Q3 2018 Earnings Call

Company Participants

- Maurício Fernandes Teixeira, Chief Financial Officer and Investor Relations Officer
- Nora Lanari, Director-Investor Relations

Other Participants

- Alexandre Falcão, Analyst
- Bruno Amorim, Analyst
- Lucas Marquiori, Analyst
- Lucas T Barbosa, Analyst
- Rogério Araújo, Analyst
- Victor Mizusaki, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to Localiza Rent a Car Conference Call for the Third Quarter Results of 2018. Hosting the event today are Mr. Maurício Teixeira, CFO; and Mrs. Nora Lanari, Investor Relations Director. We would like to inform that the numbers in this presentation are stated in millions of Brazilian reals and based on IFRS.

All participants will only be able to listen to the conference call during the company's presentation and it will be recorded. Immediately afterwards, we'll start the Q&A session for analysts and investors when further instructions will be provided.

The conference call audio and the accompanying slide presentation are being broadcasted simultaneously over the Internet at www.localiza.com/ir. This slide presentation can be downloaded at the same address by clicking on the banner 3Q18 and 9M18 Webcast.

Before proceeding, we'd like to clarify that any statements made in this 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 economic conditions and other operating factors may affect the company's future and may lead to material different results from those stated in this call.

To start the third quarter of 2018 teleconference, I would like to turn over to the CFO, Maurício Teixeira.

Maurício Fernandes Teixeira

Good morning and thank you for your presence. Localiza continued to show strong growth this quarter and also achieved an EBITDA margin expansion in Car Rental and Fleet Rental. We exceeded the mark of 220,000 cars in the Fleet, and then Seminovos hit record sales volume, selling more than 30,000 cars in this quarter.

In September, we issued BRL 1 billion in local bonds on our 14th issuance, being BRL 800 million in the 8-year tenure series, which shows us funding capacity at differentiated costs and tenure. Even in the quarter of strong growth, the leverage ratios remained stable in relation to the last quarter. Another highlight was the appointment of Paulo Veras as an Independent Board Member. Paulo brings additional skills to Localiza's management in respect to mobility and innovation.

The operating environment remains positive and we continue investing in technology, people, and new products to capture market opportunities for mobility. This shows our confidence in the market potential and our growth capacity with value generation. I would like to take this opportunity and thank our analysts and investors in their trust who voted for Localiza to be in the Institutional Investors Award. This year, we won first place in all categories of the transportation industry.

After the introduction, let's move on to our webcast with the third quarter highlights. On page 2 of the presentation, we can see the operational highlights. We continued to present solid results, with a strong growth pace. It's worth noting that 3Q 2017 brings a more challenging comparison basis, since we had already incorporated Hertz in September and we grew the Fleet organically in over 25,000 cars in that period. And still, in 3Q18, RAC demonstrated strong growth once again with a 30% increase in the average rented fleet year-over-year.

In Fleet Rental, we also had a significant performance in terms of growth, with volume increase of approximately 21% year-over-year. Seminovos closed the quarter with record sales and over 30,000 cars sold, showing an increase of 26% year-over-year. Our Fleet at the end of the period has reached the mark of 220,000 cars with growth in RAC, Fleet Rental and Franchising.

On slide 3, we can see the quarter's financial highlights. In comparison to the same period last year, net revenues grew close to 33% with an EBITDA 19%, EBIT increase of 14%, and net income of about 15%.

To give you more details of the third quarter results, I would like to hand over to our Investor Relations Director, Ms. Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon to all and thank you for attending. To give you a little more detail about the results of the quarter, I'd like to start with the Car Rental division. As you can see on page 4, in the third quarter, the company continued the growth pace year-over-year and revenues grew strongly, 34.9%, as a result of a 36% growth in the average rented fleet.

On slide 5, we notice that the average rental rate of BRL 72.5 dropped 2.2% in 3Q 2018 year-over-year impacted by the stronger mix in lower rental rate segments and the competitive landscape. This is the lowest year-over-year decline over the past two years and reflects a slowdown in the average rental rate chart compared with previous quarters. Compared to 2Q 2018, the quarter impacted by the truck drivers' strike, the average rental rate increased 4.3% and the utilization rate increased by 4.1 percentage points due to efficient asset management and strong rental demand.

On page 6, we show that the (00:06:44) was expanded by 11 new locations compared to the end of 2017, of which five were formerly operated by franchisees. The decrease in the number of franchise locations abroad is due to adjustment in the network of franchisees in Argentina and Chile.

Moving to slide 7, in the Fleet Rental division, the growth pace remained accelerated in the last quarter with the average rented fleet increasing 20.6% and net revenues increasing by 15.3%. Here the rental rate is down 6% mainly reflecting the pricing of new contracts in a context of lower interest rates.

Moving on to slide 8, we show the change in the Fleet size for the period. We bought 44,464 cars and sold 30,084 cars. The strong rental volume in 3Q 2018 (00:07:51) increase in the Fleet. In addition, the addition of cars in the third quarter of last year resulted in a greater decommissioning in sales of cars in this quarter, demonstrating the company's selling capacity. The result was a Fleet increase of 14,380 cars and a net investment of BRL 745.6 million in 3Q 2018.

On slide 9, we show the Seminovos network which reached the mark of 30,000 cars sold in 3Q 2018. We closed the quarter with 101 points of sale. In the quarter, the number of cars sold grew 25.7% and the average price of cars increased 7.5% in the Car Rental division and 6% in the Fleet Rental division. Selling and operating expenses remained stable with 6.8% in relation to net sales when compared with 3Q 2017. New points of sales will be opened to support the future need for renewal of the company's Fleet.

On slide 10, we show the end-of-period Fleet which reached 222,177 cars, (00:09:17) the Car Rental division which grew 23%.

Moving on to page 11, we see consolidated net revenues growth of 32.6% compared with the third quarter of 2017, with rental revenue growing 29.2%. In Seminovos, the increase was 35.2%, due to a 25.7% increase in sales volume and an increase in the average price of cars sold in both business divisions.

Moving on to page 12. The consolidated EBITDA gained 19.2% as a result of the growth in the company's business divisions. The RAC EBITDA margin increased 2.9 percentage points year-over-year due to the operational excellence that enabled gains of scale. Fleet Rental gained 3.3 basis points in margin due to better cost management, expenses, and lower fleet age. Seminovos had a margin of 2.1% which reflects the reduction of the depreciation of the RAC cars that has been occurring for the last four months, causing the book value of the cars sold to be closer to the car sales price.

On page 3 (sic) [13] (00:10:55) we can see that in RAC, the average annualized depreciation for nine months of 2018 was BRL 946 per car, down 30% compared to 9M 2017, due to the increase in the average price of cars sold and the higher efficiency of the company in the purchase and sale of its asset. However, if we compare 3Q 2018 with 3Q 2017, depreciation increased 6.8% despite the increase in scale and efficient management of operational cost of Seminovos, thus, resulting on a higher price of new cars.

In Fleet Rental, we see an increase in the level of depreciation to BRL 3,476 in nine months of 2018. This number reflects the low increases in new car prices and higher depreciation by the use of the SOYD method as the average age of fleet dropped from 17.5 to 14.5 months in this quarter and 18.6 months to 15.2 months in the nine months of 2018.

On page 14, the consolidated EBIT for 3Q 2018 achieved BRL 300 million, accounting for 13.9% growth year-over-year due to the 19.2% EBIT increase offset by a 39.9% increase in the depreciation line. The 3Q 2018 EBIT margin in the Car Rental division was 29.8% representing a decrease of 4.6 percentage point year-over-year.

In the Fleet Rental division, the EBITDA margin was 50.4%, a reduction of 2.7 percentage point year-over-year. The lower EBIT margin reflects higher car depreciation despite the higher EBITDA. The decrease in the interest rate allows a lower EBIT margin maintaining the spread (00:13:19) over a greater base of capital, resulting in an increase of the company's value generation at healthy levels.

The net income for the second quarter, on page 15, increased 14.6% year-over-year, primarily due to an increase of BRL 63.9 million in EBITDA partially offset by the increase of BRL 27.3 million in depreciation, BRL 4.4 million increase in net financial expenses, and BRL 11.8 million in income tax due to a higher taxable income and an increase in the effective income tax and social contribution rate.

On slide 16, we demonstrate the cash generation of BRL 826.8 million before the sales growth in the nine months of 2018. In 3Q 2018, the company continued to take advantage of its strong cash position and reducing its carrying costs, reducing discounts on credit card receivables and taking advantage of opportunities to advance accounts payable to suppliers. In the year-to-date, the net effect of these measures totaled BRL 288 million of impact on the company's working capital. Highlighted in the next line, free cash flow line, and results in the reduction in net financial expenses.

As you can see on page 17, the investment of BRL 1 billion in growth impacted the net debt, which closed the quarter at BRL 4.8 billion, with an increase of 23%. You'll see on page 18 that in this quarter, despite the debt increase, the net debt-to-EBITDA ratio rose 0.2 percentage points if compared to the end of 2017. However, it remain stable when compared to 2Q 2018 at 3.1 times, a healthy level considering the company's growth rate as well as the covenants which are 4 times. We understand that the current leverage ratio is at a comfortable level, given the flexibility of our asset, the strong cash position, and the term of our debt shown on slide 19 and considering the current interest rates.

On September 30, 2018, the cash position for Localiza was BRL 2.7 billion after raising BRL 1 billion with the local bonds issuance in two series: one of RBL 200 million with final maturity in five years and four months and a rate of 107.9% of the CDI; and the second of BRL 800 million with the maturity in eight years and rate of 112.3% of the CDI. Localiza's financial strength and operational excellence ensured flexibility in debt management with the goal of reducing average cost and increasing the duration of consolidated debt.

Finally, I would like to pass over again to Maurício for his closing remarks.

Maurício Fernandes Teixeira

Thank you, Nora. To conclude, I would like to highlight the evolution of the ROIC spread versus the cost of debt, which can be observed on page 20. In the nine months year-to-date of 2018, we maintain a spread similar to last year's level with a much higher investment capital base, resulting in a higher value generation for our shareholders. This is the goal that we will always pursue, continue to enchant our customers while we maintain operating excellence and that we can grow with value generation.

We're now open to answer your questions.

Q&A

Operator

Ladies and gentleman, we'll now begin the Q&A session. The first question is from Alexandre Falcão from HSBC.

Q - Alexandre Falcão

Good morning, Maurício. Good morning, Nora. I have two questions. The first one is about growth prospective for next year. So, doing just rough math, you had a growth at least 20% to 25%, request to the covenants, and officially there would be considerations for an equity offer. Now that you're budgeting and clearly your competitors listed decided to grow less, given they would have to look for funding. That means you're not going to have such a benign competitive environment as you did this year. So, I'd like to know, what are your thoughts and the board's thoughts about this topic?

A - Maurício Fernandes Teixeira

Good Morning, Falcão. Well, we're working on next year's budget. We still don't have a close scenario, but we do see a market with a huge growth potential and growth is our priority – growth with value generation, of course. So, we're studying all our options in having excellent capital structure to capture that. And considering the investment level that we have currently in Brazil and long tenures, we're comfortable in growing that way. But we're always studying and assessing different scenarios and options that we have to capture the growth. And the – we prefer to be in optimum structure, lower cost, and prioritizing growth with value generation. That's our main focus.

Q - Alexandre Falcão

So, growth is the main focus. Okay. In relation to car depreciation, my second question now, I'd like to understand how much of that is an actual adjustment of what you see in car sale prices and how much did you have to sell outside the network being sold by third-parties? And since you had record sales in vehicles, would the number of branches be able to bear that or would you have to increase the amount of points of sale?

A - Maurício Fernandes Teixeira

Thank you, Falcão, for your question. As you know, and you know the company well, our business has to consider depreciation and the Seminovos margin together. Those two indicators are related. And not just the current situation, but also what happened in the past and where they're at today. If during – we use the car too much, it will have a lower value and the Seminovos margin higher. If we depreciate it too little, it's going to have a lower margin and be negative, and we really want that – we don't want that to happen. So, we have to balance out those two factors to have a slightly positive margin.

In RAC, we've been reducing depreciation in the past 12 months and that is reflected now in the Seminovos margin of approximately 2% in the consolidated. The depreciation where the lower margin, should already have happened in the first half-year, but the inflation of new cars offset that, so the margin is a bit stronger. But we've been saying this for a while now, and so does Roberto. We have a target Seminovos margin from 2% to 3%, but the inflation of cars enabled the margin to be higher in the past quarters even with lower depreciation.

So, what we see now as the inflation for new cars isn't as strong and we achieved the objective that we were already importing. So, there were no real changes or a higher or more aggressiveness or price reduction. We sold the volume that we had to sell, so we can renew our fleet. And what happened is we didn't piggyback on the inflation for Seminovos. So, we can't forget that we're already depreciating less in the last four quarters, and now it's time to sell a car at a value that's much closer to the book value.

In relation to the number of POS, we have to open their ways to sell – we don't have to open necessarily, we can sell without growing the brick-and-mortar shop, but we have a roadmap for that in the middle of the year and next year. To add, if we consider the sale per store, the number increased considerably. We're talking about 100 cars per store, just some rough math roughly, and that shows the company's efficiency in managing this company's sales channel. So, we're going to take advantage of the best opportunities in selling through close own channels and third-parties.

It's good to reiterate that in the first quarter, the sales volume was lower and maybe that's why the assumption of a stronger price. But on the other hand, you have less dilution of fixed costs. Now, the volumes are higher and any price pressure could be offset by the reduction in the SG&A, and that's a bit of what we saw on the third quarter. So, compared to the second, SG&A was close to 7.8% at the sales revenue level and now went back to 6.8%. So, it's worth stressing that the change in channel or any type of change in channel. And then, eventually higher sales to re-sales may have higher discounts, but the costs are lower as well. So, it doesn't necessarily mean that it's a bad sale, but obviously the company's objective is to sell as much as it can in its own sales channel to dilute our fixed cost framework.

Q - Alexandre Falcão

Thank you.

Operator

Next question is from Rogério Araújo from UBS.

Q - Rogério Araújo

Hi. Good morning to everyone. Thank you for taking my question. I have two. One is a follow-up on the one about the Seminovos. When we compare the price spreads for car sale now compared to what you paid for a year ago, it dropped a lot. From the first half of the year to the third quarter, it's at 3% in the third quarter, and that's higher even when we compared to the historical period where the new car prices didn't go up.

So, my question is, is that stable? Is that the normal level? Can we consider a spread of how much you buy it for, and then how much you sell it for? Is that the level that you expect moving forward? And on the same side, depreciation of BRL 1,300 from now, is that the depreciation that considers an EBITDA margin of Seminovos – 2% for Seminovos? That's my first question. Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Hi, Rogério. Thank you for your question. So, my first disclaimer is, when you look at the mix that was bought exactly a year ago, there's some fluctuation of what we saw in that quarter in fact. And if you move the mix effect, we have a benefit of the prices of new cars that do help in the spread. But we always look at depreciation compared to the interest rate, because it's the total cost of the car for Localiza. We've been more efficient in managing our purchases. We've been more efficient in diluting the fixed costs.

Just so to give you some flavor, in car rental, the fixed costs in 2016 when SG&A was 8.9%, it went down to 7.4%, and now it's 7%. So, when we do the same comparison for Fleet, it was the same too, 8.9% to 7% in 2017, and now it's down to 6%. So, we have (00:27:03) as well. So, the main point here is that when you compare the average sales period and there's a bit of a difference in the sales mix of what we're selling. So, when we look at the base, especially for rental cars, we have an increase of the average price (00:27:24) 12% increase. So, the sales price increase in the consolidated close to 7.5% and (00:27:33). So, we don't necessarily see, when I look at car by car a relevant worsening of the spread, but obviously, that depends on new car inflation.

Q - Rogério Araújo

And in the report – and you're teasing us on that, is that a new spread level, so that lead to a depreciation of INR 2,000 per car?

A - Nora Lanari {BIO 18838335 <GO>}

No. That's not part of our scenario. But again, I don't have the benefit of a strong increase of new car prices, but we are more efficient in the purchase and sale of cars.

Q - Rogério Araújo

Great. Nora, just a follow-up. The Seminovos margin, do you expect it close to 2% for the next quarter?

A - Nora Lanari {BIO 18838335 <GO>}

That depends a lot on execution, Rogério. In RAC, it was close to 1.6% and Fleet close to 5%. Fleet is converging downwards, but we started to calibrate depreciation upwards. So, that calibration will at some point start to reflect on the margin. We don't provide guidance on that, but we don't necessarily see margin deterioration in Seminovos moving forward.

Q - Rogério Araújo

Perfect. Very clear. Just a second question about RAC growth. We see it growing compared to what you were presenting. So, could you talk about the (00:29:07) have been growing more that it justifies the speed up in growth, even when you have a seasonal adjustment? And what do you expect in terms of Uber growth perspectives in the next quarters? Thank you.

A - Maurício Fernandes Teixeira

In fact Rogério, all segments, except for replacement, are growing strongly at two-digit figures. For replacement, we know that new car sales dropped, therefore the (00:29:47) cars also dropped and that's a lower universe for us to provide replacement. But the size of replacement, all segments are growing strongly, not only daily also monthly. Uber, as you mentioned, we see a huge potential for that market, but that doesn't explain our growth.

We see consistently growing in all segments, be it for individuals or corporate. To remind you as well, we're directly comparing the margin growth, but I'd like to remind you that we had an adjustment in the second quarter of this year that was impacted by the truck drivers' strike. So the volume is a bit under what we expected and that helps in the comparison quarter-over-quarter. But even without the strike effect, the growth was stronger in margin than what we saw in the first or even the second quarter this year.

Q - Rogério Araújo

Perfect. Very clear. Thank you for your answers.

Operator

Next question is from Lucas Barbosa from Morgan Stanley.

Q - Lucas T Barbosa {BIO 20412168 <GO>}

Good morning, Maurício and Nora. Thank you for taking my question. My first question is about RAC growth. When we look at quarter-over-quarter, the RAC fleet in the period grew 7% and average operating fleet grew 2%. My question is, if that had been in relation to a mismatch of percentages in sale of vehicles or is it you're growing more in margin? You already mentioned that a bit, but should we expect more growth to the margin in the fourth quarter?

A - Nora Lanari {BIO 18838335 <GO>}

Usually yes, Lucas, because that's a peak period for us. So, we start to buy (00:31:31) the Fleet, so we can get ready for the peak in demand in the fourth quarter. And obviously, the first quarter 2019 as well, the peak of the vacation period is December, January and then (00:31:47) starts to become stable.

Q - Lucas T Barbosa {BIO 20412168 <GO>}

Thank you. Second one is about the follow-up on RAC depreciation. So, do you consider BRL 1,300 level sustainable or was that just to catch up depreciation once and for all? So, in other words, if current conditions remain for the next year to deliver both 3% of margin and EBITDA in Seminovos, would you maintain the depreciation level or should it go down a little?

A - Nora Lanari {BIO 18838335 <GO>}

Good question. Depreciation is our way to mark-to-market. So, we're going to do that every time we see a variation in market trends. It is a level that seems okay, but once again, we're not going to mark too much upwards or downwards if necessary. We see a positive sales volume and also good dilution of fixed cost, and car inflations are already reflected in that depreciation which we've booked. So, I don't believe it's going to be much higher than that. So, the trend should be to remain the same. Maybe a little lower, but we will calibrate that according to market conditions.

It's also worth noting that usually in the second half, the carmakers start to launch the models for the following year. So, it's usual to have this type of depreciation, because you're starting to sell a car that has one year of use. And in the beginning of the year, you're selling the car for that year. So, it's not atypical to have that adjustment, but the levels make sense. If we continue at those levels, we'd have an annual average depreciation of RAC close to BRL 1,000, just a quick average, because it's – which is still 20% under average depreciation of last year. So, that shows our efficiency in managing our assets. And then, Lucas, when we look at the depreciation in percentage of the asset, we're running at the best (00:33:50) in the company if you consider the track record for the last three years.

Q - Lucas T Barbosa {BIO 20412168 <GO>}

Great, Nora. That helps a lot. Thank you very much and good morning.

Operator

Next question is from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning, Maurício and Nora. I have two questions as well. You briefly talked about the strong margin expansion in RAC and Fleet, and in the release, you broke that down a little. You talked about SG&A. But I'd like to hear some more about that improvement, where it's coming? Is it just fixed costs or I want to know if it's sustainable in both divisions, in RAC and Fleet.

The second question just about RAC, the rate increased 4% quarter-over-quarter. So, I wanted to know how much that is going back to the low level that you had in the second quarter to encourage because of the strike or how much of that is the mix, so we can understand how the rates are going to behave in the fourth quarter? Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you, Lucas, for your question. Relating to the margin increase, we know that in Car Rental, especially in RAC, we have gains in operational scale to be captured, because the fixed costs is higher. So, growing at the levels that we're growing, there is a natural dilution of fixed costs and expenses. We weren't seeing that as obvious before, because we were investing in the company and processes and technologies, and in best practices in order to gain more productivity for the future and be able to support the company's growth.

So, now we're reaping the fruit and the leverage ratio and all the improvements that we've been implementing in the past year. So, we do have an increase in the margin, but we've also still going to be reinvesting a lot, we believe at higher levels for the company in the future. So, we're getting ready for that in advance all the levels and infrastructure to bear that growth, and make sure our clients remain satisfied as well as our productivity is important.

In relation to the cost breakdown, (00:36:16) in the notes 21, it gives you more detail. So, the cost and expenses line had an improvement. That means they grew (00:36:25) the growth of the Fleet revenues and rented fleet. So, in fact we're starting to deliver certain operating leverage, but as Maurício said, we're still investing in improvements. And you'll see these improvements mainly in the third-party line, because it's one of the few that increased in quarter-over-quarter figures.

The next question about the RAC rates, it's clear because in the second quarter of this year, especially in June, we had to encourage the demand through price to resume volume after the truck drivers' strike. So, I'd say that approximately BRL 69.5 of average rate for the second quarter wouldn't have been at that level, they would probably be closer to BRL 70. However, we saw that going to BRL 70, it's going up to BRL 72. So, now we start to see a better pricing scenario. We've been able to capture the opportunities through the system and competitive intelligence. And the trend is still positive, but obviously, that does depend on the competitive environment.

For the fourth quarter, we have certain comfort in saying that that rate increase is a bit more because of the seasonality effect. So, it's a mix effect, and quarter-over-quarter, it's very small. In second quarter to the third quarter, the mix effect is not really more, it's more of a price effect. In the year-over-year, you have the mix effect. That's the average rate year-over-year drops 2.2%, but so far with a positive trend.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Nora and Maurício.

Operator

Next question is from Bruno Amorim from Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hi. Good morning. I have two questions. My first one is that I'd like to know if you have any evidences of a deterioration of the Seminovos market as a consequence of new car prices not going up so strong. So, the margin decreased a lot in the third quarter and coincided with the moment where the company started to sell more cars, 30,000, and that's average of 20-something in the past quarter. So, I'd like to know if that's a market trend and not something that specifically happens to Localiza, given that you had to increase the amount of (00:39:14) substantially.

And the second one, if we look at the ROIC for the company in the first nine months and considering the amount that you reported for the first half, we can consider that ROIC was 12% in third quarter, and next year, it's implicit that the interest rates will increase 150 bps. So, if the company is running at a ROIC of 12% next year with interest rates that could go up, we can see compression to the ROIC/WACC spread or the spread between the ROIC and the (00:39:50) 200 bps. I'd like to know if that makes sense, given that you've been saying that those Seminovos margin levels and potentially ROIC is the new normal for the company, and that the company understands that the spread compression is natural and acceptable. Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you, Bruno, for your question. About Seminovos, we don't see market deterioration. Obviously, the country's macroeconomic condition, the crisis, unemployment, lack of access to funding is a challenge for us, but we don't consider in the company that the market deteriorated. We just didn't have a price increase as we did in the past, but we don't see it's deteriorated. It's the rate. In the fourth quarter, there's a rate that we have to sell to renew the fleet. And the bond, I don't see it as an increase of price. We don't see the deterioration and we're included in the same macroeconomic environment with everyone, but I don't see deterioration.

In relation to ROIC, in fact we are paying attention to the interest rates. We're comfortable with the spreads levels that we have, because it's stable compared to last year with a capital base that's much higher and very strong growth maintaining profitability. If we break down the ROIC per business segment, in Fleet, we're already pricing new contracts with a higher ROIC because we always consider the future interest rates according to contract tenure. So, we're already capturing higher ROIC than the ROIC in the beginning of the year. So, that's automatic.

In Fleet, the group spread is following the interest rates and pushing the ROIC up. That's going to happen naturally, and we also see movements in the opposite direction with ROIC from Fleet dropping proportionally to the interest rates, and now it's going up again. It's already happening. In Rental Car, it's more dynamic. I can adjust the prices faster according to the competition or the market. So, we manage that, because they're short-term contracts, and therefore I can make decisions when the interest rate actually goes up. Right now, it's an expectation. We will closely monitor that if interest rates go, we're going to assess if we're going to raise prices or not, so – and RAC is more of a tactical decision if they actually go up.

Bruno, to help you with market evidences in that sense, the IBGE publishes a study for new car and used car inflation. So, according to the IBGE, this year and last year, the car inflation – new car inflation has been dropping. The best evidence that you have probably is that reflects our evidences for a couple of reasons. The first one is that the IBGE (00:43:08) price is public. There is a negotiation and the different market prices practice. So, it doesn't reflect our mix either. It's for the market and it doesn't really reflect on the cars that we are buying. So, in the point of view of evidence, it's probably the best one we've, because now new car prices are going up at a smaller scale. Thank you.

Operator

Our next question is from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good afternoon. I have two questions. The first one is a follow-up about the RAC rate. Since you talked about the mix, I think Maurício mentioned replacement in other segments grew at two-digit levels, but when we look at the average rate at 2% that the segment would be (00:44:21) downwards. Does that make sense?

And the second one about Fleet, my question is, for the strong growth that we see in Fleet, are you somehow changing the strategy for the segment closing shorter contracts instead of two, three-year contracts?

A - Maurício Fernandes Teixeira

Hi, Victor. Thank you for your question. Your analysis does make sense in relation to price. The growth levels were at two-digit levels, but they're different according to each segment.

Victor, about Fleet, there's no change in strategy for this segment. We're still pursuing good customers, good contracts, long-term relationship with these customers. We're not changing contracts or compressing our spreads. We're maintaining our profitability, looking for long-term relationships with profitable customers.

I'd also like to highlight Victor that (00:45:23) contributes towards our competitiveness in Fleet. In the past, off the top of my mind, we added approximately 50,000 cars to the Fleet. So, we're more efficient in purchase and sales, and that's been helping our competitiveness in Fleet, but we are not changing the strategy. It's still growth with profitability and we're very cautious in fleet pricing, because they're locked in two to three-year contracts. So, we're very wise in pricing fleets. This pricing considering future interest rates and (00:46:01) to maintain the spread, that's what we would want in new contracts.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Great. Thank you.

Operator

I'd like to hand over to Mr. Maurício Teixeira for his closing remarks.

A - Maurício Fernandes Teixeira

Thank you very much for attending, and our IR team are at your disposal for additional clarifications. Have a great day.

Operator

The Localiza conference call is now over. Thank you for your presence and have a good day.