Q2 2018 Earnings Call

Company Participants

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

Other Participants

- Bruno Amorim, Analyst
- Lucas Marquiori, Analyst
- Murilo Freiberger, Analyst
- Pedro Bruno, Analyst
- Rogerio Araujo, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. Welcome to Localiza Rent A Car Conference Call Consolidated Results of the Second Quarter First Half 2018. We have here Mr. Mauricio Teixeira, CFO; and Ms. Nora Lanari, Investor Relations Director.

And we would like to inform that the numbers here represented are in millions of Brazilian reals based on IFRS. The presentation will be recorded and all participants can participate at the end, and then we're going to start Q&A for investors when further instructions will be provided. The conference call audio is being presented simultaneously in real time at www.localiza.com/ir. This slide presentation can be found for download also in our webcast.

Before proceeding, we would like to clarify that any decorations that maybe done during this teleconference relative to the business perspective and financial goals and et cetera are projections of the board that may or not come true. Investors should understand that political and macro-economical factors and other operational factors may affect the future of the company, and leads to results that are different from our business perspectives.

In order to begin our conference, I turn the floor to the CFO, Maurício Teixeira.

Maurício Fernandes Teixeira

Good morning. Thank you for your presence. To begin with, I would like to emphasize that exactly one-year after we reached the mark of 160,000 cars, we have now surpassed 200,000 cars closing the semester with 280,552 cars all the platforms. In the second quarter of this year, we maintained strong growth with a 47.9% increase in RAC in Car Rental division, 21.4% in Fleet Rental. And another quarter of value generation for our shareholders, and that happened even with a contract that had so many challenges with slower recovery of the economy, the truckers strike in May and June and the election news generates uncertainty about the macro-environment. The truckers' strike that culminated with widespread lack of fuel was an opportunity to strengthen our brand reputation and commitment to our principle of valuing customers. Our teams have made no efforts - have made lots of efforts to maintain Localiza's quality and promoting the best possible customer service.

In the Car Rental division, we honored every reservations existing and did not pass the increase in fuel price to our customers. In addition, we offered upgrades in order to compensate unavailability of the booked car. On the other hand, if rental block is to make new reservations where necessary in some rental locations impacting our volumes. We estimate that revenues were impacted by approximately BRL 15 million. We also had additional cost of about BRL 2 million associated with cost of supply and logistics.

In the Seminovos, semi-new, the customer flow fell on the days of strike and World Cup games. We estimated about 2,000 cars were not sold during those events, with total impact of about BRL 83 million in revenues.

Another effect that impacted on our second quarter results was the effect of the premium of profit sharing that occurs in the second quarter of each year was higher than the amount provisioned in 2017. This occurred because we reached record in volumes, revenue, EBITDA and profit. Besides that, we had an impact of the bargain agreement from Minas Gerais stated employees that was retroactive to December 2017. The sum of this effect penalize EBITDA in about BRL 39 million and net income by BRL 29 million.

And if we were to exclude such effects, we would have similar results to the one we have in first quarter of 2018. In addition, we also took advantage of our strong cash position to do a short-term cash management and reduce the carrying cost. We decided not to discard credit cards receivable and we anticipate that some payments to suppliers, we have profitability above our assessment. The net impact of these two actions was a total of BRL 260 million in working capital and with the financial result.

And you should note that this sort of short-term commitments and disbursements would happen anyhow in the third quarter of this year. Localiza also achieved important awards. We have the first place among the most innovative companies in transportation and logistics according to Valor Econômico newspaper. In addition, we were included in the ranking of the Best Companies to Work in the State of Minas Gerais by Great Places to Work and we received the award from the government of Minas Gerais.

Our CEO, Eugênio Mattar, was recognized as one of the 15 best CEOs in Brazil by Forbes magazine. We remain committed to our growth strategy with data generation looking for better long-term return for our shareholders through innovation, continuous improvement in management, finances and operations.

And we're going now to see the highlights of the second quarter. On page 3 in the webcast, you can see the operational highlights. In the second quarter 2018, the company continued to present solid results, consistent with its performance in 2017. RAC once again grew large with 47.9% increase in daily volume compared to the same quarter of the previous years.

In Fleet Rental, we also had a significant performance in terms of growth with volume increase of 21.4% as compared to the second quarter of 2017. Seminovas semi news closed the quarter with more than 23,000 cars sold, even with the impact of the strike and of the World Cup that affected sales volume in around 2,000 cars. As I mentioned before, our fleet overcame the mark of 200,000 cars reaching 208,552 vehicles with growth in all segments.

On page 4, we can see the financial highlights of this quarter. Net revenues grew 29.3% with EBITDA growing 16.4%, EBIT increasing 17.5% and net income 9.7%. If we exclude this World Cup and extraordinary personnel or staff effects, EBITDA grew 30% and net income would have reached around BRL 171 million.

In order to give more details of the results, I hand the floor to Ms. Nora Lanari, Investor Relations Manager.

Nora Lanari {BIO 18838335 <GO>}

Thank you, Maurício. Good afternoon, everyone. Giving a little more detail about the results of the quarter, I would like to start with the Car Rental division. As you can see on page 5, in the second quarter, the company continued the growth base and revenues rose 41.3% due to a 47.9% growth in volumes.

On slide 6, we notice that the average RAC daily rates decreased by 6.2% in the second quarter 2018 compared with the same period of the previous year, impacted by the stronger mix in the lower tier segment and the competitive landscape. The average rental rate in comparison to the first quarter 2018 is impacted by the end of the high peak season. The utilization rate was also factored mainly by the truckers' strike that culminated in the need to block new reservations and higher no show in the daily rental segments.

On page 7, we show that the owned branch network was expanded by seven new locations in the first semester, of which three were formally operated by franchisees.

Moving to slide 8, in the Fleet Rental division, the pace of growth remained accelerated in the last quarter. Here, the daily rate on average is down 6%, mainly reflecting the pricing of the new contract in a context of lower interest rate, which is why the ROIC spread minus the cost (00:10:01) should not be affected.

Moving on to slide 9, we show the variation of the fleet in the period. The strong daily volume of the first quarter 2018 and the growth observed in the second quarter 2018 demanded additional purchases of cars to increase the fleet. We bought 39,541 cars and sold 23,626 units. The result was a result increase of 15,915 cars and a net investment of BRL 672.4 million in the second quarter 2018.

On slide 10, we show the network of Seminovos or semi news, which reached 100 stores. A total number of 48,914 cars sold in the first quarter 2018. The sales car in the second quarter 2018 were impacted by the low number of cars available at the store for sale in the beginning of the quarter, the truckers' strike and the World Cup. We estimated the impact of about 2,000 cars on this quarter's sales. New stores will be open in the second half of the year to meet the fleet and the renewal needs. On slide 11, we show the end of period fleet, which was a highlight for this quarter, reaching 208,552 cars.

Turning on to page 12, we see consolidated net revenue growth of 29.3% compared to the second quarter 2017 with rental revenue growing by 33.1%. In Seminovos, the increase was 26.5% even with an estimated impact of BRL 83 million due to the truck drivers' strike and the World Cup.

Moving on to page 13, consolidated EBITDA gained 16.4%, and this is a result of the growth in the company's business divisions. The RAC EBITDA margin is down in relation to the second quarter 2017 due to the effect of the truckers' drive and higher payroll expenses. Excluding such effects, the margins would have been around 35%. Fleet Rental gained 2.8 basis points in margin due to productivity gains and lower fleet age.

Seminovos had a margin decrease of 3.5 percentage points, which reflect the reduction of the depreciation of the RAC cars, which has been occurring for 12 months causing the book value of the cars to be closer to the car sale price. In addition, the segment also suffered the impacts of the truck drivers' strike, World Cup and personnel payroll expenses. Without these specific effects of the quarter, the margin would have been approximately 4%. We estimate that the consolidated EBITDA would have been approximately BRL 39 million higher, totaling about BRL 287 million if the previously mentioned effects did not occur.

In relation to the depreciation on page 14, we see that the Car and Fleet Rental followed different trends. In RAC, the average annualized depreciation was BRL 758.5 per car, down by 46.9% when compared to the first half of 2017 due to the increase in average price of cars sold and the higher efficiency of the company in the purchase and sales of its assets.

In fleet management, we see an increase in the level of depreciation to BRL 3,229 in this semester. This number reflects the fleet mix and our estimates in relation to its sale price at the end of the cycle.

On page 15, we can see that the lower EBITDA margins of RAC and Seminovos or semi news reflected an EBIT of Car Rentals, which fell 4.9 percentage points. EBIT margins in

Fleet Rental has fallen due to the factors already mentioned, higher depreciation with lower Seminovos margin offset by the drop in interest rates.

Consolidated EBIT totaled BRL 276.9 million, an increase of 17.5% even considering the impact of strike and the payroll expenses. The decrease in the interest rate allows a lower EBIT margin maintaining this spread, which is the ROIC after taxes over a greater base of capital resulting in an increase of the company's value generation.

Net income for the second quarter, on page 16, increased 9.7% compared with the second quarter 2017. Excluding non-recurring effects, we estimated that the consolidated profit would have been higher than BRL 29 million, a total up a BRL 171 million for the second quarter 2018.

On slide 17, we demonstrate the cash generation of BRL 245.5 million before the growth of the fleet. In this quarter, aiming at a more efficient cash management, the company decided to suspend the anticipation of credit receivables and took advantage of the opportunities to anticipate accounts payable to suppliers. The net impact of those measures was a reduction of BRL 260.2 million in the working capital of the company highlighted in the line cash effect of discounts of credit card receivables and anticipation of payable to suppliers. These applications are short-termed and would be disbursed in 2018.

As we can see on page 18, the investment in the fleet and the effects of credit card receivables and suppliers generated an impact on net debt, which closed the quarter at BRL 4.6 billion.

And you'll see on page 19 that this quarter, the net debt-to-EBITDA ratio reached 3.1 times, a healthy level considering the company's growth rate as well as the covenants which are 4 times. If we had not anticipated the payment of suppliers and maintained a discount of credit card receivables, the ratio net debt-to-EBITDA would have been 2.9 times. We understand that the level of current leverage is at a comfortable level given the flexibility of our asset, the strong cash position and the term of our debt shown on July 20 and considering current interest rates.

On June 30, 2018, the cash position of the company was BRL 1.7 billion. And on July 18, 2018, the company announced the fifth issuance of debentures of Localiza Fleet in the amount of BRL 300 million. In addition, the prepayment of CCBI was approved in a total amount of BRL 190 million. Both are expected to occur within the next 10 days. Localiza's strong cash position ensured greater flexibility for the company in terms of the new issuances and higher prepayment of debt with the goal of reducing the average cost and increasing the duration of the consolidated debt.

In the second quarter 2018, we prepaid the ninth issuance of Localiza's debenture, which had an interest rate of 113.2% of the CDI, and we raised a loan of 108% of CDI with an average maturity of 4.5 years.

Finally, I would like to turn over the call to Maurício for him to close.

Maurício Fernandes Teixeira

To close, I'd like to highlight the evolution of ROIC spread versus cost of debt that you can see on page 22. In the first half, we maintained the level of spread of last year with a much higher asset capital base resulting in higher value generation to our shareholders. This is the goal we've always pursued, growth with value generation.

We now open for questions.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. Our first question is from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions. The first one in relation to the ROIC that we see, a 7% drop, and could you further elaborate on what impacted on that, what was done and what we can expect in the near future, and what was the impact on that and ROIC? And also, the second question, in relation to suppliers, how much can we expect in net profit gains per year?

A - Maurício Fernandes Teixeira

Thank you for your question. In relation to the average tariffs, their financials are different if we consider Y-o-Y and other aspects. So, that's considered a 7% drop as I mentioned from the first quarter to the second quarter of this year. And here we see reduction -7% reduction in the mean tariff, especially because of the seasonality. The demand pick of the December-January brings it up, and of course more by people, not by companies. And on the second quarter, second quarter, yes, we see a change towards lower rates become irrelevant.

So, we see after the second quarter this affect. And we have to consider a competitive environment throughout this quarter. When we talk about Y-o-Y, you see that, as we saw in the graph, that the seasonality fact considered for quarters are very similar to what we delivered in the second quarter. When I see it year-on-year, the strongest explanation of this drop is that we have a larger mix. We have more in long-term segments that we're bringing in the main rate a little bit lower. We will not guarantee what comes forward because that depends on what the growth of the different business will be and also on the competitive environment.

In the third quarter, we'll be similar, more similar to the second quarter in terms of mix and then the fourth one which is especially at the end of the year, a trend towards the mean rate a little bit higher because we have more physical persons renting cars.

Later, in relation to your second question, as you can see, we have applied the cash above 99% in CDI. And we've noticed that does not make sense in this environment to discount credit cards receivables paying a percentage above CDI to put the money in cash at 99% paying companies, because I have very comfortable cash and a strong cash.

On the other side, sometimes we had the opportunity of some suppliers that want to be paid beforehand and they give a good discount, better than what we would get investing the money. And so, it depends on the volume that we have because we need demand. Nowadays we have demand and from some suppliers that are asking to be prepared. Considering volumes that we have today for working capital, this impact in 12 months the profit around BRL 10 million, but it would depend on the volumes that we have each month.

And Victor, U.S. have other impacts of the mean rates on ROIC. We're looking at the consolidated level and understand that this drop in interest rates will give us some flexibility to have a lower EBIT maintaining this trend. So, this trend is maintained considering last year – the end of last year 8 percentage points on top of a much larger capital basis. So, we do have this buffer. And of course, we understand that these prices have been bringing volume. And if we took aside the strike, the margin would have been very healthy.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you.

Operator

Next question comes from Murilo Freiberger from Bank of America Merrill Lynch.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Good afternoon. Thank you very much for taking my question. There are two points that we would like to ask about. The first one is related to ROIC recent scenario in which and because of the drop, the cost of capital is not so high that would allow the competition to have better performance. So then you brought ROIC close to 3%. I think this was your strategy, and I believe that we can work with this level of return assuming that you are not going to the cost of capital in ROIC spread to go much higher.

And the second question related to news so that I can understand a little bit better the strategy and how because the volume was lower than what we saw in the first quarter. And we also saw that the fleet has been renewed. So, the depreciation is very low, meaning that the sales price is very healthy and there is room that can be considered in the sales price, so that we can encourage the price of sales at a lower volume. Should you want to do that? So, I would like to know what's your strategy for the period to come. So, as for margin, is there anything in your mind and related to the volume and the price of depreciation or do you think that the spread was related to the opening of new stores?

A - Maurício Fernandes Teixeira

Murilo, thank you very much for the questions. Let me start with the first question related to the level of spread. We are very comfortable with this 8 percentage points of spread level that can be moved both up or down. Remember, we cannot forget that 30% level of ROIC includes the effects of the World Cup and also the truckers' strike. So, if we do not consider those effects, we are not going to see anything so different from what we saw recorded in the first quarter of 2018.

So, from our viewpoint, this spread level is very comfortable for us. In relation to the semi news along the second half of the year, we have to consider the stores that were open and the effect will be considered for the next year. I would like to remind you that our purchases focused on the second half of the year, purchases were divided by 40% in the first half and 60% in the second half of the year.

So, our budget for 2018, we considered an acceleration of the sales for the second half of the year. Obviously there is an impact from the World Cup and for the truckers' strike, but if we add those two effects, we had a reduction of 2,000 cars in our sales. But even considering those effects, we are not far from the budget, we are in line with the budget somehow and we have big challenges in the second half, which is to increase the level of for the quarter to increase the price for the renewal of the fleet. Of course when you're not so focused on semi news, you have less pressure in relation to pricing in the second half or cash generation will have to be higher, and this price can have some impact on the margin.

And for Seminovos, we do not have any policy of pushing the price down to form a basis, otherwise the effects on the depreciation can be very significant. So, there is no policy of encouraging other prices, because we're thinking about the inventory.

And Murilo, just to add, the inventory is the reflex of what we saw considering the volumes that we have to sell in the third and fourth quarters. So we have a list of prices for prices and we also consider the models of cars, which are sold on a monthly basis, and we consider this price and the depreciation of that reflects the price that we are going to apply in the second half of the year.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Okay. Thank you very much. It was clear.

Operator

Next question Rogério Araújo, UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you very much for the opportunity. I would like to have two follow-ups. The first one is related to RAC rates. Do you believe that they were also affected by the truckers' strike? In other words, does the company have to give discounts because it observed the drop in demand and do you have any idea of the extent of the impact?

And the other one is related to Seminovos semi news. We saw that was a drop of sales by store by month, so we would like to provide more color on this. What happened at the end of June when this was normalized? If there was anything more at the macro level or was it something related to the World Cup? And also, could you describe how July spends in terms of performance and where we stand?

A - Maurício Fernandes Teixeira

Rogerio, thank you. The strikes started in May and the supply was resumed before the holiday in the month of June to bring the utilization rate to a normalized level, we encouraged demand, but we wouldn't say that part of the drop is justified by the strike. There is some effect, but we also have to consider the seasonality and also when we compare it to the results of the previous year.

So, I do not believe that this is so significant in terms of effect. When we talk about semi news, the sale is impacted because 2,000 cars were not sold and our inventory levels were a bit lower, because we grew especially in the area of Car Rentals. So, we have to hold back the increase of the fleet, and this availability is going to be recovered in the second month of the quarter. But at the end of the month, we saw the effect of the strike, in addition to the effect of the World Cup. So, if we think about the SG&A, the sales per stall would be more normalized and the SG&A would be a little bit lower.

What we know is that there is a trend that those levels are going to be recovered, especially from what we saw in the retail segment. Retail has already recovered the purchase levels and the wholesale. Wholesaling area was a bit lower as a reflex of what is happening to the retailing area, so they're connected. And obviously this is not a guidance, but we believe that those levels are going to go back to normalized levels in the third quarter.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Perfect. Thank you.

Operator

Next question Bruno Amorim.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning. I have two questions. The first in relation to - sorry - could you give more details on breakdown on one-off - as you commented, RACs having BRL 10 million impact, and BRL 15 million in revenue, and how do you quantify on the impact on the revenue BRL 32 million would have gross margin of 12% in semi news, so the impact in Seminovos of about BRL 10 million EBITDA. So, let's say, BRL 17 million in RAC, BRL 10 million semi news, and we could think BRL 27 million in impacts on us. And to get to the BRL 39 million, you mentioned you would have to (00:33:19) BRL 12 million. So I would like to understand whether I'm thinking right, and whether those BRL 12 million would be attributable to the distribution on profit participation?

A - Maurício Fernandes Teixeira

Your question is very good, it's exactly that. The difference will be BRL 12 million/BRL 13 million, which are attributed to the payment we do for PLR in the second quarter because we went beyond our goals. So, this is the mathematics and also we had that agreement. So, we paid PLR retroactively and the agreement we had in the (00:34:10) went back to December 2017. So, the answer is, yes. More details on that. You can have on the ITR number 21. So you're going to have "what was additionally paid in the second quarter of this year." Thank you.

Q - Bruno Amorim {BIO 17243832 <GO>}

And the second question, you comment a lot about the ROIC spread in relation to the after-taxes debt, I would like to know whether in the company you take into account also the EBIT, and how do you look at it more like a spread on SELIC or you look at 10 years bond because we have seen a deterioration on the bond – Brazilian bond, which is a risk-free calculation. So, I would like to know what your base on it, ROIC versus another one or is it ROIC versus after-tax payment debt?

A - Maurício Fernandes Teixeira

Internally or considering goals and the following results, we do follow the average cost, and it considers the 10 year risk-free rate. So, we always compare with the debt cost, but internally mentally we follow considering the value generation for the shareholders because we have a weighted capital structure.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. And considering the deterioration in the scenario of bonds – senior bonds, and this has concerned you, have a change of plan or would you rather look at those in a high frequency base or would you rather see the average that would not impact our plans right now?

A - Maurício Fernandes Teixeira

This review, we do year-on-yearly basis. So, it is a little bit volatile within the year. It improved on the last few weeks. So – but it did not result any changes in plans. Thank you.

Operator

Next question, (00:36:45)

Good morning. My question is on prices and utilization rates in RAC. I would like to understand whether you see stabilization in prices for the next two years and what policies are you taking into account in order to recover the utilization rates?

Hi, Alberto (00:37:11), thank you for your questions. We believe that use is in adequate levels. And of course, for the second quarter, it drops a little bit because of we have explained we had a strike, so it's 2 or 3 percentile points above what we expected. But it is, from our vantage point, in a very good standard in order to increase our backlog because we didn't have cars available. And in terms of our strategies, it's a little bit different when we talk about Car Rental and Fleet Rental.

Fleet Rental is more relevant in cars or depreciation and interest rates are more relevant. So if we think that interest rates will open, then this will reflect on Fleet Rental. Bear in mind that the agreements have last for like two years to three years. So they are indexed by inflation. So, inflation is passed over (00:38:22) for the Fleet Rental every year. And in Car Rental, this is more a nervous market, but it's like everyday basis. So we have to monitor the competitive environment, macro-economical environment, the finance strategies, I don't know I think it's a segment is more difficult to give an expectation of the next two years.

I believe that what we can convey to you is that by the end of the day, we are looking at the ROIC spread and the debt. If the ROIC is healthy, we do not have to increase the price of rental. Our objective is to increase affordability to have a larger backlog. So, we are going to have leverage. Many of the cars will be covered and we will not increase prices for the final customers. So increasing prices will be in the long run when we no longer can use this leverage or where the growth (00:39:30) of the company becomes moderate. But we depend on the macro environment and competitive environment in order to define the strategy.

Okay. Thank you very much for the answer.

Pedro Bruno, next question from Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Good morning. Thank you very much for taking my question. My question is a follow-up on the first question asked by Victor and the last one related to average rate on the utilization, rate that you just commented on 2 percentage points higher than the utilization rate related to the effect of the strike? I would say that it's in line with what happened last year. The questions related to the variation of the average rate which was assigned to the mix change for the company. And this is what you have been communicating in the first half of the year, which makes sense.

My question is, shouldn't we have a higher utilization rate for the second half if we look into the future considering the mix change year-on-year? And if effect the average rate is falling due to this mix, is my reading wrong or am I not seeing something? Thank you.

A - Maurício Fernandes Teixeira

Obviously the mixes of longer term tends to pull the utilization rate up. But of course if this is the case, we have to increase the fleet. When we talk about average utilization rate of 79%, so there are some stores that are at the limit and some of them are below it. We do not want to lose businesses because we do not have available fleet. So we believe that from 77% to 79% is the limit. It's a level where we work comfortably. Otherwise, we are going to lose businesses. This percentage allows us to expand this later because if we work above that we have the risk of losing clients, and we want to meet the demands of our clients. So, it's very difficult to consider exceeding this limit without losing businesses.

Q - Pedro Bruno {BIO 19082978 <GO>}

Okay. Thank you.

Operator

Next question from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

This is (00:42:10), in fact. First, I would like to ask about margin of the fleet. I can see that EBITDA margin has been growing along the years and we understand that this market has been – have been more competitive and we saw that you have been making adjustments lowering the prices. So, what's your plan for this market, whose competitiveness is very high? So how – have you been able to maintaining a high margin in terms of organization of the fleet? And how many stores – there is another question, and what is the number of stores you intend to open and the CapEx?

A - Maurício Fernandes Teixeira

Lucas, thank you very much for the question. Let me start answering your first question. When we look at average age of fleet, this is what we see from the second quarter 2017 from 19.2 months to 15.3 months. So, obviously this demand less maintenance. And we centralized the operations area, and we have been gaining productivity. And in process costs, we have been more efficient in the management of our fleets, both considering all the situation we have been able to capture some gains in maintenance costs, but for fleet, we have an additional benefit, which – the drop in the average age of the fleet.

So, the tariff price takes into consideration a lower interest rate, but we cannot forget that we always look at the interest curve. We are looking ahead in two or three years. So we consider all those trends signalized by the market. So, this gain, the synergy is in operational gains. And this is the message that we have complaining to the market. We are working hard on improving productivity, improving internal efficiency. This year, we did not promise anything in terms of operational leverage because we are focusing on internal processes. And of course, we have our eyes in capturing these improvements.

Last year, we opened 15 new stores, and the number is going to be a bit lower than that as we expect. So, we are likely to see some stores opening during the half. And the number will be more concentrated by the end of the year. Thank you.

Operator

Next question in English, Stephen Trent, Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Hello, everybody, and thanks for taking my question. I apologize I had some trouble hearing part of your responses. But I'm curious, two questions. One, with respect to the competitive landscape...

(00:45:26-00:45:28)

...but we've seen some consolidation. I'm wondering what sort of price trends you're seeing from your competitors? And second question, with respect to utilization rates, any indication at this point that the election cycle could give utilization rates a boost in the fourth quarter? Thank you.

A - Maurício Fernandes Teixeira

Thank you, Steve, for questions. I may begin with the second one in relation to the rates of use elections. Today, we understand there is a more regional factor in our volumes because the base of the fleet is much larger today than it was like four years ago. We do not expect much impact in the wake of use just because of election. Of course, for the third quarter, we have the effect of the winter vacations, some effect on elections but the margin should not change much. When we talk about competitive environment, we see a competitive environment that's quite broad, but it's been stable. If we look at the last six months, nine months, so we have not seen less aggressive – competitors are not less aggressive or not more and more aggressive, but it has been competitive quite intensively.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. I appreciate it. Thanks very much.

We have received two – three questions. And I'm going to start with the first one. (00:47:44). Congratulating us for our results, and asking about the blockades, how much of interphase is on win rates?

A - Operator

We'll do not open a lot of our segments, but we can emphasize that we do not have much concentration in one or the other segment, one or another channel. So, our revenue basis and customer business is quite diverse.

The other question is from Bruno. He is a (00:48:21), and I want to congratulate him the individual investor and I want our congratulate you. What concerns me as investor is in relation to the net debt and EBITDA, what's the health element in long run for this ratio?

A - Maurício Fernandes Teixeira

Thank you for the question. We are looking at 3.1 times, but we haven't mentioned that 3.1%, 3.2%, we consider comfortable, healthy. We have four times EBITDA, so we want to have buffer, and we saw the growth which we have last year of 50% in direct volume in the last semester, last half, and we have (00:49:08) an extended fleet first in them. I have the result, on EBITDA, so naturally the growth rate will not be as high, if it's not very high the leverage goes down, so we can see that first and then check the results.

We are concerned about having a high cash and did not have much to pay in the years ahead. We negotiated some debts in seven years - five years, seven years, nothing in the short-term, and all this makes us comfortable and this have us comfortable - and this lever is comfortable and generates revenue for our shareholders, it's 25% on net debt. And we have a debt of 10% CDI, so we always monitor CDI control, we control it every month, but we consider that at the level of growth we are that's quite healthy.

Operator

And the next question to Gabriela from Levin (00:50:18). Thank you for your questions.

I would like to know if the drop in depreciation with best prices will have any effect on the secondary market of various costs (00:50:34).

A - Maurício Fernandes Teixeira

Actually, our depreciation per car has been dropping since last year. Just to give a reference, the first quarter last year it was around BRL 1,500 per car, in the next quarter around BRL 1,000 per car and now we have a trend towards less than BRL 1,000. Except related - not so much related to increased demand, but more in the increase of the price of new cars. We are buying well and selling well and we have reduced our sales expenses, so we can reduce sales expenses, so we can reduce the level of depreciation of the fleet.

While the price of the new cars go up, we can also bring up in Seminovos. So, it's really impacted by the price of the news more than by demand, but demand is at a healthy level. We see the level of availability of credit that's good. Interest rates are low. So that helps demand and retail and the margin has been better. So, we don't see any problem in demand, but we do also don't see a boom in demand. It's stable. So the effect is positive.

And the last question before we go back to the call, there's another question here from (00:52:08).

Q - Operator

I would like to understand what's the company's spend in the future utilization rates of this and how can this impact the company, (00:52:19)?

A - Maurício Fernandes Teixeira

Today, I'd like to call cars are very expensive in Brazil. We do not believe that this profit is feasible in the long-term. And if it's going to be - because in the future we'll make adjustments very quickly and we have the hybrid model and we use ethanol, but if electric car is the car to be used, we originate adjustments to your fleet just to add and inclusion of electric cars going to gradual in Brazil financially in relation to the points to for the cars to be recharged. So the technology for quick recharge is improving quite quickly

And if the car has to be returned to the agency to be recharged, this is going to be feasible. And since we renew our fleet every 12 months, so very quickly we're going to have this update in relation to this new mix depending on what the market is using. We do not see this as a problem in the future. We are going to make the proper adjustments considering what's going to happen in the world.

Operator

Next question comes from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you for the follow up. Now that I have a point to raise in relation to average rate and the mix, you mentioned the long-term agreements with a lower average rate, which is going to affect the price of the rate. Does that mean that is impacted by Uber or what kind of products are affecting your rate?

A - Maurício Fernandes Teixeira

Victor, thank you for your question. It's not only Uber, of course, we play the role but we discuss in general terms for this long-term segment, but this is not concentrated on a single segment.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Localiza's conference call is completed. We thank you for attending this conference and have a good day you all.