# Q1 2019 Earnings Call

## Company Participants

- Carlos Horacio Sarquis, Rent a Car (RAC) Head Officer
- Jose Antonio de Sousa Azevedo, Investor Relations and New Businesses Officer
- Luis Fernando Memoria Porto, Chief Executive Officer

## Other Participants

- Bruce Barbosa, Analyst
- Murilo Freiberger, Analyst
- Victor Mizusaki, Analyst

## Presentation

### Operator

Good morning. And welcome to this conference call where Unidas will present its results for the First Quarter of 2019. We would like to inform you that during the company's presentation callers will only be able to list. Later we will move into the Q&A session when further instructions will be given. Unidas will also have some time to take questions from the press right after the Q&A with market analysts. (Operator Instructions)

This conference is being simultaneously translated into English and questions may be asked normally by any participants who are connected from abroad. Questions may also be asked online through our webcast platform. We remind you that this conference call is being recorded and will be available on the company's website in up to 24 hours. If you do not have a copy of Unidas' released, it may be obtained on the company's website ri.unidas.com.br. This conference call and the slide presentation are also being broadcast online and can be accessed on the company's website.

Before we continue, we would like to clarify that any statements made during this conference call about the company's future business perspectives, as well as projections, operational and financial goals, and its potential growth are merely predictions based on the management's expectations on Unidas' future. These expectations depend on our industry's performance, Brazil's overall economic performance and domestic and foreign market conditions. They are therefore subject to changes.

We have with us today, Mr. Luis Fernando Porto, CEO; Mr. Jose Azevedo, Director of New Businesses and Investor Relations; and Mr. Carlos Sarquis, Head of the Rental-a-Car Division.

I would now like to give the floor to Mr. Luis Fernando Porto. Please, Mr. Porto, you may proceed.

## Luis Fernando Memoria Porto {BIO 17590082 <GO>}

Good morning, everyone. It is with great satisfaction that we present the results for the first quarter of 2019. For this quarter in order to facilitate comparison we will present the data for the first quarter of 2019 and the first quarter of 2018 according to the IFRS 16 accounting rules, which became effective as of January 1st of this year. In our earnings release we have prepared two detailed tables on the effects on our income statements. One on page one and another one on page 29. Under IFRS 16 rental costs and expenses are no longer accounted in the income statement as OpEx, being now capitalized as CapEx, which generates a positive impact on EBITDA and consequently on its margin.

From the balance sheet point of view, rental contracts are recorded in the assets as the right to use the rented asset at the present value of the periodic payment flows for the entire contract period. In turn, this present value is depreciated increasing the amount of depreciation in the income statement and consequently partially canceling the higher EBITDA by an EBIT also higher but in a lesser extent.

Finally, the difference between the present value of the payment flows and their actual payment amount is classified as a financial expense. To calculate this expense, the company uses a weighted average cost of its debt as its basis. For comparative purposes, the company opted to adapt when applicable the comparative bases of the first quarter of 2018 with the IFRS 16 rules instead of adjusting the results of the first quarter of 2019 to accounting practices that are no longer in force as of this year.

Now regarding the first quarter 2018 data, we will use the combined data resulting from the sum of the Locamerica and Unidas S.A. results since January 1, 2018, and already mtach up eliminations when applicable also in order to facilitate a comparison for this period.

Finally, before beginning the presentation, I would like to point out that the first quarter of 2019 results also consider Unidas Agro's operating and financial results as of February 1, 2019. However, there is no effect on RAC information, since Unidas Agro is an exclusive fleet management operation.

Going now to slide four. We are pleased to report another important achievement of the company in relation to its relationship with the market and the quality improvement in terms of the liquidity of the company's shares. Following the IPO in 2012 on the Novo Mercado, the listing segment of B3 with the highest level of corporate governance. Until April of this year, the company was included in six different B3 indexes, of which four were focused in corporate governance, one related to greater negotiability of the consumer section -- sector, excuse me, named ICON and one based on the stock performance named IBRA. With the Locamerica and Unidas merger the new company changed its level of visibility in the capital market, consequently increasing its ADTV. Subsequently in order to further evolve its Investor Relations program and the market as a whole, to expand the shareholder base and to be facilitate access to our shares by foreign investors, we launched our Level 1 ADR program in December 2018.

So as a crowning of this work, Unidas was added to the theoretical portfolio of the B3's Small Cap Index for the first time in its seven-year listing history. The portfolio is valid from May to August 2019 and is based on the trading session of November 30, 2018. That is, without considering the significant advance in liquidity made by the company with the successful follow on on December 20, 2018.

In the charts below to the right, we can see the great evolution of the ADTV until November 30, 2018 and after this date would be update until May 3, 2019. Based on this information we are confident that the inclusion of LCAM3 in the Small Cap Index should remain in the next four-month reviews that will take place from now on. Further consolidating the company's new level in the Brazilian capital market.

On the next page, on slide five, we'll talk about some of our operational highlights. In this quarter we presented record volumes in all our segments. The biggest highlight could be none other than the robust performance of the Rent-a-Car segment, which has been surprising us with better than expected positive results. Even practically I believe, the number of cars in the last 12 months are maintaining the average tariff at the level of BRL74. What we saw was a growth of more than 60% of the daily rentals volume, which allowed us to exceed it once again the level of 80% in the occupation rate. This is a direct result of the efforts and investments of the company to accelerate the absorption of the strong demand that the Brazilian market has presented and that it should present in the coming years.

In Fleet Management for -- our further consecutive quarter besides renewing the daily rentals volume record with an 8.5% annual growth, we presented an increase in the monthly rate in the same proportion, even considering the CDI reduction in the period. As a result of the diligent work of the company to improve the quality of the quality of the customer mix with the increased entry of small- and medium-sized customers, and also customers who outsource their fleets for the first time, as well as the commitment to price rationality and profitability, and the renewal processes of existing contracts.

In the Used Car sales segment the company continues to succeed in following its vehicle sales schedule. Having sold a new historical record for a quarter of 14,111 vehicles, 20.2% above the volume of the first quarter of 2018 combined. In addition, the average sales price increased by 14.5%. Thanks to the improvement in the mix of vehicles made available for sale and the company's focus on concentrating its sales of Used Cars in the Retail channel. So, as a result, our total fleet ended March with a total of 142,295 vehicles. Of which we are the absolute leader in Fleet Management with 78,963 vehicles and 63,332 vehicles in Rent-a-Car, including the fleet of our franchises. Further details on each segment will be given throughout this presentation.



On the next slide we will talk about the financial highlights of the first quarter of 2019. In the chart above we show the evolution of the consolidated net revenue, which in the first quarter of 2019 exceeded the BRL1 billion mark for the first time ever in a quarter, totaling

BRL1.27 billion, 34.3% higher than what was presented in the first quarter of 2018. This performance is a result of the record levels achieved in all businesses divisions.

Now in the chart below to the left we show the evolution of recurring EBITDA which in the quarter amounted to BRL290.1 million, a new record for the quarter, with a 13% increase in 12 months and reaching the EBITDA margin of 57.5%. The annual reduction in the margin mainly reflects the company's entry into the Rent-a-Car segment, which intrinsically has lower profitability levels when compared to Fleet Management.

On the other hand, recurring consolidated EBIT totaled BRL186.5 million in the first quarter of 2019, an increase of 23.3% in 12 months. Now the recurring EBIT margin reached 37%, showing a reduction of 2.9 percentage points in comparison with the margin obtained in the first quarter of 2018. This performance reflects the company's higher growth in the RAC segment compared to the growth in Fleet Management.

On slide seven in the chart above, we show the performance of recurring net income, which in turn reached a new record for a quarter of BRL82.5 million. In addition, we highlight that its annual expansion of 54.8% was higher than the revenue growth, which resulted in the annual expansion of the net margin by 2.6 percentage points up to 16.4%, another record of the company, which demonstrates the focus on growth with profitability.

In terms of return, the annualized ROE reached 15.9% of the first quarter of 2019, even with the 71.5% increase in the company's shareholders equity in 12 months, with the conclusion of the follow-on of BRL992 million in December 2018. Now the ROIC for the first quarter of 2019 was 12.1%, 1% higher than the first quarter of 2018, due to the strong increase of 21.3% in EBIT, despite the acceleration of our exposure to the Rent-a-Car market. In parallel, we reduced the average cost of our debt to 6.5%, a decrease of 0.4 percentage points in 12 months, contributing to the record spread of 5.6 percentage points, which is 33.6% higher than in the first quarter of 2018.

Turning to slide nine, we comment briefly on the scenario of the brand new and used vehicle sales in Brazil. As we can see in the chart above, brand new vehicle sales in the first quarter 2019 increased by 10% when compared to the same period last year, reaching around 600,000 units sold. On the other hand the market for used vehicles, sales showed a slight increase of 0.8% in 12 months, with a total of 2.5 million vehicles sold in the first quarter of 2019.

On the bottom left chart, we open the used car sales information by age. It's important to note that this chart also includes the sale of heavy commercial vehicles and motorcycles, which is the only breakdown by age available in the market. The graph shows that the market formed by vehicles with up to three years of use, showed an annual reduction of 13.4% in the first quarter of 2019, which is the lowest annual decline since the fourth quarter of 2017. Despite the reduction in the market of used cars up to three years, Unidas increased its sales by 20.2% in the same period, resulting in a total record volume of 14,111 vehicles sold, which allowed the company's market share in the Brazilian used car market increase from 1.82% in the first quarter of 2018 to 2.53% in the first quarter of

2019. This performance demonstrates Unidas' great competitive advantage over the majority of the used car sales market in Brazil.

Starting the operational highlights on page 11, we show the evolution of our fleet. At the end of March 2019, the company's consolidated fleet totaled 1,42,295 vehicles, an increase of 32.3% compared to the total recorded in March 2018. Explained by the expansion of both leasing businesses and the addition of the Unidas Agro in February of this year. The fleet in demobilization totaled 13.7000 vehicles in the first quarter of 2019 in corresponding to 9.7% of the total fleet, an increase of 1.4 percentage points over the first quarter of 2018, which was a natural result of the expansion plan with the opening of new stores, which still do not show the same volume performance of cars sold per stores as already preserved by mature stores.

The Fleet Management's average age of the fleet closed the first quarter of 2019 at 16.8 months, an increase of 2.4% in 12 months. In Rent-A-Car excluding franchises, there was a 20.7% decrease compared to the first quarter of 2018, closing the first quarter of 2019 at 6.5 months. This is one of the newest fleets in the country as a result of the company's recent investments in this segment in recent quarters. And this has given our commitment to modernize the fleet and thus generate greater maintenance and depreciation cost savings. Meanwhile, the average age of the vehicles sold in the Fleet Management sector reached 28.7 months in the first quarter of 2019. This is 6.8% lower than the average age of the first quarter of 2018, due to the average term of contract settled in this segment in the quarter.

In the Rent-a-Car segment excluding franchises the average age of vehicles sold was 17.2 months, really 1% in 12 months. The company remains committed to reducing the average selling age of Rent-a-Car cars by the end of this year.

Moving on to the next page on slide 12. Investments in the fleet in the first quarter of 2019 were positive and totaled BRL427.9 million. In the first quarter of 2018 this amount was a negative a BRL19 million, which was the quarter in which the Locamerica/Unidas merger was concluded. In terms of quantity, 21,412 vehicles were purchased in the first quarter of 2019, resulting in a net addition of 77,301 vehicles in the period driven by the current situation of strong expansion of the rental segment in the country. It should be noted that vehicles purchased do not consider the cars added with the NTC acquisition.

The company continues with the strategy of intensifying the purchase of vehicles in order to meet the growing demand in rental operations without the risk of worsening the quality levels in services to our customers. For this purpose the company relies on its strong operating cash flow and healthy capital structure reinforced by the entry of the follow-on funds and the issuance of the 13th debenture issue in April 2019, which we will give further details on during this presentation.

On slide 13, we will talk about the Fleet Management operation performance. In the chart above to the left, we observed that the pipeline of opportunities in the second quarter of 2019 renewed the highest level ever recorded by the company, showing a 14.4% evolution in relation to that first quarter of 2019, totaling 45.2000 [ph] cars.

On the next chart, we can see that the total value of the new rental agreements signed in the first quarter of 2019 increased by 15.6% year-on-year to BRL140.2 million. This performance is explained by the acquisition of new contracts with a longer duration in the first quarter of 2019.

On the chart below to the left, we show the annual increase of 2.4% of the average age of our fleet, which closed the first quarter of 2019 at 16.8 months, as already mentioned. Finally, the average utilization rate close the first quarter of 2019 at the level of 98%, showing a decrease of 0.8 percentage points in 12 months. And this is mainly due to the entry of Unidas Agro into the consolidated numbers, once it has a lower occupancy rate in comparison to Unidas operation.

Following on to the next slide and concluding the Fleet Management segment, Unidas renewed its historical record for the quarter, which surpassed the 6 million mark, totaling 6.1 million in the first quarter of 2019 and the growth of 8.5% in relation to the first quarter of 2018. This is regarding daily rentals. The strong performance reflects the company's market leaders' solid position in the segments sustained by the proven expertise and know-how that enabled the acquisition of new customers including those to outsource their fleets for the first time, as well as a high rate of contract renewal backed by the high level of quality delivered to existing customers in our base.

The growth in average monthly rates in the first quarter of 2019 was similar to the one presented in the daily rentals volume, with a growth of 8.1% in the last 12 months, from BRL1,423 in the first quarter of 2018 to BRL1,538 in the first quarter of 2019, even considering the annual increase of 4.9% in the CDI for the same period. This performance mainly reflects the company's ability to improve its customer mix through increased exposure to small- and medium-sized companies, as well as a greater willingness from customers to pay for the high quality of products and services backed by Unidas' extensive experience and leading position in this segments. In addition the average rate in the first quarter of 2019 was positively impacted by the entry of Unidas Agro in February of 2019.

On the graph below, Fleet Management net revenue totaled a record of BRL281.3 million in the first quarter of 2019, an increase of 16.2% year-on-year, a result of the 8 % increase in the number of daily rentals and 87.1% of the average tariff in the period.

Let me now turn to Carlos Sarquis, Head of the Rental-a-Car Division to present in more detail the company's results in this segment.

## **Carlos Horacio Sarquis** {BIO 20060508 <GO>}

Thank you, Luis. Good morning, everyone. We now move to slide 15. In the chart above to the left, we show that today Unidas has one of the country's newest Rent-a-Car fleet, which is only 6.5 months old, the lowest age in more than 10 years. The 20.7% drop in this age in 12 months reflects the company's total commitment to modernize its fleet, achieving greater savings in maintenance and depreciation costs, and offering an ever new fleet to its customers.

Besides modernizing, we also increased the number of vehicles offered in the Rent-a-Car segment, practically doubling the fleet in 12 months. Even with this significant growth, we managed to keep the average daily tariff of this segment stable at NRL74 and the occupancy rate above 80%, which reinforces the strong demand that our sector is experiencing. Due to this positive moment in the Rent-a-Car market, the company will continue to expand the supply of vehicles in order to meet the demand of the next quarter. Thus guaranteeing the levels of quality of service to our customers.

At the end of March 2019, our Rent-a-Car service network totaled 210 stores, of which 127 were our own stores and 87 were franchises, and they are present in all 26 Brazilian states and in the federal district. The growth of this own stores in the first quarter of 2019 compared to the closing in 2018 reflects the passive absorption of franchises in strategically important regions. In comparison with the first quarter of 2018, the number of own stores in Rent-a-Car increased by 20 stores, most of which were absorbed from previously franchised stores. As -- this is the result of the company's strategy to increase the scale and generate greater operational leverage in these locations besides the diligent work in maintaining stores that present positive results and to justify their maintenance. As a net result in the period of 12 months, there was a reduction of eight Rent-a-Car stores.

Turning now to slide 16, we present a strong annual expansion of 60.6% in the volume of Rent-a-Car revenue in the first quarter of 2019. Consecutively renewing the company's historical record and totaling 3.2 million daily rentals in a single quarter. In order to have a sense of the represent activity of the daily rental volume of the first quarter of 2019, it already represents 37% of the total volume of the entire year of 2018 as you can see in the chart above to the left. In addition to delivering records in volume, we did so by maintaining the average daily rate of BRL74 in the first quarter of 2019 as I've already mentioned. This combination allowed the Rent-a-Car net revenue. That is excluding franchises to show an impressive growth of 61.2%, confirming it to service this [ph] and accelerating investment in this segment and the efforts to; first, improve the customer experience; second, increased fleet size technology and store infrastructure; third, capture cross-sell opportunities with fleet management customers; and four, the greater performance of the loyalty program.

I will return the floor to Luis now.

## Luis Fernando Memoria Porto {BIO 17590082 <GO>}

Thank you, Sarquis. Now slide 17 shows are Used Car sales network, which totaled 93 stores in Brazil, an increase of 15 stores in 12 months, of which 13 stores were directed to the Retail segment and to the Wholesale segment. We also highlight the 36.7% growth in the number of Retail stores in 12 months and this is strictly in line with the company's strategy to increase its exposure to this channel, considering only the period since October 2018 20 Retail stores have opened.

The initiative to expand the Used Car sales operations throughout the country, allowed us to reach a record sales volume of 14,111 vehicles in a quarter, with an increase in our market share of 0.7 percentage points, demonstrating the company's capacity to increase its sales on a scale sufficient to support the growth of rental operations. However, as we expected we have the natural impact of this expansion process in this quarter. In which new stores still in their maturity curve have lower sales per store volume, when compared to stores that are already matured. The average sales price was BRL37.1000 in the first quarter 2019, showing an annual growth of 14.5% due to the mix of vehicles sold in the periods. The reduction of the average age of fleet management vehicles sold and to the greater exposure to the sale of Rent-a-Car cars, which currently have lower age and lower depreciation.

Now on slide 18, Used Car sales net revenue was BRL523.4 million, which represents an increase of 37.7% over the net revenue obtained in the first quarter of 2018. This is a new historical record of the company in a single quarter. This result is due to a 20.2% increase in the number of vehicles sold and a 14.5% increase in the average selling price in the comparison between the periods. This quarter due to the ongoing process of maturation of the new stores in this channel, as previously explained, Retail sales in terms of gross revenue reached 64.7% in the first quarter of 2019, showing a decrease of 1.2 percentage points in 12 months.

On the graph below, Used Car sales gross profit presented the amount of BRL41.6 million in the first quarter of 2019 and an annual growth of 1.4%. Gross margin reached 7.9% in the first quarter of 2019, as a result of lower Retail exposure. Even with the reduction in gross margin and consequently in the EBITDA margin, the company's management remains comfortable with the current levels of depreciation. We reaffirm here our strategy of maintaining the current rates as long as the EBITDA margins of this segment remain within the range of plus 1% to plus 3% or as the management is confident that this interval will be sustained in the coming quarters, as it has been occurring since, excuse me, until the first quarter of 2019.

I now turn to Jose Azevedo, our New Businesses Director and IRO to comment on 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 reiterate that all the data and information referring to the first quarter 2018 consider the combined results of Locamerica and Unidas S.A. since January 1, 2018 net of eliminations and already according to the new accounting rules of IFRS 16. Since this is the norm to be used from now on. To facilitate the analysis of the market the information with and without the effect of IFRS 16 for the first quarter of 2018 and the first quarter of 2019 is available in the first quarter of 2019 results release on pages one to 29. Finally, the first quarter 2019 information also considers the results of Unidas Agro as of February 1, 2019.

Turning to slide 20, the company's consolidated net revenue in the first quarter of 2019 was 1,027.7 million, which is 34.3% higher than the amount total in the first quarter of 2018 combined. This is the first time in our company's history that we've reached the level of BRL1 billion in net revenue in a month -- in a quarter. This performance resulted in the high growth in all segments mainly due to strong growth in operating volume.

Going to slide 21, we present the evolution of EBITDA and margin. Consolidated recurring EBITDA in the first quarter of 2019 reached a record level of BRL290.1 million, an annual growth of 13% in 12 months, explained by the EBITDA expansions of both rental segments, especially in Rent-a-Car. The consolidated recurring EBITDA margin over net rental revenue totaled 57.5% in the first quarter of 2019, 8.7 percentage points lower than the margin obtained in the first quarter of 2018. Combined with IFRS 16, mainly due to the higher exposure to the Rent-a-Car segment, which inherently has lower margins in relation to the Fleet Management segment.

The EBITDA margin for Fleet Management in the first quarter of 2019 decreased by 2.4 percentage points in the last 12 months to 64.6% and reflects the impact of the CDI reduction on revenue with no effect on costs. In the Rent-a-Car division considering franchises the EBITDA margin was 45.2% and annual reduction of 4.8 percentage points. Mainly due to higher advertising and marketing expenses, and improved store structures.

In the Used Car sales the EBITDA margin was 1.5% in the first quarter of 2019, showing a reduction of 4.6 percentage points in 12 months due to the reduction in gross margin as explained before and the higher level of SG&A expenses with the acceleration of the opening of new stores.

On slide 22, recurring consolidated EBIT totaled BRL186.5 million in the first quarter 2019, an increase of 21.3% in 12 months. That recurring EBIT margin reached 37%, showing a reduction of 2.9 percentage points in comparison with the margin obtained in the first quarter of 2018. This performance reflects the company's higher growth in the Rent-a-Car segment, compared to the growth in Fleet Management as was previously mentioned.

Now on slide 23, recurring net financial expenses totaled BRL84.3 million in the first quarter of 2019, an increase of 9.8% over the same period of 2018. But with a drop in the representation of net rental revenue by three 3.2 percentage points to 16.7%, as a result of the lower cost of debt and strong revenue performance over the same period. In the first quarter of 2019, the company had a non-recurring financial expense of BRL13.1 million related to the expenses with the prepayment of the Companhia de Locacao das Americas 18th and 12th Issuances of debentures, Ricci's third issuance, as well as NTC's bank debt, a total of BRL625 million was paid with an average cost of 148% of the CDI well above the average cost of 109.3% of the CDI, of the 13th and last issuance of debentures held in April 2019. We highlight that from the total non-recurring expense only BRL4.3 million have a cash effect, since the structural costs -- structuring costs were paid at the beginning of operations.

In the graphs to the right and below we show the evolution of consolidated recurrent net income which in the first quarter 2019 reached a record amount of BRL82.5 million and grew 54.8% in 12 months. As this increase was above the growth presented by the rental net revenue, we had the net margin increase 2.6 percentage points, which totaled a record of 16.4% in the first quarter of 2019.

On the next page, slide 24 shows the evolution of our profitability indexes. In the upper left corner the annualized ROE reached 15.9% in the first quarter 2019, even with the company's equity increased by 71.5% in 12 months, due to the conclusion of the follow-on of BRL992 million at the end of December 2018. It should be noted that the annualized ROE is calculated on the tangible shareholder's equity in which the effect of the goodwill arising from the valuation between the signing date and the closing date of the shares issued for payment of the emerges with Unidas is excluded. Annual ROIC for the same period was 12.1% consolidated for a further quarter to levels of profitability expected for the company, even with the strong acceleration of Rent-a-Car growth. As a consequence, the spread between ROIC and the cost of debt was 5.6 percentage points.

Moving to the last slide number 25, we showed the company's consolidated gross debt of BRL3.4 billion at the end of March 2019, of which 94.7% mature on the longer term, one of the highest levels reached by the company reflecting the conservative policy in lengthening and improving the debt profile. Our debt is currently comprised of 95% in debentures and the remaining balance is distributed among leasing working capital Finame and commercial papers.

Based on consolidated indebtedness and combining -- combined indicators for the last 12 months, net debt to EBITDA ratio reached 2.79 times at the end of the first quarter of 2019, 0.42 times lower than the first quarter of 2018, mainly due to the entry of follow-on funds and strong EBITDA performance in the period. The ratio of net debt to the value of the fleet decreased from 72.4% in the first quarter of 2018 to 48.8% in the first quarter of 2019, a drop of 23.6 percentage points in 12 months.

As already announced by the company on April 10, 2019, the company was able to successfully complete the acquisition of the 13th issue of debentures in the amount of BRL1 billion. The issuance has a cost range of 107.9% to 112% of CDI and an average cost of 109.3% of CDI, the lowest ever recorded in our emission, in addition to terms of five years to 10 years. Thus testing the capacity of the company in accessing the capital market to foster the expected growth in the coming years.

The pro forma effect of this issue in relation to the balance of March 31, 2019, is in the charts at the bottom of the slide. As we can see the cash position increases to BRL1.4 billion, which is enough to cover 145% of the debt principal to mature by the end of 2021 and 65% by the end of 2022. The debt schedule is stretched until the end of 2029 and with a reduction in the representativeness of short-term debt to only 3.8% of total debt.

Now, I pass the word to Luis Fernando.

### Luis Fernando Memoria Porto {BIO 17590082 <GO>}

Thank you, Azevedo. We'd now like to open our Q&A session.

## Questions And Answers

### Operator

Ladies and gentlemen we will now begin our Q&A session. (Operator Instructions) Our first question comes from Victor Mizusaki, Bradesco BBI.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good morning. Congratulations on your results. I have two questions. The first on the Rent-a-Car segment, we saw expressive growth in the first quarter 61% in daily volume. I just like to know if you could give us some more information on what channels presented the highest growth. And my second question is on slide 13, where you show the business pipeline. I'd just like to understand if you can tell us a little bit more about what the market share was like for Unidas at the closing of the contract? Thank you.

## A - Carlos Horacio Sarquis {BIO 20060508 <GO>}

Hi. This is Carlos. I'll answer your question about Rent-A-Car. So this quarter to have such an expressive growth and to maintain rates at the same level in comparison to the first quarter of 2018, this shows that we had a significant growth in almost all channels. So the market as a whole is growing significantly for individuals, that's quite clear, and that helps us to maintain tariffs at this level of BRL74. And we're seeing consolidated prices, so this makes our growth have a better impact. We can't break it down per segment, but what I can say is that, we are having robust growth in nearly all segments in Rent-A-Car. Can you please repeat your second question.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

So the second question was about slide 13, where you're showing the fleet and the number of businesses involved. So can you tell us a bit about how the market share evolved at the end of the contract, if your market share has increased or not?

## A - Carlos Horacio Sarquis {BIO 20060508 <GO>}

Hi. Thank you for your question. To talk a bit about our pipeline here. And we have been seeing a trend boosted by IFRS 16 of companies outsourcing for the first time. But when we talk about that, in terms of competition, we still don't feel any changes, we're not gaining any market share from them, but we are seeing many opportunities from companies that have never had Fleet Management. So that the 8% lease discussed before. I think once we get new results we will definitely have higher penetration rates in the market.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

That's great. Thank you.

## Operator

Our next question comes from Murilo Freiberger, Bank of America Merrill Lynch.

## Q - Murilo Freiberger {BIO 17385357 <GO>}

Good morning. Thank you for taking my question. So we just want to get some color from you on the Used Cars segment. Obviously, we really liked your performance for this quarter and I think that you are at a very good level. But when we look at Used Cars we're a bit concerned. The inventory is quite high in comparison to the three-year history and the last time this took place in 2013, the company has some problems in selling at the right price level. I know that we are in a completely different time now but this is still a concern. Also when we look at depreciation, our car sales prices grew double digits, the margins dropped and volumes are a bit below the ideal replacement rate for the fleet. So, can we assume that the volumes will go up at the levels we're seeing with better margins in the quarters, while we have stable depreciation rates. So do you think that this will be improved?

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

Murilo, thank you very much for your question. First on inventory, this increase in inventory in this quarter should maintain -- should be maintained for at least three more quarters, because we still haven't stopped our expansion goal to expand Retail stores for 2019 is ongoing. And once you open a store regardless of the sales volume you can't really have a smaller inventory there. If you have a store with 80 cars, for example, you can't only have 30 to 40 cars. But we have bigger stores and the inventory matches the sales we would see from a mature store. So when you have an expansion of this size. As you can see we expanded in the last five months -- five months to six months, by nearly 30% in number of stores. So that means 20 stores. If you take 20 stores and consider that each one will have 60 to 80 cars. That's already 1,500 cars in addition to what we already have. So it's a little bit different from what you mentioned in the past.

The company's structure for sales is completely different from what we had then. Now we're focused on Retail, and of course, its turnover will be slower than what happens with Wholesale. So our inventory is already scheduled for and foreseen in our yearly project and this should probably continue for the second and third quarters. This will have an impact on our profitability, but it's important for our car sales strategy, which is our focus now, the Retail segment.

Now regarding Used Cars EBIT margin -- EBITDA margin and depreciation. Both from the third quarter of last year, we were already offering something, because since it was a high drop in the car prices this was already foreseen by us. When the market stopped, starts going down by 50%, 60% in terms of its volume in one year. At some point prices would be affected. So that happened in the third quarter. At that point we were working with a 5% EBITDA margin, because we had foreseen backdrop. Well, our EBITDA dropped by about 1.3, 1.2 our EBITDA margin and then we started a new level of positive EBITDA margin, which would be 1% to 3%.

What does that mean? If it -- if our business with Used Cars have margins below 1%, we would automatically go and increase our depreciation rates. If it gained margins and it went above 3%, we could lower depreciation rates. While they were in that range from 1% to 3% and the management fees for the next quarter's that this level of margin will be maintained with the same volume as we need to sell. Then we feel comfortable in maintaining depreciation. So what we're seeing from now to the end of the year is that depreciation rates will remain stable. It makes no sense to increase those rates nor to reduce them and EBITDA would be between 1% to 3% positive.

We have two important levers to increase our EBIT and maintain the occupation rate. Excuse me, maintain the depreciation rate. First, our maturing of the Retail stores opened now in the short-term. This will create two impacts for us. The first of which is. You add administrative costs, which will influence the EBITDA margin and the volume of sales per store will have higher gross margins. So that's a double negative effect. You're selling less cars per store, so your gross margins are lower and if you're selling less to the Retail market, the gross margins for the business as a whole will be lower. And cost will come ahead and then will be diluted when the store is mature, but they will be much lower. That's the first item.

The second item is that, now we're selling Rent-a-Car cars which are most of the cars being sold at our Retail stores now at an age of 17 months, 17.2 months. Our goal is to reach 4 point -- 14.5 months, 15 months on average in the next quarters. So with these two levers. We believe that we can maintain the depreciation rate at the same level we are seeing today. We can improve store productivity and we're going to continue to open stores right until we conclude our expansion program and improve store -- stores maturity.

But that reduction of Used Cars sold in the Retail segment will stabilize us at that positive EBITDA range. So we're very confident. We sold a number of vehicles that was planned for the first quarter. The first quarter has February which is shorter. We have Carnival in Brazil. The start of the year in January makes it seasonably weaker and we considered that throughout the year we would with this project increase our volumes without increasing our depreciation and maintaining the same EBITDA margins, which make us comfortable. Whenever it goes below 1% or even if it doesn't, but if we see that we will have some reduction in prices up ahead or any changes in the market or if there's anything that we're looking at that changes we will increase our depreciation rate. But so far we don't see a need for that on the short-term.

## Q - Murilo Freiberger {BIO 17385357 <GO>}

Thank you very much. That was very clear.

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

Thank you.

## Operator

(Operator Instruction) Well, we've got a question here from Bruce from Nord. Thank you very much for your question. Please hold. Mr. Luis, you may proceed.

## Q - Bruce Barbosa {BIO 20917674 <GO>}

Please repeat your answer.

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

Okay. So to repeat. Bruce Barbosa from Nord asked what was our expectation in cost reduction at the levels of Unidas and Localiza. I was saying that we started this year with the prepayment of some of the most expensive debt. You saw there was BRL625 million. We paid additional BRL320 some million in April and throughout the year we want to refinance some more of our debt. But, unfortunately, we depend on some lockup periods and that should take place over the next year. We have a capacity to capture much lower rates than most of our debts. So we will continue that movement as soon as possible, because of the lockup periods that we have for these previous debt. So I believe that for the next 18 months we should be close to the levels that our main competitors have. It would be until the end of 2020 at most. Until then I'm sure we can refinance our debt, because that's when all of the lockup periods for these debts expire.

## Operator

(Operator Instructions) If there are no further questions, the question-and-answer session for analysts is adjourned. Before we continue to the Q&A session with the press. I would like to give the floor to Mr. Luis for his closing remarks.

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

So before we finish the conference call I would like to invite you all to participate in our Unidas Day, which will take place next Monday on May 13th at 8:30 AM in Sao Paulo at the Hilton Hotel. I will join 10 other directors of the company for individual presentations followed by Q&A session in order to bring the entire top management closer to the market. Finally, I would like to thank our 2,791 employees for further delivery of results in line with the company's goals and also our customers for their trust in the quality of our services and product. To our shareholders, we reaffirm our commitment to generate value, aligned to the growth of results with profitability, in addition to total transparency and the highest level of relationship with investors and the market in general. For those who needed the entire Investor Relations team and I are available to the market. Thank you very much and have a good afternoon everyone.

## Operator

We will now begin our Q&A session with the press. (Operator Instructions) As there are no further questions, our conference call is adjourned. We'd like to thank you all for participating and have a nice day. Thank you.