Q1 2020 Earnings Call

Company Participants

- Carlos Sarquis, Head of Rent-A-Car Division
- Luis Fernando Porto, CEO
- Marco Tulio Oliveira, CFO
- Rodrigo Faria, IR Manager
- Unidentified Speaker, Unknown

Other Participants

- Flavia Ozawa, Analyst
- Lucas Laghi, Analyst
- Lucas Marquiori, Analyst
- Renato Hallgren, Analyst
- Unidentified Participant, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning. Welcome to Unidas Earnings Result Teleconference for the First Quarter of 2020. (Operator Instructions)

This teleconference is translated simultaneously into English and questions may be asked normally from foreign countries. (Operator Instructions)

This teleconference is being recorded and the audio will be available at the company's website within 24 hours. In case you do not have a copy of the company's release, it may be obtained at the company's website at ri.unidas.com.vr. Today's live webcast and presentation may also be accessed at the company's website as well.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Unidas management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Today, we have with us Luis Fernando Porto, our CEO; and Marco Tulio Oliveira, CFO and IRO; and Mr. Carlos Sarquis, Head of the Rent a Car Division.

I now turn over to Mr. Luis Fernando Porto. Please, Mr. Luis, you may begin your conference.

Luis Fernando Porto {BIO 17175861 <GO>}

Good morning, everyone. You're welcome to the teleconference of Unidas for the first quarter of 2020 [ph]. Here with me Carlos Sarquis, our Rent a Car Head, and also our CFO and IRO. I will start our presentation on Slide 3 talking about the impacts of COVID in each segment of the first quarter of 2020.

In fleet management, we have had some obstacles in the logistics areas for implementation of contracts signed in the fourth quarter of 2019 and first quarter of 2020 both due to the difficulty of operationalizing delivery and also due to the postponement requests by some customers. As of March 31, we had a backlog of 6,416 vehicles to be delivered.

As our contracts are only billed from the moment of delivery, we had an impact of approximately BRL10 million in the first quarter 2020 revenue which will be added in the coming months as the vehicles are delivered.

In Rent a Car, we had an excellent occupancy rate greater the 80% in the quarter including the first half of March after Carnival. With COVID-19, this occupancy rate started to show slight but daily and constant drops from March 16 reaching around 60% on December 31.

In normalized terms, we estimate that the Rent a Car segment would have performed about BRL13 million more in the first quarter revenue. Since the drop in rental volumes occurred mainly in short-term rentals, which naturally have a higher rates, the average ticket was also impacted by COVID-19.

For app drivers, we started offering smaller mileage packages in the month, also reducing the average ticket. In this segment, we highlight that we started to operate a depreciation rate of BRL2.9 thousand, and it already reflects the new internal expectation of the country regarding the number of vehicles that will be sold in 2020 obviously impacted by COVID-19 as we will talk now about the used cars.

In this quarter, we expected to sell over 20,000 vehicles. With COVID-19, total sales in the first quarter was around 4,000 vehicles less than expected, resulting in an increased in stock to 10%. In addition, the sales mix was also impacted reducing our exposure to the retail channel, which naturally impacted the average sales price.

Taking into account the lower volume and worsening of the sales mix, we estimate that the impact of COVID-19 in used cars was approximately BRL19 million in gross profit in the first quarter of 2020.

In Slide 4, as subsequently and transparently as possible, we opened some unaudited preliminary operating data for the month of April. As we can see, we have not had any significant impacts in the fleet management division, quite the other way around, our lease fleet and our average ticket have increased slightly.

In the RAC, we have maintained practically the same size of the operating fleet in relation to the balance of March 15. The small growth [ph] in the average operating fleet of around 1,000 vehicles is due to the growth in the fleet throughout the first quarter of 2020, making its average slightly lower.

As you can see, there was a reduction in the leased fleet to just over 36,000 cars, resulting in an occupancy rate of 55.9% supported mainly by long-term contracts. Since the average operating fleet has remained practically stable, occupancy rates are fully comparable.

About the average tariff as I said, we have greater weight of the price practiced in long-term contracts making the April tariff 51.1%. The sales volume has been lower, representing about 20% of what was programmed by the company before COVID-19. There sales are carried out in both the retail and wholesales channels and we have experienced 100% online sales practices.

In terms of service network, we currently operate with some stores closed both in RAC and in used cars. In stores that are still open, we are seeking to provide more safety and convenience-y [ph] to our customers with the delivery car service and 100% online service.

In Slide 6, we comment briefly on the scenario of new and used vehicle sales as shown in the graph above. Brand new sales in the first quarter decreased by 8.2% year-on-year, reaching around 530,000 units sold.

The brand new vehicles sales has shown, according to our perception, an increase in the prices in the order of 2% to 5% in line with what we already expected. The used vehicle sales market decreased by 5.5% with a total of 2.36 million vehicles sold in the first quarter of this year.

The bottom-left chart shows that we opened the used vehicles by age sales information. It is important to note that this graph also includes the sale of heavy commercial vehicles and motorcycles. This being the only opening of used vehicles by age that is publicly available in the market.

The graph shows that the market for vehicles up to three years of use showed decrease of 6.9% in 12 months and we reached a market share of 3.17%.

In Slide 8, you can see a balance of 169,149 vehicles, and this is explained by the expansions we had in our lease services. The demobilization fleet totaled 16.8 thousand vehicles in the first quarter of 2020 and corresponded to 10% of the total fleet. If the company did not have the impact of 4,000 vehicles less in the sales volume of the first quarter of 2020 with COVID-19, we would have in stock about 12.8 thousand vehicles representing 7.6% of the total fleet representing a range of 7.5% to 8.5% in the stock.

And then in Slide 8, the investment in fleet of the first quarter was lower compared to the first quarter of 2019 due to the momentary problems caused by COVID-19. Since we had a reduction in rental volume and usage vehicles that remain rented reducing the need for fleet rotation. We also have a relatively high stock of used cars due to the cooling demand for used cars.

Now on Slide 10, we will talk about our latest acquisition, Zetta Frotas. With more than 22 years of experience totally dedicated to the segment of special vehicles, Zetta has a fleet of 2,600 vehicles in eight Brazilian states. We estimate that this market is 567,000 vehicles of which there are a larger number of owned fleets. This is explained by the limited scale that the rental companies that operate in this segment have.

Additionally, this acquisition means to Unidas another boost in the growth of fleet management revenue in 2020 in parallel to the generation of several operational and financial synergies in the midst of a highly specialized segment which increases the barrier of entry of competitors.

Also, we already have CADE's approval to proceed with the conclusion of the deal which should start contributing to Unidas results in the third quarter of 2020 under the name of Unidas Special Vehicles.

In Slide 11, we can see a growth of 5.8% growth in 12 months in the volume of daily rates as a result of the record of new hires quarter-after-quarter both for customers who already outsourced their fleets and for customers who started to outsource them for the first time in addition to the high rate of renewal of existing customers.

We point out that in the first quarter of 2020, two trucks contracts were terminated, and the management understood that it would not be healthy in terms of return to practice the prices offered by the market. These contracts were more than offset by the entry of other contracts with a more concentrated fleet for file in light vehicles, which naturally resulted in the change of the mix of the average tariff.

Even adding this to the constant reduction in the base like [ph] interest rate, we still managed to show a slight reduction of 2.1% in 12 months in the average tariff of the segment. As a result, the net revenue from fleet management presented an annual growth of 3.9% totaling BRL292.4 million.

As already mentioned, although COVID-19 did not have significant impacts on fleet management, it brought challenges to the implementation of the high number of vehicles contracted in the last two quarters, which in terms of revenue, generated an estimated impact of BRL10 million in the first quarter of 2020 which will be billed in the coming months as these vehicles are deployed.

In Slide 12, we show this more specifically. In the upper graphs, we can see that the total global value of the new lease agreement signed in the first quarter presented a new historical record for the company. When it reached the amount of BRL306 million with the hiring of 5,954 vehicles. both data represent annual growth above 100%.

We want to highlight some important points on this topic. First of all, as already mentioned, a good part of these new hires have not yet been implemented, and this explains the discrepancy between the growth of new hires in comparison to fleet management revenue.

Number two, the revenue generation in this segment will still be greatly benefited by the entry of 2,600 vehicles from Zetta, which in 2019 generated revenue of more than BRL100 million. The excellent news is that in 2020 and in partnership with Unidas, we have already signed new special fleet rental contracts for a total of 1,900 vehicles under the global amount of BRL358 million to be added to revenue this segment in this coming quarters. We definitely could not be happier with our new acquisition.

On the left side -- on the lower left side, we see that commercial pipeline totaled 45.1 thousand cars having been maintained since the second quarter of 2019. The average utilization rate for the operating fleet ended the first quarter of 2020 at 97.8%.

In Slide 13, we talk about the used car division. Revenue in the first quarter of 2020 was BRL615.2 million with an increase of 17.4% in 12 months due to the expansion in the number of cars sold in the same proportion at the slight increase and an average sale price of 0.7%. As already mentioned, COVID-19 had an impact of about 4,000 vehicles on the volume and greater exposure to the sole -- wholesales channel thus impacting the mix of the average sale price. With this effect, we estimate an impact of BRL19 million on the gross profit of used cars in the first quarter of 2020.

In Slide 14, we can see our used car store network. Seventeen of our own retail stores were added in 12 months. On a consolidated basis, the used car store network was expanded by 22 stores or 23.7 compared to the first quarter last year.

I now turn over to Carlos Sarquis, Head of the Rent a Car Division to present the company's results in this segment in more details.

Carlos Sarquis {BIO 20060508 <GO>}

Thank you, Luis. Good morning, everyone. We now move on to slide 15.

We reached a new record level of RAC daily rates for a quarter by performing a robust growth of 41.8% in just 12 months even with the impacts of COVID-19 from the third week of March. If it wasn't that we estimate that the expansion of daily rates would have been around 50% in the same comparison supported by the strong demand for leasing of all types of customers and the investments made by the company in the segment.

For the occupancy rate, on the lower left graph, we had a decrease of 4.8% points in 12 months exclusively due to COVID-19. Without this impact, we would have shown an increase -- I'm sorry, in the occupancy rate in the same period.

In more details, the first two weeks of March already after the period of high seasonality of Carnival, we performed an occupancy rate of 81.2%. In other words, we peaked weekends far above that as already mentioned by Luis.

We started observing a continuous and daily reduction of this rate reaching 60% on March 31st. Since April, this rate has stabilized between 55% and 60% with impacts concentrated on short-term leases. This change in the mix also contributed to an average daily tariff of BRL70.6 in the first quarter in addition to the pass-through of the fleets [ph] drop to final customers.

On Slide 16, the first graph shows the evolution of RAC, net revenue excluding franchises totaling a record amount of BRL289.8 million in the first quarter, which is 35.4% higher than the first quarter of 2019.

Without the impact of COVID-19 of approximately BRL30 million in this quarter, the expansion of revenue would have been above 40%. On the chart below, the number of owned stores grew 24 stores in 12 months, of which 19 stores were added only in the first quarter.

I now turn over to Marco, our CFO and IRO to comment on the financial results.

Marco Tulio Oliveira {BIO 20387521 <GO>}

Good afternoon, everyone. Thank you, Sarquis.

In Slide 18, we present the EBITDA evolution and the margin. Consolidated recurring EBITDA in the first quarter of 2020, we had a record level of BRL313.2 million representing an annual growth of 8% in 12 months explained by the expansion of EBITDA by 27.6% in car rental and 3.7% in fleet management.

In the first quarter of 2020 the fleet management EBITDA margin was stable at 64.5% due to the strict management of our costs and expenses fully mitigating the effects of the reduction in the basic interest rate and in the change in the mix vehicles. And in addition, if we did not have the impact of COVID-19 in the development of -- sorry, in the deployment of vehicles, we would have generated operational effort [ph].

As to the Rent a Car segment, the 42.2% margin decreased by 3% points in 12 months and this was due to the impact of COVID-19 and the greater long-term investments such as stores, personnel and sales expenses.

In used cars, the EBITDA margin was negative by 0.6% due to the impact of COVID-19 especially in the number of vehicles sold below expectations to simply dilute the fixed expenses of this aspiration.

As already mentioned by Luis, we are increasing the annual depreciation in Rent a Car segment to 2.9 thousand per car, which already takes into account the impacts of lower operating leverage with the reduction in the used car sales volume in the rental channel imposed by COVID-19. And that we believe will be sufficient to protect the sales margins of these vehicles at positive levels in the mid and long-term.

In Slide 19, the recurring consolidated EBITDA totaled 170,8 million [ph] in the first quarter, which is 8.4% lower mainly due to the increase in the depreciation of RAC vehicles and the depreciation of other assets with the operating of stores.

Now, in Slide 20, the recurring net financial expense totals BRL70.2 million in the first quarter, which represents an annual drop of 16.8% while its representativeness in relation to the net revenue reached the company's lowest historical level of 11.8%. 29.3% lower than the 16.7% in the first quarter of 2019.

This result was enabled by intense work that has been done in the last couple of years to reduce the spreads of the company debts in addition to the contribution of the consecutive reductions in the basic interest rate.

Now, the chart below shows the evolution of consolidated recurring net income, which reached BRL79.6 million in the first quarter. Without the impacts of the pandemic and operations and the need to increase depreciation as already explained, we estimate that the profit for the first quarter would have been approximately BRL100 million.

In Slide 21, we can see the spread of the ROIC in relation to the average cost of debt was 5.1% points in the first quarter despite all of the impacts of the pandemic.

For the first quarter, we want to highlight that even though we have these impacts, the relationship between the ROIC and the cost that reached its highest level 2.52 times and 11.5% growth in 12 months supported by the maintenance of fleet management margins and reduction of the cost of debt.

In Slide 22, we can see consolidated gross debt of BRL4.9 billion of which 92.4% is due after 2020 reflecting the conservative policy of extending and improving the post debt profile AAA.

In terms of liquidity, the company has already contracted two debt contracts within the context of the pandemic. One in March in the amount of BRL252 million with a term of four years and CDI costs of plus 0.82%. And another one in April in the amount of BRL300 million with a term of three years and cost of CDI plus 3.0%.

The company's pro forma balance of cash and equivalence with this April issue is approximately BRL1.5 billion. I highlight that today May 21st, the company has not had much change in relation to its balance. And finally based on the results of the management to lengthen its debt profile and strengthen its level of availability, at the end of March, the pro forma cash was equivalent to 74.4% of the debt due by 2022.

I now turn over to Luis.

Luis Fernando Porto {BIO 17175861 <GO>}

Thank you, Marco. Before moving to our Q&A session, I would like to make my final remarks. I would like to thank first of all our 3,558 employees who have been essential for the continuity of our operations even in such difficult times as COVID-19. We will continue to care for them offering safety for the performance of their duties. To our employees who are at the frontline of our operations, we owe our thanks. Without them, we would not have had such consistent results even in the midst of this scenario.

I would like to make it clear that to our investor -- to our equity investor and debt that the entire company is united and engaged in overcoming any stress scenario that we may have.

Unidas is a company that is leader in the fleet management in Brazil with the most diversified portfolio in the market renting from a basic to have a car for all types of segments including agribusiness and special vehicles, which are in high demand today.

It is the second largest car rental company in the country. It has rating AAA, which was even maintained during the pandemic. Its assets are extremely liquid. It has a very healthy customer base. It is more concentrated in the fleet management segment which gives us greater predictability of cash flow in times of uncertainty like this.

Number seven, it has a valuable brand that is widely recognized by Brazilians. Number eight, it has proven expertise from those who have been selling used cars for over 25 years. Nine, we were skilled and assertive in all of the MRAs that were done throughout our history. Number 10, we have a board of director that includes executives who are either charter members of the companies that were acquired or merged or are shareholders of the company with long-term share and vision [ph].

Eleven, we are cash generators. Number 12, we have a robust cash balance. Thirteen, our short-term debt is extremely low. Fourteen, we continue with wide access to debt market which proves the market's confidence in our company. Number 15, Unidas is one of the best places to work in Latin America. Sixteen, we're sustainable. Seventeen and finally and perhaps most important, we were shaped by the difficulty of a competitive segment where we have had strong growth in recent years.

For these reasons, we are convinced that we'll be even stronger at the end of this crisis and those with us will witness organic and inorganic opportunities that will work focused on taking advantage of charter [ph] shareholders, we reaffirm our commitment to generate value in total transparency to our customers. Thank you for trusting in our work. For those who need it, I, Sarquis, Marco and the entire Investors Relation team are available to the market.

I would now like to open our Q&A session. And I thank you all very much.

Questions And Answers

Operator

Ladies and gentlemen, we're now going to start our Q&A session. (Operator Instructions).

Our first question is from Lucas Marquiori from BTG Pactual.

Q - Lucas Marquiori {BIO 17907247 <GO>}

I wanted to ask your questions about the results for the first quarter. And then I would like to learn something about the long-term strategy.

Regarding the results, this increase in depreciation calls our attention and we also have some comments in terms of protecting the company. I would like to know whether you have had any effects because you had some relevant results in the past few years. And I wanted to know whether that has had an impact on your used car segment and if you have reviewed the opening of new stores this year.

And the second question regarding long-term strategies and Zetta, I wanted to understand the scenario a little bit better regarding the competition and the possible challenges you may face. I wanted to know if you will have any M&A consolidation and if you see any marked differences in the future. Thank you.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Well, we thank you, Lucas. Good morning. It's a pleasure to talk to you.

The increase of depreciation does not have any further impact for our network of stores or expansion. This is something that was in the past and our expectation was to sell more than 20,000 cars, close to 21,000 cars, perhaps 2,500.

This impact is very harsh. In the last days of the quarter with a significant sales decrease and we had no flexibility with our expenses. So, we basically went from the revenue line and gross profit and removed that from the last line. That's all.

Regarding depreciation, there are three things that had an impact on depreciation. First of all, sales volume. Number two, a channel mix; and three, the depreciation rate.

What led us to go to a much higher level than estimated is the sales expectancy in terms of volume this year. In terms of price, we are performing identically or even better than we were before COVID. We're not concerned about prices.

Brand new cars had an increase from 2% to 4%. We are discussing it with the industry and know that the prices will go up. They will produce less and also we have to take into account the cost of cars, basically based on the significant increase in the dollar rate. So if you have no price increase and you have a volume problem, you need to address depreciation.

So the impact was the increase in depreciation because we expect to have lower sales. The only problem we have today is when this volume is going back to sufficient levels so that we can cover the expenses with car sales. And, of course, that has impact on the rate. Depreciation rates, I'd like to remind you, is a cost that may eventually come back. We will only know at the moment of sales what the actual depreciation rate is going to be.

We have been very conservative indeed. We chose to be so in times of uncertainty and then for us to decrease this level, we have to know what the sales volume is going to be and that depends on when we are going to unlock and be able to open our stores. Most of our stores, as disseminated, are closed. We cannot meet the clients' needs be it by having online services, but it's not the same thing as when we have open stores.

So it has to do with depreciation, it has nothing to do with the network. It's much more an expectation to sell less cars for a long period of time, and regarding Zetta and the M&As. We've always said that we really like and we know have an internal mechanism to be able to have this type of M&A, more specifically talking about Zetta, we're even happier.

It's not only one M&A. It has to do with a new segment, the partners of Zetta are with us in this business. The managers, the director of the business unit, which is Unidas Special Vehicles, which is the former owner and partner of Zetta and today is a partner with us and our business, so that we have a huge segment that we did not have the technical ability to participate in when we are at risk of not being able to make money and we do not like to go in markets that we are not familiar with unless we have the knowhow, the expertise to do so.

So if eventually we have something going for a good price for Unidas, we will continue doing so. We have the experience and the ability to do so.

As I told you before, since March 22nd, Unidas has operated normally, of course, taking into account all of the precautions required but the liquidity, processes, cash condition, and generation, all of this has been reapproved by our board since the end of March. And now in April and March, we were prospecting and carrying-out our business as usual. We can move on with our business at this very harsh time of COVID.

Operator

Well, the next question is from Lucas Laghi, Santander.

Q - Lucas Laghi {BIO 20757425 <GO>}

Actually we have two questions. The first one is a follow up regarding depreciation of RACs and I wanted to understand the difference between 2019 and 2020. Was it strictly related to COVID and depreciation after the second quarter in March or could you consider that it increased gradually throughout the quarter with higher levels in the second quarter? And then, in the second quarter, could we expect a higher depreciation? Once you answer this question, I will ask you the next question. Thank you very much.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Well, I thank you, Lucas. We had already informed at the end of the year and, at the time, we had our follow on that this year we understood that the market would demand higher depreciation. We estimated an increase of approximately 20% to 30% for 2,400, 2,500, or 2,600, this was all within our plans. So we would have BRL300 or BRL400, which represent the impact of COVID. So it's not all due to COVID.

We had -- we already had clear indications that the volume of cars that we would sell and we would still have an expectation of zero increases in brand new cars or at most the inflation, if your inflation rate does not go up, of course, used cars remain stable or the price goes down a little.

So we had about BRL400 or BRL500 resulting from the increase in the number of cars and also a scenario where there was no increase in the prices of brand new cars. And another BRL400 -- BRL300 or BRL400 resulting from the COVID effects. And I will say, once again, this is all a result of the lower sales volume and not prices because today we have a scenario of prices which is better than in December, according to my opinion, because the price of brand new cars will go up indefinitely, the used cars scenario will be even out or even to increase a lot of it because of the information that we have currently available.

Further increases throughout the year, we do not believe that will take place. There is no reason for that unless we have a third quarter of lockdown or something even stronger instead of having an upward curve. So if the projections are correct, in the second quarter, we will still be locked down with low sales, but the third and fourth quarters will resume sales. If this happens then we don't really need to have any increases in depreciation or further depreciation than what we are already discussing.

This is how we operate usually and we're not changing our concept. We work with deprecation rates based on annual values and so if the current scenario remains as it is, these are the figures we're going to use through the end of the year.

Q - Lucas Laghi {BIO 20757425 <GO>}

Okay, perfect. So this is what I wanted to know. I wanted to know whether this amount was related to pre-COVID factors or after COVID.

Now switching gears, you said that there was an increase in your backlog because of the challenging logistics. It's difficult to predict under the pandemic, but how do you see the backlog revenue consolidation? Because in -- we talked to you in April, okay, then later the scenario totally changes, I know, but how do you see now in May your revenue and the backlog?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Thank you. Lucas, this is very difficult, you said so yourself. We're living in a situation where today you send something to the client, the client confirms the receipt, and then an X estate blocks the roads and does not allow your car to go on. So we're going through very harsh times and this is something that used to flow really well.

But I will tell you that 30 to 45 day delays is what we are experiencing. It has not been different, especially in May. In April, it was a little bit more difficult but in May things have started flowing better.

For example, Fiat. Yesterday, their plant started operating again and when they do so, you have new cars coming in and then the -- Fiat is a large company in terms of logistics. So 30 to 45 days is what we expect to have in terms of delayed deliveries. It's difficult to give you an accurate time but this is what we've foreseen.

Operator

Next question is from Renato Hallgren from Banco do Brasil.

Q - Renato Hallgren {BIO 17989415 <GO>}

I have a question regarding price and tariff dynamics in GTF [ph]. Not only the tariff dynamics, but I also wanted you to comment a little bit about the strategy that you're going to use as of this new segment entry, Zetta.

You shared data regarding the truck contracts which were not renewed. First question is, taking into account the renewal of these two truck contracts, what would the tariff decrease have been?

The second question is, how do we perceive the tariff dynamics by analyzing Zetta's inclusion only or a possible reduction in the truck segment? I want to understand what the relevance is of the trucks for Unidas' portfolio and also how -- what is the relevance of Zetta in the future portfolio of the company. Thank you very much.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Thank you, Renato, for your question and for your participation.

Number one, you said it very well. Zetta is a segment that works with very hard tariffs. They have customized vehicles that require more investments so in itself, our tariffs will go up.

Regarding the trucks and their relevance for the business today, it is very low. Today, we have something in the order of 1.5% to 2% of our fleet billing due to trucks. So this is minor in the company.

Also, as you said it, just as it happens with the truck contracts, we have a pricification [ph] committee. It's very strict -- or the fleet margin is very strict. We work with a pricification dynamics that has been used for a long period of time. We have had difficult times of pricification that enabled us to learn a lot. So whenever I have a contract whose minimal margins accepted by Unidas are not reached we would rather lose the contract.

And then I will ask Rodrigo to share more accurate data with you so that we can inform you what our tariff would have been if these contracts had been renewed. We can check that and try to calculate it to share with you.

But, of course, a truck contract is always in the order of 7 -- 6,000 or 6.5 thousand of the average ticket and the regular cars would have 400 or maybe a little bit less. The relevance of Zetta is in the order of 8% of our billing with average tickets that are much higher than for normal vehicles, therefore our tariffs will go up in the next semesters when Zetta comes in.

So this is what I wanted to share about the relevance of trucks. I don't know whether I covered all of your needs.

Q - Renato Hallgren {BIO 17989415 <GO>}

No, that's perfect. Okay, I get it. I get the answer about the truck percentage and Zetta's relevance. Thank you, Luis.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Well, I thank you. We remain available.

Operator

Our next question is by Victor Mizusaki from Bradesco BB.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have two questions. The first one is about the fleet management and the difficulties faced because of COVID. Considering a recovery scenario, it seems that fleet should have an accelerated growth. I wanted you to comment what your new business prospecting is right now, and if perhaps in terms of credit approval, that should have a higher impact since small and medium sized companies will try to have some cash available and transfer contracts to you.

The second question is related to the general assembly and authorized, and at the same time, there is a proposal to increase the rental for machine and equipment. To complement Lucas' question in the beginning of the call, in this normalization scenario are, will the segment become more relevant, okay, can you tell me a little bit more about this sector?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Good morning, Victor, thank you for your questions. Regarding fleet management, today, you have a scenario deck, as amazing as it may seem, we have been able to close deals. This is a business that suffers a little bit less and we still have ongoing businesses.

And why so well? Because we have segments and regions in brazil which are still operating normally. We have agri business as irrelevant [ph]. Area, we also have so regions in the Midwest which are operating normally.

The inner parts of Brazil which are very large, and therefore it is an advantage to have a country-wide business. Of course, we have the disadvantages when we have heavier overall impacts, but new businesses are still going on, of course at a much lower level than we would like it to be and then what we had anticipated, but we do still have business ongoing.

Credit approval hasn't changed. In the last six years, we had a new situation in our credit policy in one of the lowest PBDs [ph] in the market. This policy has been stable and constant ever since. Of course, it becomes more complicated now. We know that some companies will suffer more, we have intensified the way we analyze credit, and what we see is that new business transactions have gone down, not only because of credit issues but because of a perception of less investments and that companies are more careful at times of uncertainty.

So in terms of outsourcing and credit approval, this is what I had to say now [ph]. I will turn over to Marco, but regarding machine and equipment, when these special vehicles were taken into account and also in agri business, some clients need to, in addition to in the trucks and to the cars, they need to have some specific details to complement services and we tried to aligned so that we could meet our client needs.

Nothing is really relevant and we are not focused and interested in the market and equipment segment, but for example, if you have a client that has 300 cars and they need to have a special machine, we can from now on, meet the client's needs with special vehicles and also in agri business. But nothing that we will focus our activities or change our concept.

Unidas has a 360 degree vision. For car rentals -- car and truck rentals, we like to have every product available for the client, be it a legal person or a legal entity.

And regarding the increases, I would rather to Marco.

Marco Tulio Oliveira: Good afternoon, Victor, it's a pleasure to talk to you and I thank you for your question.

Regarding capital, I think that if we look at the company's history, we know that the company has always done everything according to the bylaws with different limits between what was consolidated in the authorized capital.

And because of the last [ph] follow-on in the last few years and the valuation of shares. We understand that doing an assembly or an extraordinary assembly where we discuss these things, we should have a comfortable limit as we've done historically in the company when it's already approved by the partners and authorized by the assembly.

And so since we have an extraordinary assembly, we discussed these items, but we do not have any expectation of integralization [ph]. And then when we have an extraordinary meeting, we discuss extraordinary topics as we do historically in the company.

Operator

(Operator Instructions) We have a question from Flavia Ozawa from Eleven Financial.

Q - Flavia Ozawa {BIO 20645403 <GO>}

Good morning, everyone, thank you for accepting my question. I want to ask you about the fleet. I wanted you to comment a little bit more about the dynamics of this asset. Number one, in the purchase. I wanted to know about the scale of vehicles or because it's a specific topic, do you have scale and also, when you have sales, what is the dynamics of this type of asset? Thank you very much.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Well, we thank you, Claudia, number one, we have the same vehicles used in the fleet management. What changes are the customizations and adaptations they require, and so that is why we did not work with this kind of business because it demands customization expertise, Zetta. In addition to having this expertise, it has workshops that do some of these adaptations and, therefore, scale is very important. Unidas will buy the equipment and Zetta carries out the customization.

The gain for us right now is the expertise that we did not dare to use or to work within the past. Zetta has this expertise and sometimes it transforms these cars. This is the gain in scales in terms of purchased.

Now regarding the assets turnover, we have their expertise. When the car is returned in the end, you can discard it with the equipment. In this case, Zetta reuses some of the equipment. It does have the expertise in terms or preparation, customization of the vehicles as well.

In most of the cases when the vehicles are returned, they remove the equipment and therefore the turnover is more or less the same, and some cars go directly to auctions because they are used for a longer period of time and then only the sales channel is possible. So things will remain more or less as they are right now. If we have somebody who has an expertise in the customization process.

Operator

The next question is from Lucas Marquiori from BTG Pactual.

Q - Lucas Marquiori {BIO 17907247 <GO>}

I wanted to as a quick question to Luis and Sarquis. In the long term, there is a discussion on whether the sector will have a migration of collective transportation, subway and busses. We've heard of passengers in the U.S. exchanging airplane tickets and opting to drive, also shared cars. I wanted to understand a little bit about these dynamics and to have a discussion of this trend and how you see this. Can you give us any light on it?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Hey, Lucas, we thank you for your question. I will turn it over to Sarquis for him to answer your question.

A - Carlos Sarquis {BIO 20060508 <GO>}

Hello, Lucas, good morning. If you take into account the number of daily rentals, we have higher figures than we did last year, despite of the crisis we're going through. We have seen increases year over year. Of course, there was a decrease in our tariffs to BLR61 approximately, but I see that the market was growing amazingly. This inertia remained despite the crisis we're going through. The market still has a lot to grow. The whole sector has a very low number of stores when compared to other countries in the world.

What we see in other countries such as the U.S. enterprise and what we see in other areas as well is that in countries where the recovery or the return to normal economy, we have seen an accelerated increase in sales. Not back to what it was in the past, but for example, China has increased in the number of reservations; they have more reservations now than they did last year in China for the same period of time.

So in the short term, we will benefit from people who will avoid public transportation, using their own cars. We already see that going on, and this will be intensified when we conclude our lockdown, we'll see a higher number of people willing to rent cars to avoid public transportation, at least for a certain period of time.

In the app channel, we've seen a decrease in demand, but it is still relatively robust. I believe that when the lockdown is over, we will see reasonable growth year over year. I know that people may be afraid to use this channel, but it is a lot safer for you to get an Uber than use the subway or a bus.

We're working together with apps to increase safety and safety perception in a car; eventually using some kind of isolation between the driver and the passenger. You also commented that some people will perhaps prefer for shorter areas, do it with a car instead of a plane. This will happen the short term, but I believe that in the long term, the world will go back to a very similar lifestyle to what we had five or six weeks ago.

Operator

(Operator Instructions) The next question is from webcast.

A - Rodrigo Faria {BIO 16684331 <GO>}

Good morning, everyone, Rodrigo Faria speaking. We have some questions from our internet demand. I'm going to read and our board of directors is going to answer [ph]. We have a legal (inaudible). He asks, Sarquis, could you comment about new demands that came up during the pandemic? What were the new demands that are being explored in a new opportunity for growth?

A - Carlos Sarquis {BIO 20060508 <GO>}

Pedro [ph], thank you very much for your question. Two new demand sources have come up. The first one is that we can see there has been an increased demand from individual persons. We see a trend where some people are concerned about using public transportation, and they're looking into location for a few months. Do you think that that will be beneficial to us because somehow it will enable us to have more and more clients?

Another demand was that we had some companies concerned about the health of their employees because of the type of activity, they should continue working during the lockdown, trying to rent cars to offer safer transportation to their employees, for example.

For our employees at Rent a Car, actually for the company as a whole, not only Rent a Car, the employees who have to continue going to their workplace during lockdown, we offered the opportunity to use our own cars so that they could come and go safely. We were not the only ones doing that, different companies have done so. So this is another demand that we have observed, and it's based on the situation with the pandemic.

A - Rodrigo Faria {BIO 16684331 <GO>}

Well, thank you, Sarquis. Pedro asked another question about Rent a Car. He asked if we could comment whether the number of uses of apps have decreased?

A - Carlos Sarquis {BIO 20060508 <GO>}

No, the sectors that suffered the most during the pandemics, the demand that went down the lowest, was the demand from event [ph] rentals, be it individual, legal entities. We have a lot less cars circulating, we have had less accidents too. And with less accidents, you do not clearly need to use a reserve car. So, the income from apps has increased in April.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you very much, Sarquis. We have a last question from Pedro. He asks Luis, could you talk again about RAC depreciation, you commented that Unidas already expected an impact because of the pre-COVID scenario. So how is the increased depreciation distributed based only on the impact of COVID-19?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Thank you very much, Pedro. You understood it well. We needed to have BRL400 or BRL500 to compensate the increase in the numbers of cars we're going to have in 2020.

And, of course, we would have a higher mix concentrated in the whole sales, and not in retail. And the increase we anticipated and the prices of brand new cars with an impact on used cars, but the inflation rate was very low. And with COVID, we wanted, or we preferred to add BRL300 or BRL400 because there was a decrease in the volume of sales projected.

So, this corresponds more or less to BRL500 or BRL600, which was already within our figures and BRL400 additional because of the lower sales volume due to the pandemic. So this is the rationale. Thank you.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Luis. We have a question from Rodrigo Borselis [ph] from D.R. Vert [ph].

Q - Unidentified Participant

Good afternoon, could you breakdown the RAC revenues focusing on Uber. I also wanted to have a breakdown on fixed and variable expenses, costs and expenses.

A - Carlos Sarquis {BIO 20060508 <GO>}

Rodrigo, thank you for your question. We do not breakdown for the channels, but similar to the answer I gave Pedro, all monthly leases in Uber have become relevant in April. What went down the most were the short-term leases, and that's why our ticket in April was -- went to BRL51 in April. In May, we see a reversal of this trend. It's a gradual, and this is a positive sign. We can see the individual persons channel increasing leases for April.

Regarding costs in Rent a Car, I can tell you that approximately 55% of the expenses are a variable and 45% are fixed [ph]. We have worked hard to reduce both, including the variable expenses, with better maintenance, better negotiations.

Part of the rentals also have variable costs, and are part of the revenue. So we also tried to renegotiate or adjust the new reality of these contracts. We've had good results working with a reduction of fixed expenses and variable expenses, trying to decrease them.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Sarquis. We now have a question from Gustavo Morais [ph] from Gatur [ph].

Q - Unidentified Participant

Good afternoon, congratulation for the results. I wanted to know where the impact is on app drivers.

A - Carlos Sarquis {BIO 20060508 <GO>}

Thank you, Gustavo. As I mentioned to you, but with a little bit more information now, in the third week of March, the whole industry had a significant decrease in the demand for this product. There was a lot of uncertainty. We didn't know what the passenger demand was going to be like. A lot of them returned their cars, they tried to understand whether there would be any discounts, but because of this strong reduction [ph], we can see, week over week, an increase in the demand for this type of product. We're doing much better than we were in early April.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Sarquis. We have another question about Rent a Car from Nehan [ph].

Q - Unidentified Participant

Good afternoon, I have two questions. The first one is on car rental. You opened 19 stores, what was the cost increase related to that? What is the cost for a new store? Also, what -- I have a question about the increased depreciation, what is the EBITDA margin in this case?

A - Carlos Sarquis {BIO 20060508 <GO>}

Well, thank you very much, Nehan. These 19 stores are, in general, inexpensive stores with a CapEx and OpEx expenses that are not very relevant. These stores were open in smaller series -- cities or to increase our spread without a lot of investments. But there was a slight impact since these stores have a negative result. And according to our expectations, it takes 18 months for a store to have a breakeven.

And so in the first quarter, the 19 you mentioned, we did have a negative impact. But it is not very relevant for the EBITDA, with 1% or 2%. The highest impact for the EBITDA margin in the first quarter is due to the fact that we had BRL13 million of revenue in Rent a Car due to the dramatic decrease we had in March. That had an impact of 2.5% in our EBITDA margin.

With this addition of revenue, our margin is aligned to that of the first quarter of 2019, even though 19 stores were opened in the first quarter of 2020.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Nehan, thank you very much. This is Luis Fernando, I'm answering your second question about the increased depreciation.

The target, in this case, is still the same the company had in the past. We're going to maintain an EBITDA of 1% or 2% positive in the mid and long-term. And this remains the target after this increase in depreciation.

Operator

Thank you, Luis and Sarquis. We have another question from Christian [ph].

A - Rodrigo Faria {BIO 16684331 <GO>}

Good afternoon Luis, Sarquis and Marco, could you please comment about the strategy to maintain more prices and discipline instead of discounting more prices and using more wholesale and using terms [ph] that your competitors have done. How do you see that balance?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Christian, thank you very much for your question and your participation. Well, number one is since we operate in markets where the demand disappears or goes down 70% or 80% as it happened with the used car segment, according to our experience, we have a situation where for you to increase sales a little bit, you spend a lot of money with prices.

Because in the used car segment, prices have a direct impact on margins, and consequently, on the profit or loss of the business, not only of used cars, we think that in times like this, putting the prices down is not a good idea because you lose a lot more money than you generate cash. So, this is our concept, and we're now saying that selling more cars in a moment like this is very important as long as it does not destroy profitability.

For you to have an idea, if we take 10% of the car value, we would sell twice as much, but we would have losses of 10% over all of the cars sold, and not only on the 1500 that we sell to make BRL40 million BRL50 million extra in cash, but because we always balance liquidity and preserve it, we would rather have business and not cash right now. The cash issue is already solved due to the size and extension of our debt.

Prices have gone down, we will sell, but when you do that and the demand is low, you sell a little bit less and you lose a lot of money. And then, can you imagine what it means to lose 10% in car sales compared to holding the inventory for two, three months, maybe a little bit more, or a little bit less.

So the financial cost, the depreciation cost, and the cost to store these cars is not going to be anywhere near the amounts lost, and therefore it doesn't make any sense to put the prices down. It would make sense if, of course, we sold a car for less and buy a brand new one for a lower price, so that your product replacement made sense.

But this is not the case we see here. The prices of brand new cars are going up, and therefore our cost to buy cars will go up. So, you sell for less, you have a little bit more volume, but then to replace, you will pay more. So we're not talking about the 10% to own it, but the additional amount you will pay for a zero kilometer car.

So, if new cars are going up in price, it doesn't make sense to lower their price of used cars. We do not determine it, the market does. The market is saying that we can sell our next number of cars according to the price we believe that should be there.

The mix in wholesale and retail, well, the wholesale is the one that gets worse first. In retail, we have scattered sales. With wholesales, you depend on stores, on auctions, and everybody is suffering. So it doesn't make sense for you to store inventory if you're not selling. And so, the mix situation also do not work in times like this, quite the other way around.

We need [ph] -- suffered a lot in the past for having a wholesales channel only, now half of our sales have been with wholesales, some with retail, and right now, it supports RACs [ph]. So, we do not really have a way out. When I say that we don't sell, I mean wholesales and retail. Mix doesn't work.

Now let's go on to impairment, your last item. Impairment only makes sense if you have impairment and the inventory. For the fleet, if we have an impairment that means depreciation was not the size it should be.

If you talk about a current fleet, you do what we did just now, you go from 2,000 to 2,900, depreciation will go up and you continue operating. Keep in mind that we're only increasing depreciation because the sales volume went down and this is what generates our margin and our EDITA margin.

For the first quarter, we did not need to use impairment, the management along with our auditors realized a strong decrease in the last 15 days. What did impact our margin and our result but because we would have an -- how could we have an impairment in the first quarter if we didn't know what the price dynamics was, what the sales volume was for the first quarter.

So throughout the second quarter depending on the sales volume and depending on the margin that our used car sales have, we can have an impairment in our inventory. But not in the fleet. And I can't tell you right now whether we'll do it or not because we need to better understand how the rest of May is going to be and especially June, which is a very important month to Unidas, to Brazil and to the dynamics of the market as a whole.

We have good expectations, I can tell you that our sales for April were worse than for May. In May, it has improved. And I believe in two things, today, we have had more movement in the cities which means that people are leaving their homes. Also we start improving our productivity in online sales. In other words, you learn with the process over time and we've now been operating for six days -- 60 days, I'm sorry.

So, I think I have answered your three questions. I thank you for considerations and this is what we believe in and this how we will operate in the future with price dynamic, impairment and channel mix.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Luis, we still have some other questions from the webcast. The next one is from Joe from Oceana [ph].

Q - Unidentified Participant

Can you talk about the product evolution for physical persons? Was there any change during the COVID-19? Also do you have site or advertisement that you're taking into account?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Joe, thank you very much for your question. Unfortunately, we did not see any progression because people or individuals are impacted by the pandemic. This product had a drop even though it's still working as a fleet, it goes down but it does not zero our account. It's still taking place.

We are indeed accelerating our digitalization processes and in early June, we will have a new site which is a lot more responsive, more interactive and easier to hire. And also for the monitoring of this product just as all of the other (technical difficulty).

Q - Unidentified Participant

Hello, are you back?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Joe, I'm sorry our main channel went down. I will go back to my answer. Unfortunately, no. As it happened with the fleet we had a decrease in new contracts. The good news is that we still have some businesses going, we're working actively in the digitalization process not only for this project but others as well.

The good news for COVID is that we found out that home office is a powerful tool if we do a good job. We today work with our teams from home and the performance has been good. We have a lower demand of business which generates more time for business areas and technology so we are advancing very strongly and we believe that in 20 to 30 days we will have new sites that are much more friendly, faster per purchase and after sales of this product.

And therefore, we are very excited and happy about it. We believe that when we go back to normal this will be something that will come a reality as Sarquis mentioned and we have been monitoring in other parts of the world, where they are resuming activities, people prefer to use their cars keeping distance from mass transportation means. And that, of course, this product will be in high demand after the pandemics.

A - Carlos Sarquis {BIO 20060508 <GO>}

To complement what Luis said. These products did suffer the impact of the pandemic. This is a product where people end up using cars for their daily uses, the demand went down but for a monthly products for physical entities offered in Rent a Car that had a robust increase because of the circumstances. And as I mentioned before, we understand that those looking for this product were people who had to keep on going to work and they were looking for safer options than public transportation.

A - Luis Fernando Porto {BIO 17175861 <GO>}

Thank you, Sarquis. This is Luis, we have another question from Luis Alves [ph]. He asked if we could comment what the default rate is?

A - Marco Tulio Oliveira {BIO 20387521 <GO>}

Good afternoon, Luis. This is Marco speaking. First of all, we're going to separate the segments and when we analyze the RAC and the fleet segment. The RAC has prepaid billing mostly and therefore the impact as Sarquis mentioned was lower in terms of default.

Our fleet management had a higher impact. We work with -- we have worked with default since 2018 according to expected losses. So if we look at the first quarter, we have a slight increase, some losses that were already identified in our results. This loss is expected, it may or not take place. And the level we have in the first quarter is a little bit higher, maybe a little bit lower. And this is what we have in terms of expectation.

The main variable in whether that will intensify or not in terms of risk [ph] perception and credit, as mentioned before in the call, will be whether we will leave the lockdown sooner or later. And that will have a more drastic impact on the economy as a whole and on the company as a whole.

The current levels have already been provisioned in the company. They represent a slight increase and this is what we see for the future in our provisions as long as we do not have a much longer lockdown than what we already have.

For the used car segments, a large part of sales or most of them is done cash or prepaid so our exposure to default is very low in the used car segment.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Marco. We now have a question from an individual person. Who says, good morning, is there an expectation from the market that the sales of new cars and used cars after the pandemic will increase? And what is your anticipated scenario? And what do you think the positive impact is going to be on sales levels?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Mauricio [ph], thank you very much for your question. This is our expectation. If the increase in brand new car is significant, it doesn't make sense for a devaluation of used cars. At least to further decreases and we were surprised that the price of cars went up and perhaps we could have a decrease depreciation rates.

So it's a twofold positive effect for us. Better prices for the sales over -- or used cars and also reduction of our depreciation. We don't know whether this will become a reality or not, we will only know once we have reached 60% or 70% of our sales, which we believe to be seeing in the future.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Luis. We now have a question from Frederico for City Lock [ph].

Q - Unidentified Participant

Has there been an impact of increased dollar price?

A - Luis Fernando Porto {BIO 17175861 <GO>}

Yes, thank you very much for your question, Frederico. Car sales has suffered an impact, we're working with discount based on a price list, if the price goes up or price to purchase increases. For the fleet that is transferred to each individual client according to the contract. And therefore, there is no direct impact for Unidas.

Only, of course, if the prices go up too much then the fleet management clients will not choose for this model, but they will have to buy a car and they will buy a more expensive car. For the fleet, this is the impact we foresee.

For RAC, we increased the purchase cost but right now we're not buying cars for Rent a Car because our occupation rate is very low. We will have to see that in the future.

For used cars, if thing go on as expected, we will have an opportunity to increase the prices as well. And therefore, for us, increases in brand new cars is a positive news even though we will have to invest more to buy cars, definitely.

A - Rodrigo Faria {BIO 16684331 <GO>}

Thank you, Luis. We have another question from Gabriella Geatrada from Private Investments [ph].

Q - Unidentified Participant

Good afternoon, everyone. I wanted to know what is your net debt according to EBITDA, do you think that it will go up in the next quarters?

A - Unidentified Speaker

Rodrigo, we have some -- we have had some problems with the connection, is everything okay?

Hello, Gabriella. I will answer, we have a connection problem. Usually Marco Tulio would answer this question. But we have reinforced our cash, we remain comfortable with our cash position and also in other matters. We're working with a good margin.

Good afternoon, everyone, since we have no further questions, I wanted to thank you all for your participation. Once again we are available to clarify any questions you may have. Stay safe, you and your families and I hope that we in our country will be able to move on as well as our company. That we remain strong, as fast as possible we resume normality.

My regards to all.

Operator

Since we have no further questions, Unidas teleconference is now over. We thank you all for your participation and hope you have a good day.