

Q3 2016 Earnings Call

Company Participants

- 42:54 <A>
- Maria Carolina Barbosa Costa, Investor Relations Manager
- Roberto Antônio Mendes, Chief Financial Officer and Investor Relations Officer

Other Participants

- Bernardo Carneiro, Analyst
- Bruno Amorim, Analyst
- Edward Moshe Friedman, Analyst
- Lucas Marquiori, Analyst
- Márcio Prado, Analyst
- Mário Bernardes Junior, Analyst
- Renato Mimica, Analyst
- Sami Karlik, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Third Quarter 2015 Conference Call of Localiza Rent A Car. Hosting the event today are Mr. Roberto Mendes, CFO; and Ms. Carolina Costa, Investor Relations Manager.

We would like to inform you 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 in listen-only mode during the conference call. Immediately afterwards, we will 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 broadcast simultaneously over the Internet at the address www.localiza.com/IR. The slide presentations can be downloaded at the same address by clicking on the banner 3Q 2016 webcast.

Before proceeding, we would like to clarify that any statements made in the conference call 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 and may or may not occur. Investors must understand that economic conditions and other operating factors may affect the company's future and lead to materially driven results from those stated in this call.

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

Roberto Antônio Mendes {BIO 7289124 <GO>}

Good morning, everyone, and thank you for attending our conference call. In the third quarter of 2016, we continue to benefit from our planning and disciplined execution.

On slide number 2, we present the main operational highlights. Localiza fleet totaled 136,000 (sic) [136,202] (02:24) cars. The number of daily rentals of Car Rental Division grew 25.2% and the utilization rates reached 75.3%. The organic growth is essential to dilute fixed cost. This purchase of 29,000 cars in this quarter allowed the fleet renewal recovery with more than 17,000 cars sold.

On slide number 3, we present the main financial highlights of the quarter. Car Rental Division revenue grew 14.3% and the Fleet Rental Division revenue grew by 6.1%. EBITDA grew 5.6% in the quarter and net income 1%, reaching BRL 103.9 million.

To present the results of the third quarter 2016, I turn the floor to the Investor Relations Manager, Carolina Costa.

Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

Good morning, everyone. On slide number 4, we present the evolution of volumes within the Car Rental Division. It was one of the main highlights of the quarter with 25.2% growth. The 9.6% reduction in average rental rate in 3Q 2016 when compared with 3Q 2015 resulted from the growth in segments with lower rates, which contributed to maximize the utilization rate of the fleet and reduce fixed costs. The utilization rate went from 72.7% (sic) [70.7%] (04:11) in 3Q 2015 to 75.3% in 3Q 2016.

On slide 5, we present the evolution of net revenues from Car Rental Division. As already mentioned by Roberto, the net revenues from this division increased by 14.3% in 3Q 2016 when compared to the previous year. It was a result of a 25.2% growth in volumes, partially offset by lower rates.

On the next slide, number 6, we present the volumes and revenues of the Fleet Rental Division. In 3Q 2016, the Fleet Rental Division's net revenue grew 6.1% due to a 3.8% increase in volumes and 2.3% in the average rental rates.

On the next slide, number 7, we present the Fleet net investments. In 3Q 2016, 28,903 cars were bought and 17,359 (sic) [17,379] (05:15) cars were sold. The increase of 11,524 cars

FINAL

Bloomberg Transcript

allowed a 25.2% growth in volumes in Car Rental Division and 3.8% in Fleet Rental Division.

On slide number 8, we see the evolution of end of period fleet. Localiza's fleet totaled 136,202 cars at the end of the nine months period of 2016; 18,000 cars more than the same period in 2015. The fleet of the Car Rental Division grew 23.6%, an increase of 16,783 cars when compared to September 30 last year.

Slide number 9, shows the consolidated net revenue evolution. Consolidated net revenue grew 14.8% this quarter when compared to Q3 2015. Rental revenues grew 11.5% following the volume growth.

Slide number 10 shows the evolution of car sales. During the third quarter of 2016, 17,379 cars were sold. The number of cars available in Seminovos stores recovered during the quarter. And the sale of used cars accelerated. At the end of the quarter, the number of cars in stores totaled 7,536, compatible with the need for fleet renewal.

Slide 11, shows the EBITDA. Consolidated EBITDA totaled BRL 252.1 million, a 5.6% growth in 3Q 2016. In the Car Rental Division, the EBITDA margin was 31.9% in 3Q 2016, a drop of 0.5 percentage points when compared to 3Q 2015. In the Fleet Rental Division, EBITDA margin was 64.5% in 3Q 2016, an increase of 1.9 percentage points when compared to 3Q 2015 due to operational efficiency.

Seminovos' EBITDA margin was 4.9% in 3Q 2016. This 2.6 percentage point drop compared with the 3Q 2015 is in line with the company's expectation. In 2015, Seminovos' margin was benefited by a higher increase in prices of new cars, which had reflected on the price of the Seminovos.

We present on slide 12, the average depreciation per car in the Car Rental Division. In the nine-month period of 2016, the annualized depreciation in Car Rental Division amounted to BRL 1,120, an increase of BRL 498.6 per car per year, which reflects mainly the decelerated increase of new car prices and in acceleration of the renewal of the fleet older than 12 months. Those cars were replaced by new cars with higher prices.

On slide 13, we present the average depreciation per car in the Fleet Rental Division. The Fleet Rental Division's annualized depreciations of car in the nine-month period of 2016 totaled BRL 3,835, a 2.5% drop compared to last year's depreciation. The car's depreciation in this division has benefited from the increase in new cars' price, which occurs during the car's useful life.

On slide number 14, we present the EBIT margin. Consolidated EBIT in the 3Q 2016 decreased 3.6% when compared to 3Q 2015. The BRL 13.3 million EBIT (sic) [EBITDA] (09:16) was offset by BRL 20.4 million higher depreciation. In the first nine months of 2016, EBIT grew 1.6% compared with the same period of the previous year. The EBIT margin of the Car Rental Division was 28.1%, a 7.9 percentage point decrease [indiscernible] (09:41) increase in depreciation. On the Fleet Rental Division, the EBIT margin was 51.4% in 3Q 2016, which is stable when compared to last year.

On slide 15, we show the net income. Net income reached BRL 103.9 million in the third quarter 2016, a 1% increase when compared to 3Q 2015. The drop of BRL 7.1 million decrease in EBIT was BRL 6 million reduction on the net financial expenses and BRL 2.1 million in income tax. The net financial expenses dropped this quarter despite the net debt increase due to financial revenues from advanced payment to suppliers and BRL 9.4 million debit of swap mark-to-market in 3Q 2015. The BRL 2.1 million decrease in income tax is due to a higher distribution of interest on equity.

Slide number 16 shows the free cash flow. Localiza presented a free cash flow before interest growth and new headquarter of BRL 29.9 million (sic) [BRL 299.9 million] (10:54) in the first nine months of 2016, from cash generated BRL 262.2 million were invested for the growth in 12,346 cars in the fleet. This investment was impacted by BRL 248 million due to advanced payment to suppliers that would mature after the third quarter of 2016 increasing the fleet growth CapEx including the return on shareholders' equity which was about 20%.

On slide 17, we present the change in debt for the period. Cash generated by rental activities after the renewals to fleet was enough to pay the interest on the period, and as we presented cash generation of BRL 129.1 million, it was used to buy 12,346 cars, which was the growth in the fleet. The increase of BRL 291.8 million into that (11:51) nine months of 2016 was mainly due to the strong investment in fleet growth and advanced payment of suppliers, which positively impacted the ROE.

On slide 18, we present the cash position and debt profile maturity. We currently present an adequate debt profile and cash position for the current macroeconomic in growth scenarios.

On slide 19, we presented debt ratios of the company. Even after a strong growth in the fleet, the company remains with comfortable debt ratios.

On slide number 20, we present this graph between ROIC and cost of debt after taxes. This presents a 5 percentage points despite the adverse macroeconomic scenario, competitive environment and high levels of interest rates.

Let us now move to the Q&A session.

Q&A

Operator

Ladies and gentlemen, we'll now begin the Q&A session. First question Bruno Amorim from Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning, everyone. I would like you to please comment on this accelerated on the Rent A Car volumes. We saw a 14% increase in the base of growth, now 25%. Could you

comment on where this acceleration came from? Is that related to Uber or some other variables with growth? And the ROIC in the first nine months of the period was close to 15% similar to the first half of the year. So, the third quarter in ROIC was similar to the first half of the year. So, I would like to know whether this level is the target of the company in the short term? Thank you.

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

Hello, Bruno. Thank you for your question. You ask whether we have grown because of Uber, the answer is no. We are growing in our segments. Some segments are growing more than others, but all segments are growing. As for the ROIC, we are at a level of 15.3% as we said. And I mentioned that there was an impact of 0.3% regarding the advance payments that Carol mentioned.

That was interesting because we were able to have a higher revenue than what we obtained in invested funds. But that has an impact on ROIC lines. Also, we do not give information about target, but we do have a discipline to present a positive spread (15:08) enough to maintain our shareholders happy.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Thank you.

Operator

The next question comes from Sami Karlik from Votorantim.

Q - Sami Karlik {BIO 16221284 <GO>}

Good morning. I would like to understand a bit more the rates dynamics. You've mentioned there was a decrease year-on-year, and there's a change in the service mix as well. Could you comment a bit on that? Is the basis the same or do you see some kind of decrease in the rental rate and disregarding the mix effect?

A - Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

Thank you for the questions. So, it's Carolina. No, there has been no variance in the price segment. I'm talking about the average, not each segment. So, it's purely a mix effect. Yes, the effect is given by the mix.

Q - Sami Karlik {BIO 16221284 <GO>}

Okay. Thank you.

Operator

Next question from Mário Bernardes Junior from Banco do Brasil.

Q - Mário Bernardes Junior {BIO 18104578 <GO>}

Good morning. Thank you for this opportunity. I'll have a quick question. I would like to understand this payment with suppliers that you made. What's the reason for this advanced payment?

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

Since we're generating a lot of cash, I can either invest this cash in bonds or securities from traditional banks, Santander, et cetera, or look for better opportunities that the first-line banks obtain. Since we pay 110% of the CDI, we'll have a 10% cost of carrying this cash. So, we search for an opportunity to maximize this profitability of this cash or rather paying less interest and decided to make advance payments because the discount would be higher than the cost of funding.

So, the overall objective is to reduce the cost. That goes directly to the bottom line to improve the overall results of the company, although it does have an impact on ROIC and cash flow. But we prefer to explain those impact and missing (17:40) this opportunity to improve the profitability to shareholders.

Q - Mário Bernardes Junior {BIO 18104578 <GO>}

Thank you.

Operator

Next question, Bernardo Carneiro from Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good morning, everyone. I have two questions. First one is about this atypical purchase of cars in a situation of fleet of more than 1,000 cars in the third quarter, and at the same time a very good usage rate, 75%, also because of the mix. So, for the next quarter, the fourth quarter, admitting - assuming that you would decrease the number of cars purchased, do you intend to do this to maintain the usage, the utilization rate high or do you think that it would change in another way?

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

Bernardo, I wouldn't say that this purchase is atypical because it's in line of a need of growth of RAC, Rent a Car. If we had, let's say, very high growth of 25%, we have to have cars to rent. And we are keeping and following this increase in demand. We don't give guidance for the next quarter. For us the question (19:04) is we've always purchased new cars according to the needs of our business areas. If there is this (19:12) one business areas needs x-number of new - extra cars, we'll buy them. And the utilization is a way of maximizing the return, the higher the utilization rate the higher the return. Of course, there is a mix effect as you mentioned.

The segment that grew more had a higher utilization rate. So, the average is compared to last 15 years with cash generation was negative, but this advance (19:52) payment of BRL

248 million because this generated a great benefit as I mentioned in the answer to Mario from Banco do Brasil. So you should reflect that our focus is the return on equity.

Of course, we want a positive cash flow and everything, but we understand that it's sustainable cash generation, it's spectacular with this growth and allows us to make this investment. And even make advance payments (20:23).

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay. I believe in the fourth quarter, since this effect of the buyers won't happen you have the fourth quarter increase in the volume growth and the good cash generation which will offset the cash from the fourth - third quarter. So, the fourth quarter will be positive on equity.

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

Yes, just to add on what you said, Bernardo, congratulations. That's right, your thought is right. The fourth quarter, we'll (20:58) have the strategy and could have this impact to offset what happened in the third quarter, and thank you for your help.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay. I have second question. Considering this growth of 25% despite the recession and the current prices, and you are able to deliver a large volume, the average rate lower which encourages demand. So, you are growing with the lower average price in a more profitable mix. So, the question is about this mix that is boosting volume, has it - is it coming from corporate sales, is it correct to say that companies are now fleet rental in long-term contracts and preferring short-term contracts which helps the RAC division?

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

Again, we're not buying the market, it's an organic growth in all segments with a stable (22:06). So, it's not buying share. Companies are not going from fleet to monthly rentals. They are maybe not having their own fleet and going and migrating to monthly rentals. This is what we believe will happen.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay. Thank you.

Operator

Next question from Márcio Prado from Goldman Sachs.

Q - Márcio Prado

Good afternoon. Thank you for this opportunity. This is a follow-up regarding volume and average rate. If we could go back to the last question of the first question of the call. According to my understanding in the presentation, this decrease in the average rental rate is more of a result of the mix rather than the price reduction in specific categories. In

the first (23:03) question about Uber, I would like to understand whether Uber is a category within RAC. For example, an increase in rentals for Uber drivers would lead to a decrease in the average rental rate?

And also understand if this is the case, which is part of the mix, it's not a reduction of the average rental rate, so what would lead to an increase in the average rental rate in the future would be a change in the mix or would there be room to recover the tariffs – the rental rates next year as the economy improves? And also, do you think that this is evident in July to September (24:00) if this does has had any effect on the growth of RAC?

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

Thank you for the question. I'll start with the last question about the Olympic Games election (24:14). It's a relevant effect. As for the rental rate, the effect on the quarter is in the mix. Uber is part of the car rental – is part of a segment of car rental. The car rental for drivers, Uber drivers (24:37), if it grows, the average rental rate is lower than other areas. So, if it if grows, it would pressure the average rental rate down. I would like to remind, Roberto, that what happened in this quarter would had many analysts call us. They're worried about the decrease in the rental rates.

So we said don't worry because this is a mix effect. It doesn't matter something that worries the profitability. If you look at the EBITDA margin because it's stable. So, the gain in scale (25:23) is affecting that. So the final result is that our margin is – EBITDA margin is stable when compared to previous quarters and last quarter as well. So, there's no reason to think that this rental rate would be too aggressive and in terms of reducing the average rate in the market that someone else said.

For next year, we want to maintain a rental rate with a good price that will make our investors pleased, but won't give a guidance now as how we'll work with rates – rental rates increase. This is an option as we want to increase our activity, be more efficient in cars. So that Localiza gets more competitive and that's the strategy we want to retain. The market of United States is consolidated in Brazil. It's very fragmented in Europe. It's consolidated, so we find an opportunity for consolidation, and but we must grow into that direction without letting go of profitability.

Q - Márcio Prado

Just a comment about your last remark about market consolidation and the behavior of smaller players in this quarter, it is visible in your opinion that this recession has removed the smaller players from the market? When we look at consolidated statistics for 2016, from the point of market concentration, is that visible already?

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

Well, the market is very fragmented, and we don't have that information. In order to make that statement, we would need, really, these figures to be published for the more than 7,500 rental companies because five or 10 have closed, it doesn't mean that all of them would be going the same direction. What I can say is this was a predictable crisis since 2008. Localiza last year got ready for this most tougher moment. We improved our cash

generation. We got ready to grow when it was the right moment. And now, in the last two quarters, we've been growing, which is a result of this discipline and execution focused on results, and make the most of these opportunities for organic growth. And this is about diluting fixed cost and becoming more competitive. So, we are delivering good results despite recessive or recession environment.

Q - Márcio Prado

Thank you.

Operator

Next question from Lucas Marquiori, Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. In the Seminovos segment, we understand that the volume of sales recovered also because now car manufacturers are delivering cars on a regular rate. Is there an increase in the used car market? Because the luxury is still – the volume was one of the highest since 2015. In addition to this, is there a better – to the normalization and the delivery of new cars? Is there also a feeling of better sentiment in the market?

A - Operator

Thank you for your question, Lucas. The market of Seminovos is stable. There has been a number in high increase in December 2 (29:36) to third quarter. We have more cars available for sale. But we don't see an improvement in the market. The market is stable. This is a huge market, 2.5 million (29:51) of new cars, and the number of cars we need to sell in the year is not significant for this market.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay. Thank you.

Operator

Next question. Victor from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have two questions. To try to understand the mix, I think Carol mentioned in the beginning of the call that all segments had grown. But what has really built the growth given that, probably, the rental rates were a little bit and replacement is lower than for individuals. So, what was the main driver for such a strong change in the mix in the third quarter so that we can understand how the mix will be from now on. And the second rate is regarding the utilization rate. Can we consider that the profitability of this utilization rate above 70%, 72% is much lower than when you keep utilization rates around 70%?

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

Victor, thank you for the opportunity of talking to you. As for the mix, this is the mix that Carol mentioned. There was an opportunity to grow in all segments. There are segments whose utilization rate is higher but they have a lower rate and they probably grew more. And this causes the average rental rate to drop off bit (31:57). In terms of this remark (32:04) that would let go of profitability, this is not true. Profitability is stable, look at EBITDA margin.

And as for the utilization rate, it is a result of the fact that if we grow more in a segment in which the utilization rate is higher, the average utilization grows as well. I believe that this was your question, right?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Yes. There's always some specific event you'll have a change in the mix?

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

We don't break it down so much for you. All segments had a growth but one of them with a lower average rate, really, boosted - had a more - grew more than others and therefore, decreased the average rate.

Q - Victor Mizusaki {BIO 4087162 <GO>}

So, can we consider that from now on, this would be the new mix of revenue for Localiza?

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

On the short-term, yes, it tends to be. It also depends on how the economic activity will change. Each segment has a different driver, so let's see how the economic activity will impact our segment. There's a seasonality, high season, low penetration in some segments, and that could also increase.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

A - Operator

Next question, in English, from Stephen Trent.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning - excuse me - good afternoon rather, Roberto and Maria Carolina. Just some very quick ones for me. The first is getting back to the car rental fleet. One, when we think about the third quarter, was any of this growth planned around incremental demand, stemming from the Olympic Games? And two, how do you feel right now with respect to where the average age of your fleet is versus where you want it to be? And those are my first two questions.

A - Operator

Well, Just to explain. Stephen has two questions. One, about the growth in Car Rental rates in the third quarter due to the effect of Olympic Games. And the second question is about the average age of the fleet. Thank you for your question, Stephen.

The things that happened at third quarter were significant, were relevant. The Olympic Games brought additional volume. As for the average age of the fleet, we'll look at average age of full cars (35:18) which is the figure that makes sense to check. This age had increased a bit in the second given the fact that we received new cars. In the third quarter, the average age was reduced because we received more new cars and we could accelerate the sale of decommissioned cars. So, the average age is dropping a bit.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great. And just two other quick follow-up questions. The first is, when I think about your large suppliers balance and the advanced payments you made, any color on how much extra financial income you generated off of that in the third quarter?

And then finally, how should we think about your long-term strategy in maintaining floating rate debt versus fixed rate debt as you - last couple of years of some fixed rates?

A - Operator

Could you repeat the last question because we got cut off and I couldn't listen to it pretty well?

Q - Stephen Trent {BIO 5581382 <GO>}

Sure. No problem. The second question pertained to your use of fixed rate debt versus floating rate debt. So, on a long-term history, you were almost all floating rate, but then in recent years you've had some of your debt fixed rate. And just wanted to get a sense of to - how you're thinking about the most favorable mix of floating versus fixed over the long term?

A - Operator

Thank you for your question, Stephen. Okay, this was about how much financial revenues came due to advanced payments to suppliers. And the second was about if we had a new (37:30) strategy for long-term fixed rate and floating rate debt?

And for the financial revenue, we were able to invest funds in a better condition than the loan rates. So, usually, we use the CDI as the index. We were able to invest at rates above 110%. So, whatever we could get, BRL 2.5 million above this cost. So, this was the gain we had for paying in advance.

Q - Stephen Trent {BIO 5581382 <GO>}

Got it. Understood. And on the second...

A - Operator

As for your second question, we will work with fixed rates with the deck of fleet management. And versus the long term, we don't want to incur the effects of interest rates for pricing contract, so in terms of fixed rates and floating rates.

Second is effect. (38:45) We don't want to take risk or run risks in the long term. Once we establish the contracts for two or three years, I have to have a match in terms of the pre-fixed rate that I used for the rental agreement. This is why we do the swap contracts.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. That's very helpful. Thank you very much.

A - Operator

Okay.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much. Very helpful.

Operator

Next question, also in English, from Edward Friedman; McLean and Partners.

Q - Edward Moshe Friedman {BIO 18251660 <GO>}

Hello, and thank you very much for the opportunity to ask. I was wondering if you can say on how much your cars are being used by Uber, that's one.

Second, if you can please quantify the effect of the Olympics because your rental grew by about 25% for this quarter, which is a fairly high number. I was wondering how much of that you can attribute to the Olympics. And the results, how much is attributed to normal economic growth?

And last, about the depreciation, the depreciation grew 12% during the quarter, so I was wondering if you can give a little bit the moving parts in it, because some of them (40:11) a little bit do not make sense why the depreciation would be so high. Thank you.

A - Operator

Thank you for your question, Edward. So, three questions, one about how much we rent to Uber. To quantify the event of Olympic Games in the quarter and the increase in depreciation that we have in the third quarter, Edward, we cannot disclose the number of cars per segment or for our customer types. But what I can say that Uber is one more channel for Car Rental.

As for the Olympics, in fact, was significant environment, we mentioned that the 25% growth came from the entire segment of Car Rentals. But as for - I think it was not relevant, she mentioned. The increase of depreciation was due to a price of new cars that

are not increasing as much. So, that causes an increase in depreciation. And as we mentioned the release, the depreciation of Car Rentals was also impacted by the renewal of the fleet. We lost a bit in the sales of cars in the third quarter, and these cars were renewed now and we purchased more expensive cars.

Just to add, there is an estimated use for life of the car. When it reaches that number, depreciation stands to zero. When I sell a car that didn't use to depreciate, and now I sell a car that depreciates, the average depreciation goes up. So, that's a more detailed explanation about this last item that Carol answered, said Roberto.

Q - Edward Moshe Friedman {BIO 18251660 <GO>}

Will you be - the number of cars have increased this quarter because, I imagine, partly because of the Olympics. Will you be keeping the same number of cars in the future quarters? Or will you reduce them because now the Olympics is done? (42:29)

A - Operator

Edward, actually, the Olympics was not relevant. It was irrelevant. It did not add the volume of the third quarter.

Q - Edward Moshe Friedman {BIO 18251660 <GO>}

Okay. Thank you.

A - 42:54 <A>

It was a zero growth that came from the Olympics, just to make that very clear.

Q - Edward Moshe Friedman {BIO 18251660 <GO>}

Thank you.

Operator

Next question from Samuel Alves from BTG.

Q - Renato Mimica {BIO 15374054 <GO>}

Good afternoon. This is Renato Mimica from BTG. I have two quick questions. First, about sustainability of these growth rates. Given that on the second and third quarters, we had a growing growth rates and you're showing 20% increase in volume in 2 very tough (43:50) quarters in terms of recession. Is there any reason for us to believe that growth should slow down, since now we have a scenery of economic activity recovery for 2017 and 2018? So, could we think that growth would remain at this level? I understand you don't give any quantitative guidance, but more of a qualitative view.

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

Thank you, Mimica, for your questions. Well, if we compare fourth quarter this year with last year, so when compared to last year, it will grow, but we don't give guidance. As for next year, it's a new scenario with a different GDP, the interest rates would be more favorable as well as the GDP when compared to 2016. So, the macroeconomic scenario, we expect it should be more favorable for next year. But we don't give guidance as to the estimated growth, but the microeconomic scenario seems more favorable than this year's.

Q - Renato Mimica {BIO 15374054 <GO>}

Okay, Roberto. Thank you. And just a follow-up about the next few years, given at the last call you talked about some initiatives to include efficiency and reduce cost will probably show the effects of that by(45:25) 2017, can you give more details about that, or some color around that?

A - Operator

Well, we are working on those initiatives for next year, but we believe it's not interesting to make this information public right now as to what we're doing and how much we want to grow. But we'll be reducing costs, and includes efficiency to maintain the profitability at current levels.

Q - Renato Mimica {BIO 15374054 <GO>}

Okay. Thank you very much.

Operator

The next question is from Bernardo Carneiro from Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Just a follow-up. You mentioned the EBITDA margin of Rent A Car division, we saw a solid growth of 25%. Utilization rate is also very high, but the EBITDA margin of Rent A Car is historically low and remains low. When we look at your release which is very detailed, the that (46:42) margin of 31% is the lowest since 2011. So, although you're increasing in volume, this is not reflected on the margin. I would like you to explain that a bit. I mean, how is the company able to, in expanded ROIC, become profitable but the margin at this level. Is this the lower rate? Do you think that when competition becomes less stiff then Localiza will be able to recover prices and increase the EBITDA margin? What are you doing now to try to increase the ROIC?

A - Operator

Bernardo, you're right. The EBITDA margin has floated. But as for the depreciation - we predictably have (47:31) depreciation and interest. So, we must take into account other costs in order to look at the ROIC. In looking at the ROIC, when the EBITDA was 40%, ROIC for 2016, 2017 - so this is a different scenario, depreciation was different, interest or rather profit margin was different.

So, we'd like to look at all of the variables to be able to work and keep our spread positive without - what I mean also becoming - maintaining our competitiveness and keeping an eye on the long run to maintain the sustainable growth and generating cash. This is very important. And we are keeping an eye on all those factors.

And the leverage is very low. So, we believe there is still some opportunities of growth since those leverages was around 1.6% or 1.7%. So, we have opportunities to grow, maintaining a positive return, and a positive spread for our shareholders.

I would just like to highlight the effect of quality. We'd want to grow but we are now strongly focused. This - on our measurement that we made for Seminovos Rent A Car, fleet rental, not only focusing on profitability, but having customers returning with the satisfied customers and focusing on the heavy users of our company.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Now, going back to the ROIC EBITDA margin, you delivered this cost reduction already, that you started working this year, or is there still room to negotiate on being more effective on mobilization of cars? I mean, is there still room to reduce costs in Rent A Car and recover a bit of the EBITDA margin?

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

Yes. There is room to look for cost reductions and productivity gains. People like to say that costs are like nails. You have to cut them every week. And today, we are focused on utilization rate. Imagine how much we were able to increase productivity with the increase in the fleet. So, we have this focus and opportunities play ahead of us.

We're doing some initiatives that will be fruitful next year. And next year, there are other opportunities we plan to work on.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay. Thank you very much, Roberto, and good afternoon to all.

Operator

Excuse me. This concludes today's question-and-answer session. I would like to invite Ms. Carolina Costa to proceed with her closing remarks.

A - Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

We would like to thank you all for participating in our conference call and inform you that our Investor Relations team is available to answer any further questions you may have. Thank you.

Operator

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

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript