Q2 2018 Earnings Call

Company Participants

- Jose Antonio de Sousa Azevedo, New Business and Investor Relations Officer
- Luis Fernando Porto, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Joao Oliveira, Reporter
- Lucas Marquiori, Analyst
- Pedro Bruno, Analyst
- Renato Hallgren, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning. Welcome to Locamerica's Conference Call, which will discuss the Results for the Second Quarter and First Half of 2018. All participants are connected in listen-only mode. And later on, a question-and-answer session will be opened, when instructions for you to participate will be provided. This quarter, Locamerica will welcome press professionals to ask question, right after the market analysts. (Operator Instructions)

This conference call has simultaneous translation into English, and questions can usually be asked by participants connected abroad. Questions can also be asked through the Internet, via the webcast platform. Remember that this conference call is being recorded. The audio will be available on the company's website within 24 hours.

If you do not have a copy of Locamerica's release, you can obtain it from the company's website at www.locamerica.com.br/ri. This conference call accompanied by slide show is being transmitted simultaneously through the Internet also with access through the company's website.

Before proceeding, I would like to clarify that any statements that may be made during this conference call regarding the prospects of the company's business as well as projections, operational and financial goals related to its growth potential are based on expectations regarding the future of Locamerica. Such expectations depend on the performance of the sector on the country's overall economic performance and on the domestic and international market conditions. Therefore, they are subject to change.

With us today is Mr. Luis Fernando Porto, Chief Executive Officer; and Mr. Jose Azevedo, Investor Relations and Director of New Businesses.

Now, I'd like to turn the floor over to Mr. Luis Fernando Porto. Mr. Porto, you may proceed, sir.

Luis Fernando Porto {BIO 17590082 <GO>}

Good morning, everyone. It's a pleasure to start another conference call to discuss the results of Locamerica. The second quarter 2018 is the first result of the new company in consolidated terms. As a result, we would like to point out that the figures related to 2017, consider the result of the 12-months of Locamerica and the results only after the third quarter 2017 of Auto Ricci, in addition to the results from May the 11th, 2017 to 30th of June, 2017 using the equity method.

The 2018 figures include six months of the results of Locamerica and Auto Ricci, results of Unidas for the second quarter 2018 after the third quarter 2017 as well as the results as of 9th of March 2018 to March 31st, 2018 using the equity method. In addition, in order to assist our investors and analysts, we have included in our materials Unidas' track record for the Car Rental segment for comparison reasons, since Locamerica did not operate in this segment until the first quarter 2018.

Before we begin our presentation, I would like to thank our employees who helped Unidas reach the 16th place in the ranking of Great Place to Work out of the best companies to work for in Latin America. We entered the fourth time the 19th edition of the Modern Consumer Award for Customer Service Excellence in the Car Rental category, and for the consecutive year to be considered one of the 74 franchises with maximum score of Five Stars in the Best Franchise in Brazil of 2018 organized by the Magazine, Pequenas Empresas & Grandes Negocios, our Small Businesses and Great Businesses in the area of Network Quality, Network Performance and Franchisee Satisfaction. That's [ph] complete our joy the main pillar for our company, which are our people. Yesterday, we stood at the 10th rank of the Best Companies to Work for in Brazil and the first place in the celebrate block. For us, we are people engaged and in love. We can see that the results are extraordinary as the one that you will see shortly.

On slide four, starting now our presentation to discuss the results of the second quarter 2018, we share with you the current status of the merger with Unidas. After exactly 229 days after the announcement, our successful planning is being fully implemented. Such planning was 100% completed within the same time frame as we completed the Auto Ricci planning, even taking into account the size of the Unidas which is four times larger. This fact reinforces the credibility of the company as a player with important expertise in the process of consolidating our market, and gives us the absolute confidence that we are ready to move forward.

Taking advantage of the opportunity, I would like to inform you, firsthand that the turn of the new brand is already scheduled and will take place on September the 6th. In relation to what was announced in the first quarter 2018 conference call, we informed that the integration plans for the customer service network and suppliers, as well as the car sales processes were also a 100% completed. The implementation step will continue until the end of this year to have as early as 2018, the new company consolidated with the best practices of the two companies and a 100% of the synergies captured.

Turning to slide six, we will talk about some of our operational highlights. In this quarter, we recorded growth in business volume in all segments where we operate. In the fleet management and in car rental, we continued with strong organic growth in the daily rentals. In addition, specifically in car rentals, we beat Unidas' record surpassing 1,800,000 daily rentals in the second quarter 2018. Both performances reiterate the company's direction that the company has given to the vehicles in Brazil, and we can see that the market is experiencing a significant growth supported by still low penetration by the greatest cooperation of the population in the use of this type of service, and the considerable cost savings that the management of fleet brings to the companies.

We also understand that these aspects linked to the company's competitive advantages in relation to the market as a whole, which has more than 11,000 car rental companies in the country will lead to that growth in business volumes above that recorded in the industry in the coming years. As for used cars, this strategy is focused on retails and backed by our competitive advantages brought another quarter of strong sales, allowing the company to accelerate its fleet turnover, which give us confidence to make a larger investment with an exclusive focus on the expansion of our business. In general, this slide six [ph] demonstrate the gain in operational robustness that the new company displays reinforcing or positioned as the leader in the market of fleet management, and the second largest car rental company in the country in terms of number of vehicles. Altogether, we have 108,278 vehicles, which represent a growth of 151.8% in just 12 months. Further details on each segments will be given throughout this presentation.

On slide seven, we will talk about the financial highlights for the second quarter 2018. The consolidated figures below show the significant gain in robustness generated by the merger with Unidas. In the upper chart, we show the evolution of recurring EBITDA, which in the quarter amounted to BRL277 million (sic - 227 million), an increase of 246.6% reaching the EBITDA margin of 59.9%. This reduction in margin reflects the company's entry in the car rentals segment, which intrinsically has lower profitability levels when compared to fleet management.

On the lower chart, we see positive evolution in the result of used cars, which in the second quarter 2018 reached BRL48.3 million in gross profit and annual expansion of 247.7%. In turn, the gross margin was 12.4%, 0.2 [ph] point percentage points above the second quarter 2017. And for the first half of the year, the expansion in the last 12 months was even larger reaching 1.2 percentage points.

On slide eight, the upper chart shows the annual recurring net income growth of 307.1% totalling BRL51.3 million, reaching a net margin of 13.5% in the second quarter 2018, an increase of 1.1 percentage points vis-a-vis the second quarter 2017 and a record for the second quarter, even after entering the car rental segment.

In the chart below, the company's second quarter 2018 ROIC for the company was 12.4%, and it's already at the same level as Locamerica. We highlighted the 1.6 percentage points increase of the combined annualized ROIC over the first quarter 2018, which enabled the company to reach its historical record of 5.5 percentage points spread in relation to the cost of debt.

Now on slide 10, we've briefly discussed the scenario of the new and used vehicle sales. As we can see from the graph above, vehicle sales increased 20% in 12 months in the second quarter 2018 and 10% in the first six months of the year, while the used car market grew by 3.8% in the second quarter 2018 and was flat in the first semester.

In the lower left hand chart, we have break down the sale information for used vehicles by age. It's important to note that this chart also includes the sales of heavy commercial vehicles and motorcycles. The graph shows that the market made up of vehicles with up to three years of use presents an annual reduction of 46.7% although in similar proportion to the 51.7% annual drop presented in the first quarter 2018. In parallel 12,161 vehicles were sold at company in the second quarter 2018 alone, as a result of the strong expansion of Locamerica sales and the gradual increase in sales of Unidas as initial result of team integration and adoption of the best practices and processes giving Locamerica enormous competitive advantages in this market. As a result, our market share in used car segment increased from 0.22% to 1.11% in the second quarter 2018.

Starting our discussion of our operational highlights on slide 12, we show the evolution of our fleet. At the end of June 2018, the company's consolidated fleet totaled 108,278 vehicles, an increase of 151.8% in relation to the total recorded in the second quarter 2017, driven by the organic expansion in business, the introduction of Auto Ricci fleet and the addition of the fleet of Unidas as well. The fleet in demobilization process amounted to 9,300 vehicles in the second quarter 2018 and corresponded to 8.7% of the total feet, an increase of 1.7 percentage points when compared to the second quarter 2017. The company intends to work with an inventory of 7.5% to 8.5% of the total fleet for the coming periods.

On the last table, we show the average age of the operational fleet in the item fleet management, which closed the second quarter 2018 at 16.6 months, an annual decrease of 11.6% due to the new contracts starting in the second quarter 2018. In car rental excluding deductibles, there was a slight increase of 3.8% compared to the second quarter 2017 closing the second quarter 2018 at 8.1 months. The company continues with the policy of strong renewing its fleet in both segments thus achieving higher maintenance costs savings.

Moving to the next page, on slide 13, investments in fleet in the second quarter 2018 amounted to BRL808.5 million, an annual growth of 245.7%. As a result, net investments resulted in BRL417.1 million in the second quarter 2018, 250.5% higher than that in the second quarter 2017. In terms of numbers, 16,098 vehicles were purchased in the second quarter 2018 resulting in a net addition of 3,900 vehicles in the period. As a result, the accumulated amount for the year 2018 amounts to the purchase of 20,691 vehicles and a net addition of 3,448 vehicles.

On slide 14, we will discuss the performance of fleet management. In the first chart on the left, we can observe that the pipeline of opportunities remained heated with demand for the first time reaching more than 34,000 cars to be allocated. In the graph to the side, we observe the commercial activity, which in the second quarter 2018 showed a growth of 28.6% in the number of vehicles contracted in relation to the second quarter 2017. However, the overall value of the new car rental agreement signed in the second quarter 2018 dropped 4.9% year-on-year to BRL116 million. This performance is explained by the execution of a relevant contract in the second quarter 2017 with period of effectiveness well above the average of regular contract.

In the chart below, we show the improvement of two important indicators, the annual reduction of 12.2% on the average age of our fleet which closed the second quarter 2018 at 16.6 months, the lowest level of the last three years and favored by the initiatives of the company in its renewal. Finally, Locamerica's average occupancy rate renewed its historical level for a further consecutive year and in the second quarter 2018 at 98.2%, 1.4 percentage points higher than that reported in the second quarter 2017. The performance is favored by the improvement of processes and technology implemented by our operating area, in addition to the organic increase of this rate by Locamerica. We point out that for Unidas, this rate is intrinsically a 100%, since any additional demand for vehicles exceeding the fleet intended for fleet management is then served by vehicles from the car rental operations.

Moving on to the next slide, and wrapping up the topic of fleet management segment, combined net revenue increased a 149.2% year-on-year, mainly due to the increase in the number of daily rentals of 164.71%, partially offset by the reduction of 6.1% in the average rate. This reduction is justified by the incorporation of fleet of Auto Ricci S.A., whose car mixes have lower rates when compared to the mix of Locamerica's car, as well as the lower contract rates due to the reduction of the basic interest rate, Selic, however, in a lower proportion as shown in the comparison at the top right hand side. As a result, it's important to note that despite the reduction in the daily rates, we continue to show consistent growth in EBITDA, EBIT and net income, as well as in their respective margins which proves that such reductions will not affect our returns.

On page 16, we will talk about car rental, a segment in which Locamerica did not operate until the merger with Unidas. As mentioned on the slide, on the company's fleet, the average age of car rental vehicles increased by 3.8%, due to the postponement of purchase of vehicles associated with the merger process with Locamerica. We affirm our commitment to company's strategy of reducing the average age of the fleet thereby improving maintenance and depreciation costs as well as maintaining an ever new fleet for our customers.

Regarding the occupancy rate of 79.5% in the second quarter 2018, we highlighted that it is the highest among the rental car companies in Brazil. We also pointed out that the small reduction of 1.4 percentage points in the last 12 months reflect only the increase in the purchase of vehicles after the merger. We continue with strong demand of customers in our stores even before we started launching our new marketing campaigns and delivering the many improvements we will bring to the experience of our customers in the segment, which should happen as early as September.

Turning to slide 17, and reaffirming what was said in the previous slide, we show a strong expansion in the number of daily rentals, which grew 23.7% in the second quarter 2018, but increased even more in the first half of the year 25.4%, thus proving that our enormous robustness of the Brazilian car rental market in parallel and as extrinsically reported by the company, we continue with no large variations in the average daily rental, a result [ph] driven by the rationality applied in the daily rentals and by the best mix of the market.

For 2018, we have worked with average daily rate ranging from BRL70 to BRL74 which until now is being adopted by the company. Since in the first half of 2018, the average rate was BRL72.4, 0.8% higher than that amount recorded in the first half of 2017 of BRL71.8. As a result of this scenario and of the company's initiatives, net income from the car rental segment increased by 22.2% when compared to the second quarter 2017 from BRL95.3 million to BRL116.5 million. In the first six months of the year, revenue totaled BRL249.3 million, an increase of 26% over the same period of the previous year.

Now on slide 18, at the used cars, our network totaled 81 stores, an increase of 59 stores in 12 months, all of which were directed to the retail segment. This move is in line with the company's strategy of seeking greater profitability in the demobilization directed at sales to the final customers. As a result, sales increased 257.9% over the second quarter 2017 and totaled 12,161 vehicles in the second quarter 2018 almost all the cars sold in 2017 by Locamerica. We continue to increase the number of sales per store and raise the prices of cars sold to the most appropriate levels ranging the consolidated company to the highest margins ever reported by Locamerica.

Now on slide 19, the consolidated gross revenue of used cars totaled BRL391.9 million in the second quarter 2018, and an annual increase of 237.7%, while in the first half of 2018, the amount was BRL547.7 million, with an expansion of 150.7% in 12 months. On the other hand, retail sales reached 67.8% and 67.4% in the second quarter and in the first half of 2018, respectively, positively impacting gross margin which expended 0.2 percentage points in the second quarter 2018 to 12.3%, and 1.1 percentage points in the first half of 2018 to 12.6%. As a result, gross profit of used cars stood at BRL48.3 million in the second quarter 2018 with annual growth of 247.5% and BRL69.1 million in the first half 2018, a 177.5% higher than that reported in the first quarter 2017.

We would like to highlight our capacity to implement Locamerica's car sales project, which in just two quarters after the merger with Unidas managed to bring gross income of used cars and the car inventory of Unidas to Locamerica's levels bringing forward two quarters in relation to what was announced in the merger plan. We understand that by successfully selling our used cars with focus on the retail segment and taking advantage of the car mix resulting from the merger and by relying on our competitive advantages in processes and people. The company will not only avoid cash burn, but it will also help or/and assist the company in its fleet renewal process, thereby reducing its maintenance and depreciation costs, in addition to maintaining a new and updated fleet to our customers of rental car and also for fleet management.

I now turn to Jose Azevedo, our Director of New Businesses and Investor Relations Officer to discuss the company's financial results.

Jose Antonio de Sousa Azevedo {BIO 21349724 <GO>}

Thank you, Luis. Good morning, everyone. Before proceeding with the presentation, I would like to point out to all that the figures to be presented below considered for the year 2017, the 12 months of the result of Locamerica, and the results as of the third quarter 2017 of Auto Ricci, in addition to the results from May 11, 2017 to June 30, 2017 using the equity method. For the 2018 numbers, we can say that the six months of results of Locamerica and Auto Ricci and the result of Unidas as of the second quarter of 2018, in addition to its results from March 9, 2018 and March 31, 2018 using the equity method.

On slide 21, the company's consolidated net revenue of the second quarter 2018 was BRL770.3 million, 255.8% higher than that reported in the second quarter 2017 result of the expansion of all divisions in addition to inorganic growth with the addition of revenue from Ricci and Unidas. In the first half of 2018, net revenue totaled 1,081 million, a 156.7% higher than the first half of 2017. For both periods, organic growth reflects increases in daily volumes and the vehicle sales, daily rentals.

On slide 22, we presented the new EBITDA and recurring EBIT margins for the New company. For this calculation, we excluded the amount of BRL3.2 million in the second quarter 2017 and BRL2.1 million in the second quarter 2018 related to the extraordinary expenses related to the mergers and acquisitions. Recurring EBITDA totaled 227 million in the second quarter 2018 and 337 million in the first half of 2018 with respective margins of 59.9% and 63% of net revenue from rental. The reduction in margins basically reflect the company's entry in the car rental segment, which inherently has lower levels of profitability, when compared to fleet management.

In addition, it's important to note that the second quarter of the car rental segment is seasonally weaker when compared to other quarters, and the synergies with merger, with Unidas does have not yet been fully captured. We would like to emphasize here that although the entry in the rental car segment brings a natural impact of reducing EBITDA margin. It also gives us the necessary breadth and scale to improve the purchasing power of vehicles, reducing maintenance and depreciation costs. For this reason and due to the several achievements previously presented by Luis, the New Company has already been born with the levels similar to those of Locamerica in terms of EBIT, even without having captured all the synergies that will be generated by this [ph] margin. And finally, it's also important to highlight that the lower depreciation should not reduce the margins of used cars in the coming years.

Now on slide 23, net recurring financial expenses amounted to BRL84.2 million in the second quarter 2018, an increase of 242.3% over the same period in 2017. The variation explained by the increase in net debt resulting from the financing required to increase the fleet and payment -- and the payment of BRL398 million related to the merger with Unidas, partially offset by the reduction of the basic interest rate in the period. However, the increase in net financial expenses is offset by the 246.6% growth in EBITDA in 12 months.

For the calculation of the recurring net financial expenses, we excluded BRL3.9 million in the second quarter 2017 and 2.9 million in the second quarter 2018 from non-cash extraordinary expenses from the MTM of the swap operations and the prepayment of Unidas debenture issue.

And the graph to the right hand below we show the evolution of the consolidated recurring net income, which in the second quarter 2018 was 51.3 million and grew 307.1% in 12 months. Year-to-date the total amount was BRL74.3 million, an increase of 196%. Both companies net income growth was higher than the expansion of net revenue, EBITDA and EBIT. As a result, the recurring net margin grew by 1.1 percentage points year-on-year in the second quarter 2018 and 1.6 percentage points in the first half of 2018 with 13.5% margin recorded in the second quarter 2018 at historical high recorded for a second quarter.

On next page, slide 24, shows the evolution of our profitability indexes. In the upper left hand corner, we show the ROE evolution. As we can see in the graph, this index continues to show an upward trend quarter-after-quarter, and then the annualized second quarter 2018 at a record level of 19.9%, representing a growth of 0.9 percentage points in relation to 2017, placing the company at this level of profitability and of value creation for shareholders. It's worth noting that the annualized ROE for the second quarter 2018 is calculated on the tangible shareholders' equity, which excluded the effect of the premium arising from the valuation between the signing date and the closing date the shares issued for the payment of the mergers with Unidas.

On the other hand, the second quarter 2018 annualized ROIC of 12.4%, 1.4 percentage points higher than the combined ROIC in the first quarter 2018. As a consequence, the spread of ROIC in relation to the cost of debt was increased to 5.5 percentage points, the highest ever recorded in the company's history. It's important to highlight that for the next quarters, the spread will still be favored from the various synergy gains, the hedges made in our net debt, and finally by the expectation of reducing the cost of debt with refinancing at lower rates.

On the last slide, number 25, we show the company's consolidated gross debt of BRL3.4 billion at the end of June 2018, of which 90.3% are due in the long term, reflecting the conservative policy of extending the net debt. We also highlight the cash position of BRL600.5 million, the amount which is sufficient to cover 79.8% of the principal of the debt to mature by 2020. Our debt is currently composed of more than 90% in debentures and the rest are distributed among from promissory notes, leasing, working capital and Finame.

As a result, net debt over EBITDA for the last 12 months is 3.06 times higher than that for the same period of the previous year. However, this index has already showed a downturn when compared to the level of 3.21 times reported in the first quarter 2018, due to the strong EBITDA generation in the second quarter 2018 compared to the EBITDA generation in the second quarter 2017. Finally, on July 11, 2018, the corporate ratings of scale [ph] Locamerica and Unidas increased two notes through the Standard & Poor's from brAA- to brAA+ in addition to maintaining the upward trend.

Let me now turn the call back over to Mr. Fernando.

Luis Fernando Porto {BIO 17590082 <GO>}

Thank you, Azevedo. I would now like to open the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Hello. Good morning, everyone. Thank you for the call. I have two questions. The first is related to the Used Cars margins. We can see that the margin is very strong 5.5%. And I understand that the retail channel is growing, but I would like to know what is the ramp up of Unidas? How does it stand, what has been done for the quarter, what's still there to do to improve the Seminovos line of used car segments?

And the second question, I can -- I see that on the Investor Day of Locamerica, you said that there is a gain of a synergy of 50 million. I would like to know if this estimate stands at 50 million, does it undergo any changes? Has it gone up or down? And how much of this synergy you expect to obtain this year 2018? Those are my questions. Thank you.

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

Lucas, thank you very much for attending this call and asking questions. First, we had two challenges for used cars, when we analyzed the best practices of Locamerica and Unidas. One was to equate the inventory, and the second challenge was to make changes in the mix, so that we could channel more cars to the retail market, and also to -- as to pricing. We estimated that we would complete all these items up to the last quarter, and we are very happy because you yourself stressed that we have brought forward this margin with EBITDA margin higher than we had previously announced that -- when that we had at Locamerica, and a gross margin similar to what we had at Locamerica in the second quarter.

What I can say to you is that, there's a lot to do, though those two main objectives have already being achieved, and we brought them forward by six months. This is an evidence of our capacity and our competitive advantage in terms of used cars, which is such an important item, so that we can maintain the fleet new, reduce the average age of the cars, bringing down the maintenance cost, and so we still do not have the same number of cars sold in our retail stores in the New Company, but we have already been able to increase very strongly the volumes. And we have already regulated the car mix to 6% to 7% of the sales in the retail segment.

So we can understand that as of now the New Company will bring more constant results at this level. We are aware of what we have to do. We understand all the difficulties ahead of us. We understand that the market has been dropping for six months, consecutive months. And as I said before, for a market of 150,000 or 200,000 cars sold a month, we do not have to be concerned about this drop if we have competitive advantage over the market. Most of them are small businesses that use brands which are not known, their inventory levels are not so good, and we have lot of advantages over them.

So as to used cars we are very happy. We are growing strong, and we have been able to reduce our inventory levels, and we have been able to bring the margin levels at Locamerica's records.

In terms of synergies, we are declaring that the planning part has already been completed a 100% on schedule and we have also implemented according to plan or even better. I say this because we purchased -- sorry, we had a merger with -- we leverage the company in terms of debt and this brings an initial cost higher at the beginning, and in the first quarter was completely offset considering all the synergies that we have been able to capture.

Well, the message I would like to convey to you is that the quarters to come and also following the original plan, we're going to capture all the other synergies until the end of the year. And obviously, in annualized terms, we will go after those synergies up to the second -- up to the fourth quarter. We are focused on this and we are very firm that we are going -- and the belief that we are going to achieve this.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Fernando. And can we expect the estimate of 50 million of operational synergies?

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

Yes, we can maintain this level of expectations.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Yes. Thank you.

Operator

Next question comes from Pedro Bruno with Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Good morning, Fernando and Azevedo. Thank you very much for the call. The first question is related to depreciation. I think you have already covered this, partially you have already addressed part of the question, but we saw an important number in relation to depreciation that reflects an increase on the discount of 1%, 1.5% in the purchase of cars. I would like to know if this has been passed over to depreciation. Can we expect a neutral results in the -- results when we look at the synergies? When we think about a better price when purchasing the car and do you believe that there is the structural level for depreciation when will look at the car per year both for car, for rental car and for fleet management? This is the question, the first question. Thank you.

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

Thank you, Pedro, for the question. First thing, what we have done is -- so far is only to equate the costs of cars of both companies. So we have reassessed all the fleet. And after April, we studied all the costs after the reevaluation of the costs, and put them at the same level. This is the first effect.

Second, we have the purchasers' expectations for the cars. We were very conservative when we did this. We understand that if we reduce the depreciation and reduce the margin of used cars, we will be only bringing results for the short-term. And our idea is to have result in the short-term, but our focus is to maintain the consistency of results, and we're always looking at the medium and long terms. So I'd rather say that we are testing this level of depreciation for the time being and maybe we will have further reductions along the quarters to come as soon as the management feels comfortable to do it without reducing the margins of used cars.

What I can say to you right now is that the reduction was done because of the purchases because we gain in scale. We re-equated the cost of -- the cost of both companies. And as a volume which is enough for us not to reduce the margin of the seminovos in the long or short terms. And considering the purchase results and considering the dynamics of the used car market and also car rentals, we may make adjustments to this depreciation a bit further that for the time being we understand that the used cars margins will -- with this level of depreciation will maintain the results.

Q - Pedro Bruno {BIO 19082978 <GO>}

It's very clear. Can I ask another question, please. Similarly, in relation to the used cars, also related to the number of cars sold, could you give us an idea of how many cars you intend to sell in the second half of the year so that we can think about the cost reduction and the EBITDA margin for used cars? If I'm right. If not, correct me please. But I believe there is going to be a relevant acceleration of cars sold in comparison to the first half, because there is an additional dilution of costs. And could you help us think about the level of price for the second quarter in relation to the first half, if I'm right in the way I am thinking, if I -- the number of cars should be sold in a largest number?

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

Yes, you're correct. In the second half, we believe that the number of cars sold will be higher in terms of quantities. We do not expect prices to drop for the second quarter 2018, but we need to consider the price. The average price may increase a little bit as we accelerate the rental car vehicles, whose average age is lower than the fleet management. The more relevant of the sales of Rent-a-Car in relation to the fleet management, you might see an increase of the ticket, average ticket. We do not believe prices will drop in the second half.

So, what can you expect? You can expect that the volume will increase and the margins will be maintained. As I said before, as we anticipated in one or two quarters, our objective is related to inventory and margins. In the second half, we are likely to begin an expansion plan for our stores. And due to this, we might increase the volumes. We are ready to move forward, as I said before, and invest in both unit's businesses, fleet management and Rent-a-Car, these are our objectives. And for this to materialize, we need the support of selling cars, which is also robust.

On September the 6th, we are going to launch the new brand, the new Unidas. And then on an official basis, we are going to use a single brand, the single name to talk about our product, to communicate with our investors, to -- all the employees know that we had a party for this launch, and now we are going to show this to Brazil and to the whole world. And the slogan for this launch would be platform that we are calling Leader 360 degrees, whose main focus is to deliver our customers any product they need that will -- that can last one day or six months for rentals of cars or trucks, our new market plan, our new brand planning. There are many things going on, and we will start this on September the 6th, and this will make us able to expand our business units and our used car segment as a consequence, so you can expect higher volumes for sales and stable margins, and these are our targets.

Q - Pedro Bruno {BIO 19082978 <GO>}

Okay. Great. Thank you.

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

Thank you.

Operator

Next question comes from Renato Hallgren with Banco do Brasil.

Q - Renato Hallgren {BIO 17989415 <GO>}

Good morning, Luis Fernando. Good morning, Azevedo. Thank you very much for taking my question. I have a question related to your presentation. You have GPS [ph] preferential for the third quarter 2018. This is significant number in terms of growth. Could you give more detail about it? Why are we going to have this relevant growth? You look at the history record or is this a strategy that you brought from Unidas, so that you're going to focus on different niche for GPS?

A - Jose Antonio de Sousa Azevedo {BIO 21349724 <GO>}

Hi, Renato, good morning. This is Azevedo. How are you? Thank you very much for taking part in the call. I'm going to explain in a simple way. We have two companies operating two different niches, that is to say, Locamerica was more focused on medium and large size clients, and Unidas was focused on medium and small clients. When we had put them two together, the pipeline increases. Obviously, this is a logic consequence. In addition to that we have been working hard on bringing new technology, CRM and other technologies. So, we started to look at different kinds of clients.

As we said, the fleet market is enormous, so there are lots of fleets to be outsourced and to be managed, and we are on the lookout for those new opportunities. So, we intend to advance in this outsourcing -- outsourced segment. So there is going to be an impact on IFRS and large companies will start preparing the plan now, and then make the changes along the time. So part of the companies are going to be replaced now. We have two enormous clients that with whom we have already started doing this kind of work, so we have this in our pipeline.

Q - Renato Hallgren {BIO 17989415 <GO>}

Okay. Great. Thank you.

A - Jose Antonio de Sousa Azevedo {BIO 21349724 <GO>}

Another point, which is important to address is that, we tripled our team with the merger I mean.

Q - Renato Hallgren {BIO 17989415 <GO>}

Okay, thank you.

Operator

Next question in English comes from Jose Ahoy [ph].

Q - Unidentified Participant

Good morning, gentlemen. I had a couple of questions. And the first question is from the car rental business where the utilization ratio dropped by about 400 basis points in Q2 relative to the Q1. And I was wondering why that happened?

And my second question is on the size of Locamerica's fleet including Unidas. And we can notice that the fleet has been growing for four quarters in a row with purchase of cars exceeding sales of cars in the last four quarters, and clearly that has helped the company grow its RaC business and its fleet management business. How should we think about the fleet evolving come here in respect to farther growth. And if so, is there room to fund it in the balance sheet or do you expect the fleet to shrink from here? Thank you.

Operator

Ladies and gentlemen, please standby. We will resume shortly.

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

Hello? Hello, how are you?

Q - Unidentified Participant

Hello. Very good. Can you hear me? Hello? Hello?

A - Unidentified Speaker

For us that mean to growing Rent-a-Car or growing fleet for us is the same. The main thing is rentability is what we give more attention. But we believe in both segments, we have huge markets that we can grow in both with more or less the same percentile. We believe in growth for the future, a great growth, it's a lot of opportunities.

Operator

(Operator Instructions) Next question comes from Victor Mizusaki with Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hello. Good morning. Congratulations on the results. I have two questions. When we look at the fleet management results in the second quarter 2018, we see that there has been improvement, a capture of synergy, which would happen very quickly. The first question is related to the integration plan. Can we expect a reduction of synergy in the months to come? And in relation to this considering the dynamics that we saw in terms of Rent-a-Car and fleet management, can we expect quicker improvement for the Rent-a-Car segment for 2018, considering that you have the launch of the marketing -- for the marketing of the brand?

And the other one is related to the capital structure. And we can see a drop in the ROIC. How do you see this indicator for 2019?

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

Good morning, Victor. Thank you very much for the question. First, let's talk about the synergy. As I said before, we have a plan in place, a synergy plan, which is completely mapped out, and it's just a matter of time. There are many plans going on at the same time and we have made quicker headways faster than we expected, so we are in a very comfortable position considering the volumes and the speed that we have been able to have, compared to what we announced at the beginning of the merger.

There are many activities going on in different fronts. What I believe to be reaching this process is that when we manage to form a team with others. When we understand that a New Company is born because in any of the merger, we had never seen a company that is better than the other in all aspects. The most important thing about this merger and all the model that we have developed, is to have the teams working together, so as that we can build something new. This has been done in a very great way. And in the next two or three quarters, in the future, you will see the results in different points of our businesses. So fleet is -- fleet management brings quicker results because it is something that we're very knowledgeable about and the results are more immediate. But you can be sure that there are many points that improvements will also be made.

And in relation to Rent-a-Car, the RaC, we have a clear objective in this aspect. First, we have already announced this in the beginning of the process. We have a mismatch of investments of our brand in relation to our main competitors. Then, it was clear to us that it's very important to have a sustainable business. In the long term, we have to consider the experience that the clients are going to have by using our services.

In addition, our fleet was worse than those of our main customers. We did not have a luxury car offered by the company and we didn't have many segments that we believe are very important to have. And our fleet was older than that of our competitors. So we worked on those three pillars in the last eight months. And as of September this year, all these will gain a new dynamics. We have a much newer car. So, it's very rare to see a car with more than 10,000 kilometers.

We have all the available -- we have products already available at our stores and we are going to launch a new marketing campaign with a new structure to provide services to our customers, so many things will change until the end of the year, but all those attitudes are attitudes focused on improvement. We are not talking about prices, we do not share -- we do not believe the idea that we should have a drastic change in prices and mix.

Scale was an important product for us until we reached the size. It's still very important of course, it's something that we cannot forget. We have to think about scales all the time, but growing 25% a year in business with profitability isn't better than growing 30%, 40%, and destroy profitability. So all attitudes that are going to be adopted for our Rent-a-Car until the end of the year are focused on improving the customer service, improving the technological perception, this is our purpose.

What I can say to you right now is that the market is strong again. And with a heated market, of course, any implementation makes a lot of difference. The mark by itself -- market by itself does not bring results, but our plan is well defined, the execution is very successful. So we believe that the second half of the year is going to be very interesting in terms of Rent-a-Car.

And capital structure, as you asked, as we said in the beginning of the presentation, we are going to do with -- for Unidas, what Locamerica had a robust cash that would cover for a long time the debts, so the capital structure was much better than we had expected, both in relation to volume, debt management, deadlines, guarantees, and the cost itself is, which is very important to us.

With considering all these, we are taking advantage of all the synergy and we managed to prepare a cash structure in comparison to short-term debt. And today, we are at 80% able to cover the next two years and a half, so it's a new level, it's a new philosophy, and all of this is being done, as we possibly can. There are debts with higher rates, but we have deadlines and lockups to consider, to observe. So we intend to refinance and maintain this new concept of robust cash, so that we can have the comfort for our shareholders and also to all those long-term lenders.

And as you have also noticed, in the first quarter that we operated together, we reduced by nearly 6% our leverage. If we continue growing at this phase, you may expect that by the end of the year, we will reach 2.8 times net debt over EBITDA or even lower rate than those. If the market gives us the opportunity, we will be comfortable at 3.5 times. At first, the company manages to grow at this space without leveraging. If we have growth opportunities, we intend to stand at the level of 3. So it depends on the market and what is going to happen in the next quarter. We always make it clear that we are only going to move forward, provided the margins are not reduced. And we understand that this is possible, and we are going to grow more than the industry, and we do not want to lose market share provided that it does not mean reducing margins.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Another question. When we look at the used cars operation, which is so positive. When we look Unidas and Locamerica channels, has there been any change? Which one directly intervening the other channel, so has Locamerica been able to train all the team of Unidas? How can we expect the results for this third quarter?

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

Excellent question. At first, we decreased the inventory of Locamerica. If you notice, in December, the inventory level was already very low, and as soon as we implemented our plan, we started to sell Unidas car in Locamerica. And then we started implementing the best practices, because there were loss to profit from Locamerica and there were also positive aspects of Unidas. So throughout the months, we've been making both things, selling Unidas car at Locamerica that helped the inventory levels and margins.

At the same time, we adopted the best practices of both companies, considering both networks. So as of September, all the store network will have a single brand, single website, single advertising campaign. So we have this synergy of brands and we believe the exposure of the brand as a whole will bring traffic to our used car stores, but at first, we did it because selling cars from Unidas at Locamerica was the medicine that brought quicker results. But in the next quarters with the new culture and with the new way of working, it is going to be united into a single one. It takes some time. It's a new culture. We have to train our teams. There are many things going on that may change. So we managed to have the results quick and we're very happy with the results.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

(Operator Instructions) Let's answer again the question of (inaudible).

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

Good morning, Jose. Thank you very much for your question. Excuse me, I'm so sorry. The answer was in English and didn't reach, so Jose did not hear. So I am going to answer it again.

The first question was related to the occupancy rate of RaC. At this time, we are increasing the availability of cars to our customers and when we create some new categories, not always is the occupancy rate provided at the first time. So the small reduction in the occupancy rate is driven by the increase in the number of car models for our customers, but we expect that along the next quarters, this rate will be equated.

In addition to this, we'd like to add that the second quarter historically for the Rent-a-Car, its quarter seasonably weaker. So if we look at the results of last year, the drop was zero point something which is not fair representative, but we are increasing the offers for our customers. So the occupancy rate is not a problem, it's related to the seasonality related to the increase of offer.

In relation to the growth, you asked if we are going to grow, grow more in our RaC or fleet management, that doesn't matter to us. The platform that we are choosing now and that -- and is something that we believe, and we are going to start cross-selling of product within our portfolio of clients, and we are launching the platform Unidas 360 degrees. So if it's an individual or a corporation who would like to use our products in our international network enterprise -- international, we will have the product to offer. So we believe that there is room to grow, both in fleet management and RaC, and the priority is profitability. So whichever is more profitable, wherever the best opportunities are, we are going to grab, so we are going -- we are very comfortable to say that we are going to grow in both units of the company.

Operator

(Operator Instructions) If there are no further questions, the Q&A session with analyst is over. Before moving on to the Q&A session for professionals, I would like to turn the call to Mr. Porto for his final consideration.

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

We would like to thank all our investors for the courage and for believing in our work. It's a special moment for us because the merger four times larger than the one we had with Ricci, At the same time, it is an honor, and it's a glory for all the activities we did. And yesterday, they elected -- our employees elected as the 10 Best Place to Work in the country, and the first place in terms of good practices of celebration.

So I would like to thank you all, and this increases our will to work, to go after achievements, and we understand that there is new people who know what they are going to do and they are going to make a history in this market. The market that has helped us so much in the past years, in difficult times for the country in moment of difficulties, of crisis, our people may hold the difference. My thank you is for them, and also the million of investors across the world that believed in our business and invested their capital in Locamerica and Unidas. Thank you very much, and let's move forward. You can count on us if you need any further clarifications. Thank you.

Operator

We will now turn to the Q&A session with press professionals. (Operation Instructions) Joao Oliveira with Valor Economico.

Q - Joao Oliveira {BIO 19130573 <GO>}

Good morning, everyone. Thank you very much for taking my question. Could you provide some color on the brands that you're going to start using. Is it the new brand? Is it the combination of both?

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

Good morning, Joao. Thank you very much for your question. The brand is already defined. We're going to use Unidas, as the brand name, but we are going to present a new brand re-sterilized and this is something which is going to happen on September the 5th. In national launch, we are going to introduce the new brand that we are going to present, and introduce the new Unidas 360 degrees platform for our clients, for the press, for suppliers. It's an event that is going to be held in Sao Paulo.

Q - Joao Oliveira {BIO 19130573 <GO>}

But my question is related to the brand itself? Only Unidas?

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

Yes. We did exhaustive work with a specialized consulting firm, lots of surveys were conducted with our clients, and the final recommendation was that we should use a single brand. And for fleet management clients, Locamerica was known according to their feedback, we could change the brand, and they would not replace the supplier due to this reason. What they would not accept is the change in operations or the people, and this is what important to them. So we are preserving this model, we are preserving this way of providing service to the clients, and we are introducing a new brand to the client including all the investments that will be made in this brand. And all the business will be focused on a single brand and we will have to have a quicker recognition and this is what matters for us now.

Q - Joao Oliveira {BIO 19130573 <GO>}

All those details will be provided in the beginning of September, right?

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

Yes. All the details will be given in the beginning of September with the launch and you are going to be invited and I hope you can join us.

Q - Joao Oliveira {BIO 19130573 <GO>}

One more question please, if I may. You showed a positive scenario for the second half of the year, both for used cars and for fleet management. I think there are some specific factors such as the World Cup and truck drivers strike affected.

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

Yes. By living in Brazil, we always have to be expecting something. So, unexpected things may happen at anytime. So the truck drivers strike was not included in our wildest dream. And you may notice that we did not mention the problem. We understand that, of course, our company was impacted by the strike, but considering that the results that we generated was equal or better than what we had promised, so we decided not even to mention this because according to our concept, we should not be explaining events that occur, because our positive expectation for the second quarter is more focused on the work plan that we have for the company.

So as Azevedo mentioned, at the fleet we tripled our sales force. We learned a lot with Unidas, focusing on small and medium-sized companies, because this was something that Localiza didn't used to do well. As to Rent-a-Car, we have a new market campaign. We have a new experience in the stores for the customers. We have a new fleet and more complete fleet as well. And as for used cars, we have structure of stores that start to work using a new technology as well.

So, of course, we are facing hard times in Brazil, and we do not know what are the reforms that are going to be made. Politically, we are stable, but we are optimistic because the company is well prepared, the company has cash position which is quite robust. The leverage is controlled and we have a project for each operating unit, and that's why we are so optimistic in the short run.

In addition to that, we have lots of synergies that are going to be captured in the months to come, with the plan that we developed when we had the merger with Unidas. So, of course, we depend on the market, we also depend on macro scenario. But what we have always done at the company is to analyze, monitor, supervise the macro aspects, but always focused on our business plan and the micro. And this is how we survived throughout the last four years increasing our margins, increasing our returns and we gained market share very quickly. So this is the concept of optimism that we have at the company.

And to wrap up, in the launch campaign for the new brand, I believe it's going to be a vector for you to use as an assistance because you have more presence with the public.

A - Jose Antonio de Sousa Azevedo {BIO 21349724 <GO>}

Yes. It is perfect what you have just said. Both Locamerica and Unidas separately, they were companies that did not have scale to make large investments on the brand -- in the brand. I'm sure that as of September, we are going to bring this brand to another level of exposure and this is likely to attract more clients to our stores.

Q - Joao Oliveira {BIO 19130573 <GO>}

Thank you very much for taking my questions.

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

Thank you, Joao.

Operator

(Operator Instructions) If there are no further questions, Locamerica's conference call is over. We would like to thank you for having attended the conference and have a nice day.