Conference Call Transcript
3Q08 Results
Localiza
October 8, 2008

Operator: Good morning and welcome to the Localiza Rent-a-Car teleconference for the 3rd Quarter 2008 Results. Present here are Mr. Salim Mattar, CEO; Mr. Roberto Mendes, CFO and Investor Relations Director and Mr. Silvio Guerra, Investor Relations.

The amounts in this presentation are in Brazilian reais and based on USGAAP, except when otherwise indicated. Participants will only be able to hear the teleconference during the company's presentation, which will be recorded. Immediately afterwards we will begin the question and answer session for analysts and investors; more instructions will be provided at that time. Should anyone need assistance during the conference, please contact an operator by dialing *0.

The audio and slides for this teleconference are being aired simultaneously on the Internet at www.localiza.com/ri. That link provides access to the respective presentation for platform download; you can access the download by clicking on the "Webcast 3Q08" banner.

Before proceeding, we would like to point out that any statements made during this teleconference regarding Localiza's business prospects, projections and operational and financial goals are the beliefs and opinions of the company's directors and may or may not occur.

Investors should bear in mind that macroeconomic and other operational factors could affect the future of Localiza and may yield material results different from those expressed under such future considerations.

Now, we would like to turn the floor over to Mr. Silvio Guerra, Localiza's Investor Relations, who will begin the presentation. Mr. Guerra, please go ahead.

Mr. Silvio Guerra: Good morning everyone, let us start with the slide number 2 that presents our strong growth in rented fleet on the third quarter 08, 45% in the car rental division; 26.5% in the fleet rental division.

On slide number 3 with can see that this strong growth reflected the increase in the car rental and fleet rental revenues that grew 40.6% and 25.3% respectively.

The next slide, slide number 4, shows the evolution of the Ebitda that in this quarter increased 28% against the same period last year.

On slide number 5 we present the evolution of our Ebitda margins that remained consistent.

Slide number 6 shows net income evolution. In this quarter profit has been affected by the increase in financial expenses due to the increase in CDI rates and the drop in the utilization rate.

The current utilization rate of 66.1% in the car rental division in the third quarter 08 will increase in the fourth quarter 08 due to the reduction on car purchases, with positive effects on financial expenses and depreciation.

On slide number 7 we present the evolution of car purchases and the sales in our "Semi Novos" Division. In this quarter the automakers delivered to not only the cars they were asked for the third quarter 08, but also the ones they had not delivered in the first half of this year. In September 30th we were with 4,000 cars in excess, despite the increase in our sales in the "Semi Novos" Division.

On the next slide, slide number 8, we present our net investment in fleet that up to September totaled R$ 443.6 million basically for fleet growth. This Capex would have been R$ 120 million smaller if the fleet growth had not been above our needs.

On the slide number 9 we present the drop in the fleet utilization in the Car Rental Division in the third quarter 08. In the fourth quarter 08 the "Semi Novos" Division sales should remain at current levels, while the purchase of cars will be reduced to increase our fleet utilization rate, reducing financial expenses, depreciation expenses and the Capex for growing the fleet.

On slide number 10 we present our indebtedness growth on September 30, 2008. Debt increased 56.4% in 2008, although the average rented fleet has grown 33.4% against the first nine months of last year. This difference happened due you to the excess of 4,000 cars already mentioned.

On slide number 11 we present our current indebtedness against the fair value of the fleet and in relation to Ebitda. In the third quarter 08 we improved the debt profile with the conclusion of the 3rd debentures issuance with an amortization timeframe of three years and a cost of CDI + 180 bps, whose proceeds were used to anticipate the amortization of promissory notes in the amount of R$ 300 million that would be due on March 2, 2009.

The financial resources from the reduction of the 4,000 cars in excess in our fleet that should generate R$ 120 million will be aimed at the amortization of indebtedness due in 2008 and 2009.

On slide number 12 we present the free cash flow generated in 2008. Before the growth of the fleet, the generated cash was 136 million; in the fourth quarter 08 the Capex for growth will be reduced by the selling of 4,000 cars in excess.

On slide number 13 we present the EVA - Economic Value Added. The NOPAT margin will be raised by the increase in the rental rate for new contracts. The turnover of the invested capital should increase through the reduction of 4,000 cars in excess in our fleet.

I would like to pass the floor to our CEO, Mr. Salim Mattar.

Mr. Salim Mattar: Thank you Silvio, good morning everyone. On slide 14 we present the RENT3 performance that was affected by the worldwide financial crisis. I would like to highlight that Localiza together with CPFL were elected in 2008 the best companies in corporate governance by "Capital Aberto" magazine.

On the next slide, slide 15, we present our strategy for the current moment: keeping the company clean; reducing the non-car Capex; postponing investments; increasing the fleet utilization in the Car Rental Division to a minimum of 72%; raising rates to compensate the increase in the CDI and inflation; and adjusting the growth of the company according with its cash generation. Summarizing, maximizing the use of resources in search of better results.

We reiterate that under the current macroeconomic environment the company is financially strong. With it payments for 2008 and 2009 are already planned and with opportunities to increase its cash flow generation. We will present a good performance in the short run in order to be able to regain our accelerated expansion plans as soon as this scenario turns out to become favorable.

We go now to the Q&A session.

Q&A Session

Operator: Ladies and gentleman, the floor is now open for questions and answers. If you would like to pose a question please press star key followed by the one key on your touch-tone phone.

Our first question comes from Mr. Bernardo Carneiro with Deutsche Bank.

Mr. Bernardo Carneiro: Hi, good morning everyone. I have three questions; the first question is on rental rates. How much the company plans to increase the overall rental rate or reduce the discount, meaning what would be the impact to the average rental rate and when does the company plan to start to increase the rental rate?

The second question is I would like you to explain the drop in the Ebitda margin in the car rental units. It seems direct cost to rent the cars increased during the period and I would like to have some color on that.

My third question is about the growth including the franchisees; how many franchisees did the company buy in the last 12 months, so that it increased the growth rates and how much would have been this 45% growth in the rental volume taking out the franchisees in the calculation? Thank you.

Mr. Roberto Mendes: Thank you, Bernardo. Regarding the growth in our rate, we will grow enough to have the same profitability and to keep the margin at the same level and to compensate the inflation and also the growth in the CDI, the local interest rate.

Regarding the Ebitda margin in the car rental, this quarter showed a little lower than usual, but if you see the nine months, the first nine months in the year, it is in the same level. So probably some expenses moved from a quarter to another and also we will compensate for the new quarter, the fourth quarter, in our rate, our rental rate in order to keep the margin in the same level as usual.

Mr. Carneiro: So you are going to increase the rental rate right now in the fourth quarter?

Mr. Roberto Mendes: Yes, for new contracts.

Mr. Carneiro: Ok.

Mr. Roberto Mendes: And regarding the franchisees, just a moment … what is your question? Can you repeat it please?

Mr. Carneiro: I know that the company has a policy of buying the branches of some franchisees sporadically, so I would like to know how many branches or how many cars the company bought in the past 12 months and adjust the growth. I am asking you the growth adjusted excluding the acquisition of franchisees in the last 12 months.

Mr. Roberto Mendes: It is not so strong because we only by small franchisees. But I do not have the answer, the exact number for you now, so later I will send to you through e-mail and in our site how many cars we bought for these new branches, ok Bernardo?

Mr. Carneiro: Do you have like a raw figure in percentage points, more or less? Instead of growing 45%, how much the growth would have been?

Mr. Roberto Mendes: Just a little, much less than 5%. I do not have the right figure, but I will tell you later how much exactly it is.

Mr. Carneiro: Ok, thank you.

Operator: Our next question comes from Mr. Nicolai Sibrill with Morgan Stanley.

Mr. Nicolai Sebrell: Hi gentlemen, (inaudible 13.57)

Mr. Silvio Guerra: Nick, we are not hearing you. Could you speak louder please?

Mr. Sebrell: Ok yes, it is a very bad connection. First, if you could talk about financing. Can you hear me now?

Mr. Silvio Guerra: Yes, we are hearing you fine.

Mr. Sebrell: Ok. If you could talk about average cost of financing going forward for the next, say, six months, what would be a good assumption to you for our models in terms of what your average cost for the debt that you have?

The second question is people are concerned about the used car market – prices in the used car market - and consumer credit. I think really what is important is the spread that you guys have (inaudible 14.55) cars, sell used cars for; if you look over the history - your experience in the market through good times and bad - what in a downtrend like this - what usually happens, used car prices relative to (inaudible 15.13) and does that change your outlook at all depending on … if the spread widens or narrows more than you might think it will? Please talk about that a little bit.

Mr. Roberto Mendes: Nick, thank you. Regarding your first question, the average cost, 100% of our debt is in CDI plus a spread and the spread is nowadays 1 p.p. over the CDI. We believe that the CDI now is 13.75 and now we are waiting for the new meeting of COPOM and I am not sure that the COPOM will go ahead with growing more the CDI or keep in this level nowadays for the future.

Mr. Sebrell: Right, understood.

Mr. Roberto Mendes: Regarding used cars, the spread ... spread of what? The average price that you pay in the last half and the average price that we sold our cars in the Car Rentals Division are in the same level in the last quarter. Probably something could happen in both in the future, but I do not have any guidance regarding this now.

Mr. Sebrell: Right. If you look at that cycle, have you experienced any … how would you look at that … look at the depreciation, the depreciation of the vehicle tends to go up in down cycles or has it been consistent or what is your previous experience?

Mr. Roberto Mendes: The depreciation per car in the past and nowadays is R$ 700, it used to be 0.5% of this. So now we are showing for the future a higher depreciation and it is regarding in our balance sheet now. So for the future probably it could increase a little more, but now we have already shown, recorded the higher depreciation in the car rental. In the future rental the depreciation per car is in the same level.

Mr. Sebrell: Right, thank you gentlemen.

Operator: Our next question comes from Mr. Michael Millman with Soleil Securities.

Mr. Michael Millman: Thank you. Following up on the last question, do you have some of your fleet on a programmed or guaranteed basis and some on a risk basis and if so are you changing the ratios for those?

Mr. Silvio Guerra: Thank you for your question Michael. Localiza does not have program cars or buy back cars. In Brazil those programs do not exist like they happen in the United States.

Mr. Millman: Ok and can you talk about … you mentioned that new contracts, what percentage of your rentals are based upon contracted prices and what on at least in the US leisure prices, which are more of a market price?

Mr. Roberto Mendes: In the car rental the reflex of the growth in our rental prices will happen very fast initially and in the fleet rental it will … only for new contracts will reflect this new interest that we have now. But in one year, probably, all these old contracts will be renewed so we can change our price for this new environment.

Mr. Millman: So the contracts that you spoke about are only for the fleet, not for business, for example, the contracted prices for corporate customers?

Mr. Roberto Mendes: The corporations that rent cars in the car rental division will have the growth in the fourth quarter, but in the fleet rental the corporation will see the growth only when will renew the contract or in the new contracts.

Mr. Millman: Ok and can you tell us what the trends are in rentals on airport and off airport? If those terms are meaningful for your business? If there was a difference in terms of growth, a difference in terms of rental prices?

Mr. Salim Mattar: Ok, thank you for this question. Localiza is growing in the Car Rental Division faster off airports; in airports Localiza is growing in average twice the traffic passengers, so the growing of Localiza is off airports.

We do not have a guidance for the future, but in airports ... just a moment ... ok, in the third quarter downtown Localiza grew 51% and in airports Localiza grew 25% in the third quarter.

Mr. Millman: 25%?

Mr. Salim Mattar: Yes.

Mr. Millman: And what percentage of your businesses is downtown compared with airports?

Mr. Roberto Mendes: In the third quarter 68% was downtown and 32 in the airports and if you consider nine months 66% downtown and 34% in the airport.

Mr. Millman: Ok, thank you very much.

Operator: Excuse me. Ladies and gentlemen, as a reminder, to pose a question please press *1. Again, if you would like to pose a question please press *1.

Our next question comes from Mr. Bernardo Carneiro with Deutsche Bank.

Mr. Carneiro: Hi, I have two follow-up questions; one is about your estimates for the car rental market in Brazil. How much do you think the entire industry will grow in terms of elasticity to GDP? Will it maintain the same elasticity as the average in the past years or are you seeing intrinsic movements in the industry, such as corporate no longer renting cars or the tourist market decelerating because of currency or because of lower available income?

And also the second question is about your competitors. Since interest rates are going up and the current crisis is affecting Brazil, how much do you see the consolidation happening in 2009 and 2010? Because you guys are growing ... are going to grow less and recover profitability, so probably there is going to be less consolidation in that side; but on the other hand your competitors that are very small and have very difficult access to funding they may shut down because of this situation. So I would like to hear your opinion about consolidation in the industry. Thank you.

Mr. Roberto Mendes: Thank you Bernardo. I agree with you, we grew in the past 6x GDP while the market is growing 2.4x GDP, but in the future - just a

guess - it could be the same because I think everything regarding this (inaudible 23.56).

So just completing regarding your question, so the consolidation would come in the same direction, but I think it is better to wait for how strong will be this problem, this environment nowadays, how strong it is.

Mr. Carneiro: Ok.

Operator: Excuse me Mr. Carneiro, has your question been answered?

Mr. Carneiro: Thank you.

Operator: Ok, thank you. Ladies and gentlemen, as a reminder, if you would like to pose a question please press *1.

Our next question comes from Mr. Nicolai Sibrill with Morgan Stanley.

Ms. Tatiana XXX: Actually this is Tatiana XXX here for Nick. I wanted to see if you guys could give us some contacts on utilization rates. I know you are talking about higher rates in the fourth quarter; if maybe you could give us a framework until what kind of level we could see in the fourth quarter and then into 2009 and really what the ceiling would be for you have to increase the fleet to keep the utilization level healthy? Thank you.

Mr. Silvio Guerra: Tatiana, thanks for your question. As you mentioned, we are going to work towards the average on 72% and the fourth quarter 08 we are working towards that. The ceiling of the utilization rate for the company as a whole going forward long-term we expect to be working towards 75 to 76%, but of course it happens in smaller pieces, but we are going to go after that.

Ms. Tatiana: Ok, thank you so much.

Operator: Ladies and gentlemen, again, to pose a question please press *1.

Our next question comes from Mr. Michael Millman with Soleil Securities.

Mr. Michael Millman: Thank you. Just again following up, could you tell us why your car deliveries were delayed and what you could do about that in the future?

And can you also tell us if there is any shift in your cars towards, for example, smaller, more fuel-efficient cars away from the SUVs?

Mr. Silvio Guerra: Ok, thank you Michael for your question. What happened in the third quarter 08 it happened the following: the automakers were supposed to

deliver a certain amount of cars in the second quarter 08, but the market for cars were in hot demand.

So they did not deliver the cars that we were supposed to receive in the second quarter 08 in total terms in the first half, so they decided to deliver the cars in the third quarter 08. What happened was that we remained with the 4,000 cars in excess in our fleet and this is the main reason for the 66% utilization rate during the third quarter 08.

We believe the market has returned to normal terms and we are going to follow that in terms of selling the excess of the 4,000 cars to reach a higher depreciation number, as we mentioned during Tatiana's question some minutes ago.

With regards to the number of cars that we hold today, more than 70% of our cars are very liquid, easy to sell, fit to the Brazilian consumers. More than 70% are compact cars and the company has the cars adjusted to the same profile as the country. Brazil as a whole produces in the same position, so we have the adequate product to be liquid in terms of selling those cars and assets that we carry and most of them are flex fuel - ethanol and gasoline based.

Mr. Millman: Ok thank you and is there any penalty for the OEMs to deliver late or they can just do it … it sound that they can do what they want?

Mr. Silvio Guerra: Michael, the manufacturers do not have, let us say, an agreement, a formal agreement that they are able to deliver X cars, so we have permanent negotiations in terms of receiving those cars and selling our cars to the market.

So it is a flexible relationship and long-term relationship that we have with the automakers.

Mr. Millman: And could you give us ... you talked about maybe more specifically for year 09 models what do you expect, how you expect your depreciation per car to compare with the 08 models?

Mr. Silvio Guerra: We are going to ... we expect to have the same levels of depreciation per car going forward into 2009.

Mr. Roberto Mendes: Michael, I would like to add … when we forecast the depreciation this last quarter, we are showing what is the depreciation that we expect for the next year when we will sell this car, in the end of its life. So this is why our depreciation per car moved from 300 to 700 this last quarter.

Mr. Millman: I missed that. What was the 300 and the 700?

Mr. Silvio Guerra: Those are the numbers related to the depreciation per car in the Car Rental Division. When you look at the numbers for 2007 you are going to see something around 300 and for these three-quarters of 2008 we are talking 777.

This is the annualized average depreciation per car. They were less in 2007; for the nine months it was 312.4 and in the nine months 08 it is ... It has been 777. It is on page 12/21 on our earnings release.

Mr. Millman: Ok and it seems - maybe I am missing something here - but the depreciation of the car has more than doubled, it seems like a much higher depreciation than the US...

Mr. Roberto Mendes: Exactly, you are right. The depreciation is much higher this quarter. It moved to this level, more than 1,000 or in nine months 777, because we are forecasting the depreciation for the future. This depreciation now that we expect that will happen in the future, how will be the price one year later after we buy them.

Mr. Millman: Ok, I see. Ok, thank you very much.

Operator: This concludes the question and answers session. At this time, I would like to turn the floor back to Mr. Guerra for any closing remarks. Mr. Guerra, please go ahead.

Mr. Guerra: Well, I would like to thank you all that attended the conference and we would like to make ourselves available for you for any further questions that you might have and our investor relations department is it your disposal. Thank you very much and have a good day.

Operator: Thank you, this concludes today's Localiza's call for today, thank you very much for your participation and have a good day.