Y 2018 Earnings Call

Company Participants

- Eugenio Pacelli Mattar, Chief Executive Officer
- Mariana Paes Campolina, Chief Financial Officer and Investor Relations Officer
- Mauricio Fernandes Teireixa, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Bruno Amorim, Analyst
- Lucas Barbosa, Analyst
- Lucas Marquiori, Analyst
- Pedro Bruno, Analyst
- Rogerio Araujo, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon and welcome to Localiza Rent a Car's Conference Call for the Fourth Quarter Results and Full Year 2018. Hosting the event today, we have Mr. Eugenio Mattar, CEO; Mr. Mauricio Teixeira, CFO; and Mrs. Mariana Campolina, Investor Relations Manager. We would like to inform you that the numbers in this presentation are stated in millions of Brazilian reais and based on IFRS. 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 have the Q&A session for analyst and investors, when further instructions will be provided. (Operator Instructions)

The conference call audio and the accompanying slide presentation are being broadcasted simultaneously over the Internet at www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking on the banner 2018 and 4Q '18 webcast.

Before proceeding, we would like to clarify that any statements made during the conference 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 political and 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.

To start the fourth quarter of 2018 teleconference, I'd like to turn the floor to the CEO, Mr. Eugenio Mattar.

Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Good afternoon and thank you all for your presence. We finished the year of 2018 with impressive results, as Mauricio and Mariana will present later on. Despite the strong growth and operational challenges as a result of our strong business expansion, the main quality and productivity indicators have evolved. Our Customer Satisfaction Index, measured by the NPS, Net Promoter Score, has increased in all segments and the result of our annual organizational climate survey has placed us among the top 25% of companies conducting the same survey by Korn Ferry.

We won several quality-related awards, of which we highlight the Epoca Reclame Aqui award, winner for the fourth consecutive time in Localiza and second consecutive time for Seminovos, the best car-rental company by Datafolha, the best service company and best rental company for small and midsized companies by Estadao newspaper.

We're also chosen as the most innovative Company in the category of transportation and logistics, according to the Valor Inovacao award of Valor Economico newspaper and were evaluated as the 22nd most valuable brand in Brazil, according to Interbrand, reaffirming the recognition of our brands.

Last year's results consistency is due to a planned and shared transformation agenda between the Board of Directors and executive officers. I would like to highlight some priorities that were part of this agenda.

First of all, our careful renewal and succession process of the Company's management, a process conducted with great caution, ensuring the alignment of new professionals with the values of Localiza, promoting a smooth transition to preserve the experience and knowledge of the successors, who temporarily remain as the Company's senior advisers.

And second, in order to take advantage of market movements and technology opportunities, we invest in the development of our employees and leaders, as well as in hiring new talents with complementary skills. In addition, we placed a culture project with the participation of all employees, which reinforces and updates our values and way of working, preparing us for future challenges.

Third, we have expanded our digital leadership by investing in customer experience, innovation and operational excellence across the platform. We have also invested in our brand, reinforcing our leadership in customers' preference and brand awareness.

And in fourth, we continue focusing and carefully working on our programs of integrity, governance and sustainability that strengthen our reputation in the markets with all stakeholders.

We would like to thank the investors who has placed their trust in the Company and participated in our primary funding of BRL1.8 billion concluded in February 2019. With these resources, we will support our business and expansion plan. We will also like to thank our employees for their commitment and energy they have dedicated to make all of this happen, taking even better care of our clients and cultivating a trust relationship with all our stakeholders. We started 2019 with even higher motivation and focused on the growth of profitability and quality goals and by expanding our market leadership.

Now, I turn the floor over to our CFO, Mauricio Teireixa.

Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you Eugenio, and good afternoon, everyone. Now, continuing with our webcast on Page 2, we can see the financial highlights for the year.

2018 was yet another year of spectacular growth, net revenues grew 30.3% in 2018, EBITDA increased 21% surpassing BRL1.5 billion.

Net income for the year was BRL659 million. Despite the accelerated growth level, we maintain the spread between ROIC and the cost of debt practically stable at around 8 percentage points. Therefore, we were able to achieve our goal of growing and generating value.

On Page 3, we can see the quarter operating highlights. In 4Q '18, RAC provided once again a strong growth with a 27.2% increase in the average rented fleet compared to 4Q '17. In fleet rental, we also had strong growth with a rental fleet increase of approximately 15% year-over-year. Seminovos ended the quarter with record sales of over 32,000 cars sold, an increase of 24%. We reached the milestone of more than 248,000 cars in our fleet by the end of 2018. (Technical Difficulty)

Operator

(Technical Difficulty) Speakers, please proceed.

Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Okay. Good afternoon. Some investors had some trouble listening to Eugenio's speech; that's available in the press release, and he will also be available here to clarify any doubts and be a part of Q&A.

So, moving on to our webcast on Page 2, we can see the financial highlights for the year. 2018 was another year of spectacular growth. Net revenues grew 30% and EBITDA increased 21%, surpassing the BRL1.5 billion mark. Net income for the year was at BRL659 million. Despite the accelerated growth level, we maintain the spread between ROIC, and the cost of debt practically stable at around 8 percentage points. We could then achieve our goal of growing and generating value.

On Page 3, we can see the quarter operational highlights. In 4Q '18, RAC provided once again a strong growth with a 27.2% increase in the average rented fleet year-over-year. In Fleet Rental, we also had strong growth with rented fleet increasing approximately 15% in relation to the fourth quarter of 2017. Seminovos ended the quarter with record sales of more than 32,000 cars sold, an increase of 24%. We reached the milestone of more than 248,000 cars in our fleet by the end of 2018, growth came from RAC, Fleet Rental and franchises.

On Slide 4, we present the quarter's financial highlights. In comparison with the same period of last year, net revenues grew around 25% with EBITDA growing 16%, EBIT growing 10% and net income 4%. We've achieved the largest result in the quarter from Localiza ever, BRL181 million.

To give you further details of the fourth quarter results, I'd like to turn over to our Investor Relations Manager, Mariana Campolina.

Mariana Paes Campolina {BIO 18838330 <GO>}

Good afternoon, everyone. To give you further detail about the results of the quarter and year, I'd like to start off with the Car Rental division. As you can see on Page 5, in 2018, the average rented fleet increased almost 40%. There are more than 27,000 rented -- extra rented cars in the year average, so we're talking about a year that was marked by the truckers strike, our GDP that grew less than expectations and yet we have grown and generated value. Net revenues increased 36.3% year-over-year. That represents a speed up on the RAC annual growth, even with the strong comparative base. In 4Q '18, net revenues grew strong 26.2%, mainly resulting from the 27.2% growth on the average rented fleet.

On Slide 6, we can see that in Car Rental average rental rate of 74.5% was higher than 3Q '18, as well as 4Q '17. This quarter we had a positive mix and pricing dynamic. The efficient fleet strategy added to strong demand, contributed to an increase of 2.6 percentage points in the utilization rate compared to 4Q '17, achieving 81.1%.

On Page 7, we show that the own branch chain was extended by 17 units compared to the end of 2017, of which eight are locations formally operated by franchisees. In addition, several locations have been expanded to increase their capacity and allow fleet expansion.

Moving on to Slide 8, in the Fleet Rental division. The pace of growth remained accelerated in the last quarter, with the average rented fleet increasing 14.7% and net revenues increasing 10.1% year-over-year. Here, the daily rental rate decreased 4%, mainly reflecting the pricing of new contracts in the context of lower interest rates. It's important to note that the acquisition of Hertz operations in Brazil happened in September 2017. So this is the first full quarter that we have an equivalent comparison basis, as the Hertz fleet represented an increase of approximately 8 percentage points in fleet volume at the time of the acquisition.

Following on to Slide 9. We show the change in the fleet size in the period. We bought 57,569 cars and sold 32,274 cars, an increase of over 25,000 cars, a net investment of BRL1.1 billion. The strong rental volumes in 4Q '18, in addition to the peak season demanded a fleet increase almost threefold higher than 4Q '17. In the year, the addition to the fleet totaled 54,142 cars and net investment of almost BRL2.5 billion.

On Slide 10, we show the Seminovos chain. In 4Q '18, we opened six new stores and sold more than 32,000 cars. We closed the year with 107 [ph] points of sale. It's important to note that even with the acceleration of stores opening, the number of cars sold per store and expenses per car sold remained stable, showing the fast ramp-up of our stores as well as the strong sales capacity of our team.

On Slide 11, we show that fleet at the end of the period, which reached 248,024 cars with a highlight to the Car Rental division, which grew 31%. On Page 12, we can see the consolidated net revenue for the quarter increased 24.9% year-over-year. Rental revenues increased 21.9% in the quarter, while those of Seminovos grew 27.1%, as a result of the 23.6% increase in sales volume and 2.9% in average prices.

In the year, the consolidated net revenue increased 30.3% year-over-year. In 2018, the net revenues increased 29.8%, being 36.3% in the Car Rental Division and 14.4% in Fleet Rental. Seminovos revenues increased 30.7% year-over-year, due to the 22.9% higher sales volume and 6.4% increase in the average car sales prices.

Moving on to Page 13, consolidated EBITDA gained 16.2% as result of the growth of the Company's business divisions year-over-year. The RAC EBITDA margin increased 3.1 percentage points year-over-year. The Company is continuously working on cost and expense management, as well as investing in process and productivity improvements. Fleet Rental gained 3.5 basis points in margin, due to better cost management. Seminovos had a margin of 1.3%, which reflects the reduction of the depreciation of the RAC cars that has been occurring for the quarter, causing the book value of the cars to be closer to the car sales price. In 2018, consolidated EBITDA totaled 1. -- approximately BRL1.6 billion, an increase of 21% when compared to 2017.

Regarding depreciation on Page 14, we see that in RAC the annual depreciation was BRL1,012.4 per car down 19% when compared with 2017. In Fleet Rental, the average annual depreciation per car was BRL3601.10, 16% higher in the same period, year-over-year. This number reflects the higher depreciation due to the use of the SOYD method, as the average age of the fleet dropped from 16.7 months to 14.7 months. In 4Q '18, the annualized depreciation for the quarter was BRL1,184.30 for RAC, and BRL3,936.2 [ph] for fleet. This level of depreciation reflects the Company's expectation for new car prices and sales costs.

On Page 15, we can see that consolidated EBIT for 4Q '18 achieved BRL347.3 million, representing a 10.7% growth year-over-year, due to the 16.2% EBITDA increase, offset partially by a 40.1% increase in the depreciation line. The 4Q '18 EBIT margin of Car Rental Division was 33.9%, representing a decrease of 3.3 percentage point year-over-year. In the Fleet Rental Division, the EBITDA margin was 44.8%, a reduction of 3.3 percentage points in year-over-year. The lower EBIT margin reflects higher car depreciation and lower Seminovos EBITDA margin.

In 2018, the EBIT margin of the Car Rental Division was 33.2%, representing a 2.3 percentage point decrease year-over-year. In the Fleet Rental Division, the EBIT margin was 48.6%, a reduction of 2.6 percentage points over the same period last year. The decrease in the interest rate allows a lower EBIT margin, maintaining the spread ROIC, minus the cost of debt over a greater base of capital, which results in an increase of the Company's value generation.

Net income for the fourth quarter, on Page 16, increased 4% year-over-year. Despite the increase of BRL62.7 million on EBITDA, higher depreciation, financial expenses and taxes offset the operational gains and the results of the net income was an increase of BRL6.9 million. In 2018, the Company presented an accumulated profit of BRL659.2 million, representing 17% growth year-over-year.

On Slide 17, we have the information on cash generation, which totaled BRL1.33 billion before growth in 2018. As you can see on Page 18, the investment in growth impacted net debt, which ended the quarter at BRL5.2 billion, with an increase of 35.6%.

Now, I would like to hand over again to Mauricio, so he can talk about our capital structure.

Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you, Mariana. In the beginning of the month, we concluded the follow-on process. On Page 19, you can see a summary of the results of this offer. We issued 55.2 million new shares at the price of BRL33 per share, totaling approximately BRL1.8 billion in size. With this cash we will continue on our growth path for our business, investing in fleet expansion, innovation and operational improvements.

On Page 20, you can see that at the end of 2018, we had a comfortable debt profile with a strong cash position, reinforced by the issuance of BRL400 million that we had in December 2018. On the bottom, we can see that after the follow-on our pro forma cash position achieved BRL4.2 billion, which allows us to continue to pursue our growth strategy.

On Slide 21, we can see that the net debt/EBITDA ratio rose to 3.3 times by the end of 2018. Through a pro forma simulation after receiving the -- after the follow-on, we can see that the indicator is now 2.2 times.

To conclude, I would like to highlight the evolution of the ROIC spreads versus the cost of debt that can be seen on Page 22. In 2018, we maintained a spread level close to last year's, but with a much larger invested capital base, resulting in higher value generation for our shareholders. I'd like to reiterate that this is the goal that we will always pursue, continue to delight our customers, maintaining operational excellence and thus growing with value generation.

We are now available to answer your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question is from Lucas Barbosa from Morgan Stanley.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon Eugenio, Mauricio, Mariana. Thank you for the results, and thank you for taking my question. I have two. First is about the average rate for RAC, we saw in the fourth quarter that the average rate had a slight increase year-over-year. So, I'd like to know the performance per segment and if there was a mix effect in that as well. There was maybe leisure assisted in that since the exchange rate favored domestic travel. That's my first question? Thank you.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Hi, Lucas. Thank you for your question. In fact, there was an interesting mix dynamic in the fourth quarter and price management. With that we were able to obtain the average rate and a growth of the average rate, but like you said, we saw mix that is very beneficial in the fourth quarter because of -- given leisure, it's a high season.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Okay, thank you. Second question is about Seminovos, we saw a strong expansion in RAC fleet, especially in the second half of the year. Now, are you looking into the needs [ph] for sale in 2019, you increased the number of stores in 2018, but you also reduced depreciation of RAC in 4Q, which is signaling a very benign market for Seminovos in 2019. So I'd like to understand if you do expect a benign scenario in 2019. And if you expect any pressure on Seminovos results or depreciation in 2019, given the volume of cars sold should be much higher throughout next year. That's my question. Thank you.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

In fact, Lucas as we grow, not only in rental car, but also in fleet management, we have to expand our Seminovos chain and get ready for that. We do that in advance, we plan it very carefully. We plan store expansion very carefully in order not to increase the burden of SG&A in the Seminovos structure. So as you mentioned, we opened a lot of stores in 4Q '18, getting ready for the expansion. So, what we've seen up to the time being in 2019 is a market with what we expect in Seminovos and selling the amount of cars that we imagined to sell -- that we'd sell. So, we have a positive vision of the Seminovos market for 2019. We didn't have any deterioration and we're selling according to what we expected.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Great, thank you. And no price pressures?

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

No, nothing different than what we've seen in the past weeks or end of the year. As we mentioned 3Q, 3Q was a little more -- we had no price adjustments in new cars that influence Seminovos, but in the 4Q that got back to normal and now in 2019, we don't see any pressure.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Okay, great. Thank you, Mauricio. Good afternoon.

Operator

Next question is from Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good afternoon. Thank you for the opportunity to ask the question. I also have two. The first one is a follow-up from Lucas' question about Seminovos. We saw in EBITDA margin, Seminovos of car rental, 0.8% in this quarter. So, I'd like to understand the depreciation at approximately BRL1,200 in RAC. What EBITDA margin is it considering in Seminovos -- in the RAC Seminovos segment? In other words, what are your expectations about EBITDA margins for RAC Seminovos in 2019? Thank you. And then I'll ask the second question later.

A - Unidentified Speaker

Thank you for your question, Rogerio. In fact, we have to look at both things together, going back a little. In the first half of the year 2018, we had lower depreciation rates, making cars sold in the third quarter and fourth quarter with a lower margin. We started to increase depreciation in third and fourth quarter at historical levels, approximately BRL1,200 per car, per year. And now in first Q and second Q Seminovos margin should come back to the normal level, which is approximately 2%.

So the 0.8% in RAC at a lower level, resulting from lower depreciation and first half of last year and now -- and then the depreciation in third, fourth quarter last year, we see this margin getting back to normal again.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Could we say that 4Q that you had an impact of new cars that you don't expect in 2019, meaning maybe if we look at the cars sold and bought spread is that better than 4Q looking now into 2019, can we think of it that way?

A - Unidentified Speaker

In 4Q, there was a bit of the effect still that we saw in the third quarter in new car dynamics and excess -- or excess of supply of cars because of the cars that were not exported to Argentina. So that extended into the beginning of 4Q and throughout 4Q that got back to normal.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay, perfect. My second question is about growth. You mentioned the expansion and market leadership. Does that mean that Localiza will continue to grow more than the market now in 2019? Is that your expectation? So, could you break that down for segments, which segment that would be more obvious? Let's say if you break that down into leisure passengers, airport, corporate passengers in airports, the monthly rental connected to infrastructure consulting, Uber, so if you could talk about the segments, please, and if you expect to grow more than the market. Thank you.

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Good morning, Rogerio. This is Eugenio speaking. Thank you for your question. In relation to opening or a breakdown per segment, as you know, we don't do that for the market. So, relating to expanding market leadership, as you could see in the past years, Localiza has invested in sales, market intelligence, pricing, in each one of the segments in a way to have a growth in market share.

In relation to the competition, overall, so there are billions of car rental companies in the country now. So our intention is to grow above market, increasing Localiza's market share throughout time as we have done in the past years.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay, perfect. Thank you very much.

Operator

Our next question is from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. Thank you for taking my question. I have two questions on my side. The first one is that like an update about the product that you launched on Localiza Day last year, the Uber product. But if you can give us an update about volume, how are drivers accepting that? Has it been a positive feedback for them? Is this already translating into an increase in demand? It was a lot of noise, right, during that day. So I'd like to know how that has materialized since then, acceptance from driver. So, I'd like an update on that.

The second point about store -- Seminovos store expansion, I'd like to know your vision. So if you can give us a breakdown of cost, price per new store, if you think that -- I imagine that rent -- rental -- store rental rates are going up, so are the prices per store improving, is that going to improve even more? So, I'd like to understand how much a new store costs for Seminovos? Thank you.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you for your question, Lucas. I'll answer the first. And second one is up to Mariana. The driver product was launched in November of last year on Localiza Day, and it's been highly accepted. We see that it's good for Localiza and good for drivers. The product is already available in all places, it was rolled out through all of Brazil. There's high adherence. We're monitoring that. It's a new product. It was launched three months ago. So, the results so far are very promising. So, we continue to invest in this product and there is a huge growth potential for that product. So now we feel confident that we have the right product and tool to grow. Mariana, can you talk about Seminovos?

A - Mariana Paes Campolina {BIO 18838330 <GO>}

About expansion, Lucas, today we are in a -- experiencing a scenario where we have a number of places available where we can open Seminovos stores, like former car dealerships. So it's more affordable or not as expensive starting off from scratch, where we had to invest in infrastructure. So the cost is lower. We don't talk about the actual amounts, but a good indicator, so you can see how efficient that is, would be the SG&A per car. So, we've been able to be very efficient reducing SG&A even more per car, it dropped from levels that were approximately 10% to 7%. So we've been very efficient in opening these stores. So the stores do have a lower cost of opening now.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Mauricio and Mariana.

Operator

Our next question is from Pedro Bruno from Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Good afternoon. Thank you for taking my question. I have two points that I'd like to touch upon that were already mentioned here before somehow. So first of all about Seminovos gross margin, when you explain the details in Rogerio's question about RAC separately, but when we look at that in consolidated terms, even though SG&A was the most efficient that we've seen so far, at very low levels, compared as a percentage of revenue margin, gross margin is still dropping quarter-to-quarter.

And then there's depreciation, you mentioned the price impact is lower now. So, we can't see that breakdown. I'd like to understand the rationale behind that. So, consolidated margin -- should we see gross margin stabilizing or even increasing as we're going into a different depreciation window and to what extent can the efficiency of SG&A improve, or is this at 6% close to revenue, should that be the floor announced that -- where we would look at that in the future? That's my first question.

A - Unidentified Speaker

Thank you for your question, Pedro. In fact, obviously, we're always looking to improve, having more efficiency and productivity, but we believe that this SG&A margin level is pretty close to what we can obtain. But obviously we're always going to try to decrease that. But your statement is correct, in the sense that what we have to look into now is that we're going to see a margin recovering a little in 1Q and 2Q and then stabilizing. There was the 3Q effect, which is a bit of a turmoil in terms of new car prices, we reviewed depreciation. It takes a long time to happen, because some cars were already decommissioned, were going to be sold, we couldn't depreciate them anymore. So now the cars that are being sold in 1Q already have showed the higher depreciation of 3 and 4Q. So that's the trend that we've seen in terms of recovery for 1Q. It's also important to mention, Pedro, that we have to look at the margin indicator for Seminovos in a separate manner, as they're two different stories, the scenario that we have in rental and what we have in fleet, because of contract terms and car age, so they're totally different stories. Therefore, that's why we use the SOYD method instead of the linear that we have in rental. So all of that has to be taken into account. And it's also important to understand the difference, even look at the Seminovos margin separately.

Q - Pedro Bruno {BIO 19082978 <GO>}

Yes, without a doubt. Thank you. I'd just like to confirm. Mauricio, you mentioned before the 2% as a stable level. Did I understand correctly that, that would be RAC and how could -- what would that number be if it were a consolidated figure?

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

2%. Correct. That's for RAC. It depends on the -- it depends on the number of cars sold in RAC or fleets.

Q - Pedro Bruno {BIO 19082978 <GO>}

Very clear. Thank you. The second question, I'd like to go back to the average RAC rate that went up for the first time after a long while. So could you talk about the competitive dynamics behind that figure, and if we can read that not only as an intention on Localiza's behalf, but also the whole market of the price increase. So could you talk about some details of the competitive scenario, please?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Hi, Pedro, this is Eugenio speaking. About the pricing dynamics, that's very complex. What we've been seeing is that the competitive environment is still strong. So, we have to look for opportunities, learnings, so that we can capture a higher revenue. So, in that quarter, specifically, we were able to do that, but it is a permanent challenge that we can't really talk about the environment in general terms, but we're always trying to fine tune our pricing, so that in a timely moment we can capture more revenue.

Q - Pedro Bruno {BIO 19082978 <GO>}

Great, thank you.

Operator

Our next question is from Bruno Amorim from Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hello, good morning. I have two questions. The first one, it's about the succession process of some people in management. You mentioned a bit about the process. So, I would like to know what you can say about the next steps. What are the next changes that we could expect in top management, if you can give us some flavor in that sense? And another more specific thing, I'd like to understand the balance of the financial expenses between the third and fourth quarter, if you had anything that's non-recurring?

A - Unidentified Speaker

Bruno, about succession, as you've seen, we are always very -- we always work on this very carefully, nothing sudden or fast. And the successor comes in, when we do that we have planning in the Company to onboard successors in a very long manner. The person that will be leaving the position stays for a while, together with their successors and they also stay, so they stay in the Company for two or three years as senior advisers. That's the plan that the Company has. So that we have a succession plan that you don't feel discontinuity or lack of knowledge, or losing the knowledge of those who are leaving the Company.

Bruno, about the financial results in fourth quarter. There was an impact, the mark-to-market of the swap instruments, when we have the post fixed to pre-fixed cost, which is the funding for the fleet business. So, we've established many contracts throughout the years, and having the strategy of having the operational hedge to guarantee the profitability of contracts as we close them. So, what we saw right after the elections was a drop in the interest -- future interest that had a mark-to-market, it's an accounting effect that anticipates the drop in the interest rate.

So, that impacted, in growth figures, approximately BRL15 million to the financial results. So, it's pretty much a swap from pre-to-post and a drop of interest rates after the election. But all of that is a priced impact in contract, but we bring that to present value when we have an interest rate drop.

Q - Bruno Amorim {BIO 17243832 <GO>}

Great, thank you.

Operator

(Operator Instructions) Next question is from Lucas Lagi [ph] from Citibank.

Q - Unidentified Participant

Good afternoon, everyone. I'd like to understand your mindset about market consolidation. So in 2017, we were seeing 55% of the RAC market concentrated in three main companies. So, after the capitalization process and after the fast growth in 2018, how do you see this process from now on in mid-term, I'd say?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Lucas, the consolidation process is always very long. It's not something that happens in the short term. So, currently three companies already have a very relevant share of the market. There's a large amount of rental companies. So, it seems to us that the consolidation would naturally still happen, but very gradual, not in a very fast manner, because even the growth side through M&A is becoming scarce, the market has thousands of rental companies. So, organic growth is what leads to the consolidation. And as we said before, it's where we talk about market leadership expansion through consolidation, but mainly through organic growth, as that doesn't -- enables us to give big leads. There was already a big consolidation in M&A. So, now there's -- I'd say there's less room for that type of growth, in RAC very little and in fleet, there are some opportunity, but nothing is as substantial as took place recently.

Q - Unidentified Participant

Okay. Thank you, Eugenio.

Operator

I'd like to hand over to Mr. Mauricio Teireixa for his final remarks.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

I'd like to thank everyone for their participation and our IR team is still available for any other clarification. Good afternoon to everyone.

Operator

The Localiza conference call is now over. Thank you for your participation, and good afternoon.