

Q2 2016 Earnings Call

Company Participants

- Alexandre P. Falcao, Analyst
- Nora Lanari, Head of Investor relations
- Roberto Antônio Mendes, Chief Financial Officer and Investor Relations Officer

Other Participants

- Bernardo Carneiro, Analyst
- Leandro Fontanesi, Analyst
- Lucas Marquiori, Equity Research Analyst
- Murilo Freiburger, Analyst
- Márcio Prado, Analyst
- Rogério Araújo, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, and welcome to the Second Quarter 2016 Conference Call of Localiza Rent A Car. Hosting the event today are Mr. Roberto Mendes, CFO; and Mrs. Nora Lanari, Investor Relations Director.

We would like to inform that the numbers in this presentation are stated in million of Brazilian real and based on U.S. GAAP until 2010 and based on IFRS from 2011 on. The presentation will be recorded and all participants will be able to listen to the conference call during the company's presentation. Immediately afterwards, we'll start the Q&A session for analysts and investors when further instructions will be given.

The conference call audio and the accompanying slide presentation are being broadcasted simultaneously over the Internet at the address www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking on the banner 2Q16 Webcast.

Before proceeding, we would like to clarify that any statements made in the conference call during the business outlook of the company - concerning the business outlook of the company forecast as well as operating and financial targets represent the opinions and assumptions of the company's management, which may or may not occur. Investors must comprehend that economic conditions and other operating factors that may affect the company's future and may lead to materially different results from those stated in this call.

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I would like to invite the company's CFO, Mr. Roberto Mendes to start the teleconference of the second quarter of 2016.

Roberto Antônio Mendes {BIO 7289124 <GO>}

Good morning, everyone, and thank you for attending our call. In the second quarter of 2016, we continue to reap the benefits of planning and discipline at execution. The company posted another quarter of good results and strong growth, especially in the Car Rental Division, although we're facing an adverse economic environment and highly competitive landscape. The good result has required excellence in the execution of our strategy and for this reason, Car Rental volume was 14% above last year.

Let me show you some of the highlights for the second quarter in slide number two. Revenues grew by 10.6% from Car Rental and the utilization rate totaled 73.7%. Fleet Rental Division revenues grew by 6.4%. The consolidated EBITDA grew 5.1% in the quarter and the net income amounted to R\$48 million - R\$98 million, I am sorry, 4.9% above the same period in the previous year.

To present the results of the second quarter 2016, I turn the floor to the Investor Relations Director, Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

Good morning, and thank you for attending our conference call. On slide number three, we present the growth evolution of the Car Rental Division's volume and revenue. In the second quarter 2016, daily volumes grew 14% when compared with the same period of last year and the average rental rate dropped by 3% during the period. Revenues, as previously highlighted by Roberto, increased 10.6%.

On slide number four, we present the evolution of the average rental rate and utilization rate in the Car Rental Division. Through competitive and commercial intelligence, we have been capturing market opportunities. The 3% reduction in average rental rates in 2Q 2016 when compared to the 2Q 2015 was made to increase demand and maximize our fleet utilization rate, which grew 4.7 percentage points from 69% in the second quarter 2015 to 73.7% in the second quarter of 2016. With the lower share of individuals renting for leisure, rental rates dropped in the second quarter when compared to first quarter of this year.

On slide number five, we show the evolution of the Car Rental network. In this quarter, eight new locations were added to corporate branches, totaling 328. Today, Localiza's systems totaled 565 locations in Brazil and in other seven countries of South America.

On slide number six, we show the volumes and revenues of the Fleet Rental Division. In the second quarter of 2016, the Fleet Rental Division net revenue grew 6.4% due to the 5.2% increase in the average rental rate and the 0.8% increase in volume.

On slide number seven, we show the fleet net investment evolution. In the second quarter of this year, 24,020 cars were bought and 13,839 cars were sold, representing an increase

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of 10,181 cars in the net investment of R\$407 million (05:42).

On slide eight, we present the average life of cars purchased and sold. During the second quarter 2016, the average sale price of sold cars increased by 9.8% when compared to the same period in the previous year, which was higher than the average price of purchased car, which were 7.4%. This difference occurred mainly due to the composition of the fleet sold during this quarter.

Slide number nine shows the evolution of the end of period fleet. Localiza's fleet totaled a 124,773 cars at the end of the first half of 2016, 6% higher than the fleet in the first half of 2015. The fleet of the Car Rental Division grew by 9.5%, or 6,827 cars, in the first half of 2016 when compared to the first half of 2015, while the number of rental days grew 12.7% resulting in an increase of the utilization rate from 67.7% to 73.6%, an increase of 5.9 percentage points in the Fleet Rental Division. The Fleet Rental Division utilization rate also increased from 95.5% to 97.5%.

Slide number 10 presents the consolidated net revenues evolution. In the second quarter of 2016, consolidated net revenues grew 1.4% when compared to the second quarter of 2015. Rental net revenues grew 9.1%, while Seminovos net revenues decreased 5.5% when compared to the second quarter of previous year. The 13.9% drop in sales volume was offset by the 9.8% increase in the average price of sales cars, due to the change in fleet composition, as previously, mentioned.

Slide 11 presents the evolution of car sales. During the second quarter of 2016, 13,839 vehicles were sold, 2,232 less than during the second quarter of 2015. The rental volumes from the Car Rental Division were higher than expected and delivery has been slower than usual.

Since car makers have decreased their production as a result of weaker demand for cars than car parts in the Brazilian market. Such environment did not allow the company to decommission the same net volume of vehicles in historical levels, which decreased the number of available cars, for sale at Seminovos and consequently impacted sales during this quarter. We expect this to be temporary and to get back to normal throughout 2016, second half of this year.

On slide number 12, we present the EBITDA evolution. The consolidated EBITDA grew 5.1% in the second quarter of 2016, totaling R\$234.3 million. Higher efficiency and increase in the economies of scale of operation expenses management were the main reasons for the 1.3 percentage point increase of the Car Rental Division EBITDA margin, which stood at 31.6% in the second quarter of 2016.

In the Fleet Rental Division, the EBITDA margin was 65% in the second quarter of 2016, an increase of 2.2 percentage points, when compared to the same period of last year, due to the increase in the average rental rate and cost management effectiveness. The EBITDA margin of Seminovos was 5.3% in the second quarter of 2016, which is within the company's expectation. In 2015, Seminovos' margin was benefited by the increase in prices for new cars, which had reflected on Seminovos' higher prices.

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On slide 13, we present the average depreciation per car in the Car Rental Division and Fleet Rental Division. In the first half of 2016, the annualized depreciation per car was R\$917 compared with R\$622 in 2015. The increase of R\$295 per car per year is mainly due to the expectation of slower new car price increases. In the Fleet Rental Division, annualized depreciation per car in the first half of 2016 was R\$3,981 which is considered stable compared to the last year.

On slide 14, we present EBIT margin evolution. The EBITDA increase in this quarter was compensated by the increase in car depreciation in the same level and the EBIT in the second quarter was stable compared to the same period of 2015.

The EBIT margin of the Car Rental Division was 29.3% in the quarter, a 5 percentage point decrease due to the increase in depreciation. The EBIT margin of the Fleet Rental Division was 50.7% which is stable when compared to last year. In the first half of 2016, EBIT grew 4.4% compared to the first half of 2015.

On slide 15, we present a net income evolution. Net income reached R\$98 million in the second quarter of 2016, a 4.9% increase when compared to the second quarter of 2015. This was mainly due to the R\$11.3 million increase in EBITDA, offset by R\$11.1 million increase in car depreciation. The R\$2 million reduction of - in net financial expenses, which occurred mainly because the second half of 2015 was impacted by R\$5.3 million in cost, due to the prepayment of financial transaction.

R\$3 million decrease in income tax due to the increase in TJLP, Long Term Interest Rate and the increase on the equity base which impacted the payments of interest and capital. Overall, in the first half of 2016, net income reached R\$201 million, representing a 3.8% increase when compared to the previous year.

On slide 16, we see the free cash flow. The company's free cash flow before interest amounted to R\$151 million in the first half of this year. The change in fleet composition in 2015 with purchase of cars with larger engine is starting to reflect in the price of the cars sold for fleet renewal in the first half of this year. Net CapEx for car decreased 23.5% during the first six month of this year versus 2015 as previously mentioned in 2015 results.

Net investment in the construction of new headquarters was R\$36.7 million in the first half of this year, but it's impact on cash flow was only R\$21.4 million. Interest on the funding for this construction are being capitalized along with the asset. In this first half of 2016, R\$4 million of net financial expenses and R\$19.3 million of mark-to-market credit were capitalized.

Slide 17 shows the change in debt for the period. Net debt increased R\$35.8 million - I'm sorry, R\$35.8 million during the first half of 2016. The cash generated was sufficient for paying interest during the period and CapEx. However, the interest on equity distribution which represented 35.9% of the period's profit contributed to the increase in net debt.

Slide 18, we see the cash position and debt amortization profile. The company is presenting a strong cash position and comfortable debt profile given the current

macroeconomic scenario.

On slide 19, we show the debt ratios, which reflect company's financial discipline. The company remains with comfortable debt ratios and is prepared to go through this period of political and economic crisis in Brazil and capture market opportunities.

Slide number 20, we show the spread of return on invested capital, ROIC, minus cost of debt. Localiza's spread of ROIC minus cost of debt stands at 5.2 percentage points despite adverse macroeconomic scenario, competitive landscape and high levels of interest rate.

Now, let's move on to the Q&A session.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. First question comes from Bernardo Carneiro, Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good morning. I have a question about RAC margin. The company started 2016 with the sharp reduction of costs and the profitability of RACs next to 34%, but now this margin has decreased a bit. We understand the costs are being pressed by inflation and the average rental rates are following nominally. So I would like to listen how the company will be able to recover margins, not on historical levels of 19% as we had in 2012 or 2013, but at the level of 34% in this first quarter. Is that possible? And if there is more - since (16:18) now you're working with a very respected consulting company for cost management and if there is price - for better pricing on rental rates, both in corporate and leisure. So if you could elaborate on the Rent A Car margin from now on, it will be nice. Thank you.

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

This is Roberto. Bernardo, thank you for attending the call and for your question.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

You're welcome.

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Well, the margin of the first quarter is benefited by the movement which is higher level of rentals for individuals, which charge higher rental rates than corporate rentals. So every first quarter has this seasonality benefit, which happened this year again. So there were no difference in the cost base, actually there was a gain of scale.

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So the second quarter of this year has grown when compared to last year's second quarter. So we are in a very competitive environment. We have a strategy for growth and our margins and our returns is in line - are in line with our expectations.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay. And when compared to historical levels, when there was less competition in the market and you had a - it was easier for you to price your rental rate. How you want to use the margin to cover for funding cost or something, do you think you could recover the margin to the level 33%, 34% until the year end or this level, the second quarter around 30% or actually 29% is more reasonable, what could you say about that? Thank you.

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

There has been a change in the way we allocated accessories. Some accessories such as transportation expenses were fixed assets and now we had a favor result in court and now we allocate such expenses to costs. So that decreased the EBITDA margins, but the bottom line was benefited by the fiscal benefits that the success in this court case brought to us.

So this is more related to the gaining productivity and growth that will improve margin. There has been also a decrease in the interest rate. So they are different scenarios. EBIT, I think reflects our performance better.

A - Nora Lanari {BIO 18838335 <GO>}

Bernardo, this is Nora. The interest rates are expected to decrease in the future, which will give us some room in the spread.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay. Thank you.

Operator

Our next question comes from Alexandre Falcao from HSBC.

A - Alexandre P. Falcao {BIO 5515455 <GO>}

Good morning. I have two questions. First, it's regarding the Rent A Car growth. You were present or positively surprised by the number of rental days. If - do you expect - what is expectation of the slowdown economy in the second half. Do you think this half of the year would be harder than last year or not? And the second question is I would like to understand that despite 9,000 cars net above, if you - you were - how you're able to keep this at high levels and if this figure will decrease or not?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Thank you for your question Falcao. Actually, the RAC growth was quite strong in the first half - first quarter and second quarter. Although we noticed the marginal improvement in

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the expectations regarding the economy that hasn't reached the real economy. In the second quarter, we – in the second half, we have some benefits from the Olympic Games and elections.

Last year, we had a significant growth, but we're working to capture our market opportunities to grow volume but the scenario is not favorable. As for the utilization rate, your second question, this demand a bit higher than our expectations plus the fact that automakers had some trouble delivering cars in the speed we expected impacted the utilization rate, which was above 73%. Anyhow, the company is working to improve productivity to keep the utilization rate at higher levels.

A - Alexandre P. Falcao {BIO 5515455 <GO>}

Just to follow up on the question. Given the number of cars, you've sold in this quarter, where do you expect the average number of year of cars to stop, I mean up to when do you spend? Do you spend to – expect to sell more cars because that our car age has reached a high level, this limit of car age?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

We expect a normalization of deliveries of new cars to occur in the second half of the year and then we'll receive new cars and decommission old cars to see this average age of the fleet, going back to normal throughout the second half of the year, this is what we expect. But I think we are at a level, that's close to the limit right now.

Operator

Thank you. The next question come from Leandro from Bradesco BBl.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good morning. First question is about the expectation on the fleet page. How does that has impacted you in terms of maintenance cost and with the normalization of the fleet age, when you're able to buy cars normally? What do you expect to see the impact on the EBITDA margin? Do you see an increase?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Thank you for your question, Leandro. Actually, we haven't yet felt an impact on maintenance cost, given the small increase in the average age of a fleet. It's about – slightly above 14 months, which is what we expect. We're selling cars at 17 months but just a few months in the increase of the cars. But that did not impact the cost of maintenance or depreciation so far.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. Thank you. And the second part of my question. Could you comment on the – what Uber represents to you in terms of impact on the company's business?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Uber is interesting because everybody was asking whether that was a threat to us. We understand that Uber competes more with cab drivers than with Car Rental. We can even rent cars to drivers who feel like driving, but they cannot buy a car. So, that's a possibility also.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. But in percentage terms, is that a very significant?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

It's a good figure.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. Thank you.

Operator

Next question comes from Rogério Araújo from UBS.

Q - Rogério Araújo

Good morning. Thank you for this opportunity. Congratulations on your results. My first question, the follow-up on Falcao's question about the volume of Car Rental. I would like you to elaborate a bit on the mix of tourism in airports. Do you think this mix have increased in helping the number of car rentals and daily rentals. If you could elaborate a bit on that? Just explaining where this growth is coming from, please. And what's the demand now in July vacation period, whether the demand is strong and can we see an impact on prices in addition to volumes especially in this time of a high demand? I will let the second question for later. Thank you.

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Thank you for your question. So with regard to individuals, who increase the demand in the vacation period as it was in January and February, we do expect a good demand also in this vacation although it is shortest, of one month and the Olympic Games also will increase. We want to capture this growth in the airports as well as in the downtown branches. There is a good elasticity of price demand in this segment that's more price sensitive. This has more than compensated the drop in the corporate area in the short-term. Companies are reducing their number of trips, reducing the number of employees, et cetera. But we're being able to offset that and we are having a good growth in the leisure area, both for rentals and people who are travelling. All these segments are growing except for short-term corporate - corporate sector.

Q - Rogério Araújo

Okay. Thank you. That's very clear. The second question, I would like to understand a little bit better the Seminovos industry. You've increased depreciation a bit this quarter, so

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what would be the normal level in your mind because historical levels are about R\$1,200 removing the IPI effect but we've seen a high increase in the price of new cars, a two digit growth and locally that has improved its mix. So what is the depreciation level that you expect when it reaches its normalized level? Will it be above the historical levels, considering the price of new cars in this mix and in terms of sales of Seminovos store, if you had not have this delay in receiving new cars. Did you expect the sales levels to be normalized this quarter for the volume of Fleet Rental and sales, rent - sales decreasing, also dropping. Is this only due to the delay in delivery of new cars or are you actually suffering from the decrease in the demand for Seminovos cars, for used cars?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Okay. The sales of cars, answering your question, was impacted by this topic, we mentioned. There was a growth slightly above what we expected initially for car rentals. The automakers had issues when receiving cars and reactivating their production line. And this is why the Rent A Car could not decommission the cars to renew this fleet. So increased a bit the time we've remained with the cars to make use to benefit from this increase in demand.

Localiza is ready, and we'll increase the number of stores, invest in new channels and do it's homework to renew this fleet and allow the cars to be decommissioned at the volume and at the price we need them to be.

A - Nora Lanari {BIO 18838335 <GO>}

It's also worth adding - this is Nora, that this volume also affects the sale of Seminovos with the dilution of cost. So we also will have an advantage there with the distribution of costs or dilution of costs in the second half.

And the second part of the question from Rogério about depreciation, there has been an increase. The first quarter of 2015 was R\$800 per annualized car and now R\$1,000. So it seems that it's a step upstairs and gradual increase, but we believe that R\$1,000 reflect the current scenario. We don't see any new change in the current scenario.

So I would touch what we expect in terms of the future value of cars, this depreciation is conservative, it already foresees a non-increase in the price of new cars, and, therefore, no increase in Seminovos prices in line with inflations et cetera. So as a preventive measures, we have adjusted depreciation to this new scenario and we believe that this level reflects the current scenario.

Q - Rogério Araújo

Okay. Perfect. Thank you very much.

Operator

The next question comes from Murilo Freiburger, Bank of America Merrill Lynch.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Thank you for the call, Roberto and Nora. I had a few questions, but you've covered most of the topics. I'd just like to understand better your strategy of purchase of new cars. I believe this will correct the number - the volume of Seminovos. And just if you could explain a bit more what to expect in the volume of Seminovos to renew the fleet in the second half? And what is - how is the competition scenario in terms of prices and the competition's action, how that reflects on your strategy?

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Murilo, said Roberto, answering your second question, competition remains fierce in terms of prices, as usual. They're trying to respond to our actions. So nothing new with regard to the attitude and behaviors of the competition. There are different levels of competition, smaller companies and larger companies, and the macroeconomic scenario maybe fitting (32:33) smaller companies in a more typical situation when compared to larger companies. Nora, will answer the first part of your question.

A - Nora Lanari {BIO 18838335 <GO>}

Our strategy in the purchase of cars have not changed. Our expectation is for this change in the first half of the year should get normalized in the second half of the year. The number of cars available for sales still below what we want, so we want to see this getting back to normal throughout the second half of this year.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Okay. Thank you.

Operator

The next question comes from Márcio Prado, Goldman Sachs.

Q - Márcio Prado

Good morning, Roberto and Nora. Most of my questions have been answered. So I'd just like to go back to topic regarding the utilization rate. Localiza has reached efficiency levels that have been the top historical levels. As Nora mentioned, there have been gains of efficiency. The company is looking at higher utilization rates in its operations, but it's not clear to me whether the current levels of utilization rates are sustainable.

And second question is, the fact that the non-availability for sale of used cars is directly related to this high utilization rate. If you could make a new comment about this level of utilization rate please, and considering the context of sale of used cars or Seminovos? Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you for your question, Márcio, said Nora. Well, let's say that this delay in the receiving of new cars has an impact of utilization rate because Car Rental cannot

decommission the fleet as we usually do. So, the impact was positive on the utilization rate. But, we don't expect these levels to maintain for the rest of the year because we'll start receiving new cars at a certain point in time, and there is a logistics period between receiving the cars and the Rent A Car Division being able to decommission the cars and make them available for sale at Seminovos. So, we expect to maintain the utilization rates at higher levels than last year, but I believe that the current levels are a bit out of the curve.

Q - Márcio Prado

Nora, just a follow-up. You've announced in terms of repurchase. At the end of the year, usually Localiza has completed its repurchase of a 100% what's approved.

A - Nora Lanari {BIO 18838335 <GO>}

No, we have not. It is – repurchase is much more used to support our stock options program.

Operator

Next question is from Alexandre Falcao from HSBC.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

I would like to ask a follow-up on what you expect for the second half of this year regarding the price for car sales. Do you believe that as the used cars improves, the dynamic will be inverted as when compared to what we see now?

A - Operator

Thank you, Falcao. We don't expect a change in that scenario. So the price of new cars has not increased. The car dealers are not being able to force the increase in prices, so we believe they will remain at current levels. It's worth mentioning that throughout last year, there has been a significant change in the fleet mix. So this year, we're selling higher added value cars, which has an impact on the sales price. But car and car comparison, we don't expect a change in this scenario.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

And just a follow-up on this question, you've been selling cars at much lower levels in the last six months than you will sell in the second half. Do you have any concerns regarding that? I mean the entire market will sell much more cars in the second half. Is this a strong concern, or you think you are prepared for that?

A - Operator

Falcao, the used cars market is 10 million cars and new cars 2.5 million, so 2 million to 2.5 million. So, in the past, the volume of used cars used to be three times or four times cars the new car – three times the number of new cars, today it's four times to five times. I'm saying that the used car market is huge. So we are prepared to increase the volume of

used cars so that we need to do in the next coming months to renew our fleet within the timeframe and at the price we want to.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

So this is not a concern for you?

A - Operator

No. (38:08). We are ready to do that.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

Okay. Thank you. That's great.

Operator

Next question comes from Pedro Furtado from Prada (38:20).

I would like to ask a question about the fleet. What is - with the expectation of improvement in the economy, the confidence of business people is improving. So, what is the competitive dynamic in fleet? Do you see that some contracts that have been closed at the margin to be re-priced at better levels, (38:48)? And also a comment about the competition. I understand that most of the companies did not went well during this crisis period with an increase in interest rates. So with any scenario of improvement in the economics arena, do you think you will have a slower competition?

And the second question. We had discussed increase in new car prices and now automakers are having a hard time imposing this increase in prices. Do you think that with the recovery of the economy automakers will try to put pressure on that and how will that impact your business?

A - Nora Lanari {BIO 18838335 <GO>}

Nora is answering. With the second, we believe it's very hard for automakers to increase car prices because we do expect high level of unemployment for the rest of this year still, despite the improvement in the economic scenario. So, we don't expect that to change shortly. And the new car market is highly competitive, almost all of them have an idle capacity and as soon as possible they will try to recompose their production line. And it's hard to do both at the same time, increase price and volume at the same time in such a highly competitive environment, which would add to the fleet, Pedro. It's Nora.

We would love to see a highly competitive market, but it's highly polarized market. Even in the poor economic scenario, we see a strong competition in terms of price. The fleet is a sort of return for us. We focus on the right heavily, we still work on the contracts as we have been doing, and we expect a more moderate growth scenario for this year. And we won't let go profitability though, because the depreciation is higher. We stay with cars for two years or three years. So, we're focusing on profitability and the market remains very competitive.

On the other hand, smaller companies that are outsourcing their fleet and having limited access to capital. However, large accounts have reduced their volume of rentals because they are - with fewer people working for them. So, we expect that big accounts to resume their larger volumes, and the small accounts to grow the volume as the economic scenario improves. And this improvement in the economy is not something to happen in the short run. Some economists see a slow decrease actually still.

And for next year and scenario of high unemployment rate, so interest rates are not going to fall soon. So, it's a difficult scenario still. But the good news is that we did all our homework last year, we have strengthened the balance sheet, we are highly organized with the strong cash position. So, Localiza is reaping the fruit of having done its homework before and when it was easier to do it.

Q - Operator

Okay. Thank you.

The next question comes from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. Nora, your expectation of a possible increase in volume regarding the - for the Olympic Games that stood out to me. In the last call, last quarter you didn't expect growth in volume, now one - three months later, do you expect any anticipation of reservations, or do you have any highlights on that?

A - Nora Lanari {BIO 18838335 <GO>}

Thank you for your question, Lucas. Localiza is the official sponsor of the Olympic Games. We do have a place at the Olympic Park and we meet the demand at the Olympic Committee. We do see a demand for reservation for the Olympic Games, but we're talking about almost two months, if we consider Olympic and Paralympics Games.

So, in Rio de Janeiro, this will be beneficial, but, overall, this figure is not so significant for the company as a whole.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay. Thank you, Nora.

Operator

This concludes the Q&A session. I'd like to invite Ms. Nora Lanari for her closing remarks.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you very much for attending the call. If you have any question, the IR team is available. Good afternoon.

Operator

This concludes Localiza Rent A Car audio conference for today. Thank you very much for attending, and have a good day.

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