answered. But I would like to know about the sell cost of the same store sales in stores. And if the Company believes they will maintain the same level in 2012.

### **A - Silvio Guerra**

Claudia, are you referring to car rental same store sales or Seminovos sales?

### **Q - Claudia Feddersen** {BIO 15964923 <GO>}

Seminovos stores, sorry.

### **A - Silvio Guerra**

We believe we are going to sustain the same level that we are having so far.

### **Q - Claudia Feddersen** {BIO 15964923 <GO>}

Okay, cool. Thank you.

### **Operator**

Our next question comes from Mr. Michael Yu with Closer.

### **Q - Michelle Yu** {BIO 19486274 <GO>}

Hi. Sorry, this is Michelle Yu from Lazard. How are you? Congratulations on your good results. I just have a quick question for your fleet business. I guess the fleet, either from the rental side and then the resale side, are much weaker than what I expected. Do you expect the second half to pick up because more and more companies will start basically infrastructure and construction for the Olympics? So I would just like you to comment on that. Thank you.

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## A - Silvio Guerra

Michelle, we believe what we see is on regards to the pace of growth of the economy that the first half of 2012 is going to be not as strong as the second half. So the second half is going to input a higher percentage growth on gross domestic product. It's shown on page number 20 of the presentation. And we believe we are going to benefit from that.

## Q - Michelle Yu {BIO 19486274 <GO>}

I understand. So what's -- was Fourth Quarter business a surprise to you?

## A - Silvio Guerra

The fleet rental business is a business that moves from previous sales efforts. The current level, the current pace of growth of the 26% year-over-year, you are right, we grew 26%, while the car rental division grew 22.3%. But the fleet rental division is not related to GDP. It's not a matter of the growth in GDP moving up or down.

The matter for the fleet rental division is 4.2 million corporate clients available in Brazil that belongs to corporations. We aim at 500,000 of those 4.2 million. The country Brazil has already outsourced 232,000 cars and Localiza holds 13,000 cars in its fleet rental business.

Our project is moving forward towards more sales in order to grab more market share. But the fleet rental business is an opportunistic business for us. We want to keep growing in -- at the profitable level, which means at the existing numbers that you've seen in terms of EBITDA at around 67%, 68%.

## Q - Michelle Yu {BIO 19486274 <GO>}

Okay. Thank you.

## Operator

Excuse me, this concludes the conference call of Localiza Rent A Car. Now I will turn the conference over to Mr. Silvio Guerra to proceed with the closing statements. Mr. Silvio, you may proceed.

## A - Silvio Guerra

Thank you. We would like to thank the attendance to our conference call and to inform that our investor relations department is available for any further questions. Thank you, all. And have a good day. Bye-bye.

## Operator

This concludes the conference call to Localiza Rent A Car for today. Thank you, very much for your participation. And have a good day.

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