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Bloomberg Transcript

Y 2019 Earnings Call

Company Participants

- Eugenio Pacelli Mattar, Chief Executive Officer
- Mauricio Fernandes Teireixa, Chief Financial Officer and Investor Relations Officer
- Nora Lanari, Investor Relations Officer

Other Participants

- Bruno Amorim
- Rogerio Araujo
- Samir Patel
- Stephen Trent
- Victor Mizusaki

Presentation

Operator

Good afternoon, and welcome to Localiza Rent a Car's Conference Call of the Fourth Quarter of 2019, end 2019. Hosting the event today are Mr.Eugenio Mattar, CEO; Mr.Mauricio Teixeira, CFO; and Mrs.Nora Lanari, Investor Relations Officer.

We would like to inform that the numbers in this presentation are stated in millions of Brazilian real and based on IFRS. The presentation will be recorded and all participants will only be able to listen to the conference call during the company's presentation. Immediately afterwards, we will start the Q&A session for analysts and investors, when further instructions will be provided. (Operator Instructions) The conference call audio and the accompanying page presentation are being broadcasted simultaneously over the internet at www.ri.localiza.com/en. The page presentation can be downloaded at the same address by clicking on the banner 4Q '19 Webcast.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook for the company forecasts, as well as operating and financial targets, represent the opinions and assumptions of the company's Management, which may or may not occur.

Investors must comprehend that political and economic conditions and other operating factors may affect the company's future and may lead to materially different results from those stated in this call.

To start the 4Q 2019 conference, I'll turn the floor over now to the CEO, Mr.Eugnio Mattar.

Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Good afternoon, and thank you all for your presence. The world of mobility is undergoing a profound transformation ride hailing, car-sharing, car-rental between people, peer-to-peer, micro mobility solutions such as scooters and bicycles, the development of self-driving cars and a multitude of investments in vehicles and solutions for transporting people and objects.

We are continuously seeking, answering the questions about the future of our business in this changing environment. Our market has expanded conservatively, with car rental being one of the best responses to the demand of individuals and companies that are changing their habits in paying for use instead of ownership bringing much more flexibility comfort and economy for all of them.

In this context, a new segment was born for app drivers, who have access to cars and maintenance of quality with flexibility of use to be more successful in their work. We once more were the pioneers in developing this new challenging segment, creating conditions that make economic return and quality possible in this segment. Offering a partnership of value for Uber drivers and especially for passengers, who wish to achieve their destination with comfort and safety. At the same time, we initiated significant investments in improving our customers journey offering greater convenience and access, using technology to move in that direction. The digital transformation has also allowed us to improve our operating excellence, redesigning processes, simplifying activities and allowing easier, faster and more efficient management.

Furthermore, at this time of a lower demand for automakers while the country is not growing vigorously, we have also been an excellent solution to stimulate car demands. So they do not lose scale. For the country, we made an expressive contribution with more than 10,000 direct jobs and the payment of BRL691.5 million in taxes net of tax credits and approximately BRL1.9 billion in tax incurred in the car purchases.

The result of our efforts in challenging our team to adapt to this new reality and the context of mobility was the company's performance in the recent years. In four years from 2015 to 2019, we saw our end-of-period fleet almost triple going from roughly 125,000 to around 320,000 cars. An average growth of almost 30% per year for four straight years.

The rental and fleet market grew and we were able to take advantage of our strength to expand and consolidate our leadership. It is important to note that most of this growth came from the most efficient form of growth, which is organic growth. Thus throughout this growth period we managed to expand our already high levels of customer satisfaction and engagement. And lastly, it's also important to note that during this period we maintained our strong value generation indicators.

From 2015 to 2019, we added 4,329 employees to our staff and for such circumstances, we invested heavily to preserve our culture of customer focus with a high performance team building and determination in the search for results. We are very proud of the way our employees act. They think and act like business owners in an environment of hard work, but also that offers a lot of opportunity for professional and personal growth and fulfillment.

The team engagement and motivation indicators are improving year-after-year, a result of our focus in developing leaders that inspire and transform. In this wave of changes in growth, we've also reinforced all our care and energy towards being a company committed to the community with high reputation. We invest and direct our team to care for the social, environmental, risk control, compliance and governance. We have a plural and respectful environment that takes care of diversity in an inclusive and healthy manner.

As for 2019, as you will see in the numbers and information disclosed here, we have grown fleet revenue and results in the order of 30% year-over-year. The numbers speak for themselves, about our purpose with you building the future of mobility, we're very excited with the receptiveness of our customers to the new solutions we are offering and that consolidates our leading role in market evolution.

For the future, we keep our humbleness in the certainty that everything we are doing can be done better and simpler. For this as always part of our margin is invested in building the skills of a future with a lot of entrepreneurial ambition and that will fulfill our purpose. We would like to thank our over 10,000 employees who make all of this happen and as well as our suppliers, business partners and investors who trust and help us to grow and evolve always. A special thanks to our customers that by choosing us every single day give us the opportunity to enchant them with kindness, agility and the pleasure to serve.

I'll now turn over to our CFO, Mauricio Teixeira.

Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Good afternoon, everyone. It's with great pleasure that I'd like to share with you Localiza's 2019 results. Before I begin though, I would like to note that in addition to the adjustments of IFRS 16 that you are used to seeing this quarter, we started to account for the PIS and COFINS credits as a cost reducer and no longer as a tax reducer.

In revenues. There is no effect in gross revenue nor on EBITDA or EBIT and or net income. However, it's important to highlight that the margins presented increase as they are measured in relation to net revenues, which were lower. The reclassification was a fully made in 4Q and the reconciliation of the new and the previous accounting is available in our earnings release. To be comparable to the 2018 figures, we will present a percentage growth without the effect of IFRS 16 and without reclassification of PIS and COFINS. Nevertheless, the GAAP numbers will be presented in the webcast charts.

Moving directly to Page 4, we can see the summary of Localiza's financial performance in 2019. Once again, we showed spectacular growth. The consolidated revenue increased by 33.7% achieving the mark of BRL10.5 billion and EBITDA increased 29.3% reaching over BRL2 billion. Net profit achieved BRL847.5 million representing a new record.

On Page 5, we can see the operation highlights for 4Q '19. Rent a Car or RAC further accelerated its growth pace with an increase of 38.4% in average rented fleet compared to the fourth quarter of 2018. In fleet rental we also delivered strong growth with an increase of 26.6% in average rented fleet. Seminovos ended the quarter with a record sale of over 41,000 cars, delivering a growth of 28.1%. At the end of 2019, we achieved the mark of 323,000 cars in our fleet growing both in RAC, Fleet Rental and the Franchising business.

On Slide 6, we can see the financial highlights for the fourth quarter. Year-over-year net revenue grew approximately 35% and EBITDA grew 31%. EBIT increased approximately 17% due to the higher depreciation and the net profit grew 29%. We achieved the higher net profit obtained in a quarter by Localiza BRL234 million.

To present further details on 4Q results, I'll turn over to our Head of Investor Relations, Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon, everyone. To give you some more granularity on the quarterly and annual results. I would like to start from the Car Rental Division. As you can see on Page 7, in 2019, the average rented fleet increased by 32.4%, an increment of more than 31,000 rented cars on average. In the year, net revenue increased by 31.1% year-over-year. In 4Q revenue growth accelerated increasing the expressive of amount, 36.1% year-over-year, mainly due to the growth of approximately 42,000 cars or 38.4% in the average rented fleet.

On Slide 8, we can see that the average daily rate of BRL72.20 in RAC reflects an increase in relation to 3Q '19 and a reduction compared to 4Q18. The 3.2% reduction, in relation to 4Q '18 is mainly due to the effect of the mix of segments in RAC, counter balanced by an efficient yield management. The utilization rate of 4Q '19 was 79.1%, which represents a decrease of 2.1 percentage points year-over-year. This reduction reflects an adjustment in car purchases made between the third and fourth quarters to anticipate the peak season keeping an adequate level of car availability in order to mitigate the risk of any impact in the quality of service provided in our branches in the high season. In the annual comparison, the utilization rate was kept at a healthy level above 79%.

On Page 8 (sic) we can see that the network of corporate branches was extended by 26 units compared to the end of 2018 of them 21 are branches previously operated by franchisees. In addition several branches have been expanded or renovated to increase their capacity and enable fleet expansion.

Moving on to Slide 10, in Fleet Management division the pace of growth also accelerated in the last quarter with the average rented fleet increasing 26.6% and net revenue increasing 23% year-over-year. In this comparison the daily rate fell by 2.8% mainly reflecting the pricing of new contracts in the context of lower interest rates, as already observed in recent periods. In the year, the Fleet Rental division grew the average rented fleet by 25.3% and net revenue by 20.6%, which totaled over BRL1 billion.

Moving on to Slide 11. We can see the fleet purchase and sale. In the quarter, we bought 64,263 cars and sold 41,365 cars, an increase of almost 23,000 cars and the net investment of BRL1.3 billion. In the year, the additions in the fleet exceeded 75,000 cars, substantially higher than the increase of approximately 54,000 cars in 2018. The 2019 net investment in fleet achieved almost BRL2.5 billion with car purchases totaling BRL10.3 billion.

On Slide 12, we show the Seminovos network in 4Q '19. As we had anticipated in our last earnings presentation, we opened 10 new stores. We surpassed the mark of 40,000 cars sold for the first time in the quarter reaching a total of 41,365 units. We ended the year at 123 points of sale and 147,915 cars sold. It is important to note that despite the accelerated pace of store opening the average number of cars sold per store increased during the year reaffirming the strong sales capacity of our team.

On Slide 13, we showed the end-of-period fleet, which surpassed 323,000 cars driven by a car rental division, which grew 34% and fleet management which grew 26.7 %.

Moving on to Page 14. We see that the consolidated net revenue for the quarter increased 35.1% when compared to 4Q '18, net rental revenues increased 33% in the quarter. Well, Seminovos increased 36.7% due to the 28.1% growth in sales volume and 6.7% in average consolidated sales prices. In the year, consolidated net revenue increased by 33.7% when compared to 2018. In 2019 net rental revenues increased by 28.4% being 31.1% in the car rental division and 20.6% in the fleet management division. In Seminovos net revenue grew by 37.6% year-over-year, due to the 32.9% growth in sales volume and 3.5% grow increase in the average price of cars sold.

Moving on to Page 15. Consolidated EBITDA increased by 31.1% in 4Q '19 year-over-year, as result of the growth in the company's businesses divisions. EBITDA margin for RAC is in line with the margin of 4Q '18 when compared to the same basis. Fleet management had a margin reduction of 2.2 percentage points, mainly due to the drop in the average tariff reflecting the lower level of interest rates. Investments in IT and consulting have an impact on the RAC margins and Fleet Management in the short term, but are aimed to add further developing the company's competitive advantages.

Seminovos presented a margin of 1.4%, slightly higher than that observed in 4Q '18, which indicates that the depreciation adjustment throughout the year was adequate, so that the cost of vehicles sold remain close to the sales price of cars.

Compared to 3Q '19, the Seminovos EBITDA margin was impacted by the concentration of store openings, 10 new points of sale were opened in this last quarter of the year. In 2019, consolidated EBITDA excluding the impacts of IFRS 16 exceeded BRL2 billion an increase of 29.3% when compared to 2018.

On Page 16, we show the evolution of depreciation. We see that in RAC the average annual depreciation per car reached BRL1,917.6, 89.4% higher than average depreciation in 2018. In the quarter, the depreciation was 86.3% higher year-over-year. In the fleet management division, the average annual depreciation per car was BRL3,923.40, higher by 9% in relation to the average depreciation of 201. As explained in 3Q '19, the increase in depreciation reflects the lower price level of new cars that impacts the pricing of used cars.

On Page 17, we can see that the consolidated EBIT in 4Q '19 reached BRL405.3 million representing a 16.7% growth compared to the same period last year, due to the 31.1% increase in EBITDA, partially offset by the 80.1% increase in the cars and other fixed assets depreciation. The EBIT margin of the car rental division was 28.5%, representing a decrease of 5.4 percentage points compared to 4Q '18.

In the fleet management division, the EBIT margin was 43.8%, a reduction of 1 percentage point compared to 4Q '18. The lower EBIT margin reflects -- mainly reflects the higher depreciation of cars. In 2018, the car rentals division EBIT margin was 29.9%, representing a drop of 3.3% points year-over-year. In fleet management division, the EBIT margin for the year was 44.9%, a reduction of 3.7 percentage points in the same comparison. The decrease in the interest rates allow for a lower EBIT margin with the spread ROIC minus the cost of debt maintained at healthy levels. Which on the larger capital base results in an increase in the company's value generation.

Net income for the fourth quarter on Page 18, grew 29% compared to 4Q '18. The expansion in net income is explained by the EBITDA growth of approximately [ph] BRL140 million combined with the reduction of final total expenses by approximately BRL9 million which were partially offset by an increase in depreciation of BRL81 million and an increase in taxes on profits of approximately BRL15 million. In 2019 the company showed a record net profit of BRL847.5 million representing a 28.6% increase year-over-year.

On Slide 19. We show the cash generation before the growth of BRL1,255.5 million in 2019, the addition of approximately 75,600 cars to the fleet consumed approximately BRL3.5 billion.

As can be seen on Page 20, investment in fleet growth was financed by our operating cash generation and the follow-on, but also impacted the net debt which reached BRL6.6 billion.

I'd like to turn back over to Mauricio.

Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you, Nora. As you can see on Page 21, we ended 2019 with a debt profile adequate to continue on this growth path. We also present the debt profile after some issuance and prepayments that we made in the beginning of 2020. That makes us even more comfortable to face this period of turbulence in the markets with a cash position of more than BRL3.5 billion and practically no payment amortization in 2020.

On Slide 22, we can see that the net debt over EBITDA closed the year at 3x a level that we believe is efficient, considering our debt profile and low interest environment.

To conclude, I would like to highlight the evolution of the ROIC spread versus cost of debt that can be seen on Page 23. In 2019, we delivered the nominal spread a little lower than the previous year, but with a much larger invested capital base resulting in increasing value generation for our shareholders. We maintain our objective of growing with profitability and we will leverage our competitive advantages to capture market opportunities and continue the consolidation of the car rental market in Brazil.

We're now available to answer your questions.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question is from Bruno Amorim from Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hi. Good afternoon, everyone. If possible, I'd like you to comment about the exposure in airports, considering that the demand in the aviation market, what is going to be like resulting from the coronavirus or COVID-19. So what's your elasticity in RAC demand if there's less traffic in airports? I believe that the main risk is an international traffic that's where you would be more exposed, but if -- so if there is an impact to domestic air travel I'd like to know the impact for the company. And in that same line, are there any other products or lines that you can accelerate, if -- so you're not affected by the airports if they -- in fact, air traffic will be affected by that?

And second question in terms of your potential for growth in RAC. You have a number of fronts to grow and they've been contributing to what you're delivering, but there's one that every now and then that grows more than the others. So what are your main initiatives for 2020 that would be great if we can hear some of that? Thank you.

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Bruno, thank you for your questions. That is the hot topic for the moment, right.? So when we look at the indicators up to February, no impact as result of the coronavirus. In March, everything's normal, but we don't have that much time yet to feel an impact. When we look at our level of exposure I think we can separate that into three scenarios. But the first one is what you mentioned, so inbound, foreigners coming to Brazil. That is doesn't really account on our basis. I'd say that less than 1% of RAC that comes from our foreign travelers that come to Brazil. And if there's an increase, sorry, decrease of that traffic, there might be Brazilians traveling less abroad and more internally, so that could be an upside.

The second scenario at the limit less leisure travel and less corporate travel could impact our revenues. But there's always the other side, which are the tourists that don't desist, but instead of that decide not to travel by plane and they decide to use a car to go to their final destination, so it's very hard to estimate the final impact on that. However, our revenues are less dependent on airports compared to what they were in the past. Obviously, some are still representative, but they did lose their representativeness given the interest in new segments as you've mentioned.

So to give you some flavor on that, moving forward, we believe that there's still a lot to grow in individuals regardless of airports, here we're talking about frequency and habits of individuals renting cars given more affordability. And the other driver is the ride-hailing that still has a very relevant growth potential. So when we add both of them, the economy coming back, let's see how the coronavirus will impact that. And lastly, the individual segments, more in the long term, that could also be worked on monthly rental and also annual rental. And just to set you at ease, we have a permanent committee monitoring the effects and impacts to the reserve -- to reservations and so far we haven't seen any effects.

Q - Bruno Amorim {BIO 17243832 <GO>}

A quick follow-up on that, the individuals product that you said that could be monthly or annual what's the maturity plan for that? Is that product ready? Is -- I don't know it is about kicking it off? Are you still testing it? It seems like there's a big potential there, just so we can understand that and have some timing on that? Thank you.

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Thank you, Bruno. We already have a product for individuals. It's the monthly, but we've been signaling that we're rethinking that products not only in monthly, potentially, annually or the annual version. We still don't have the final version ready. We started with some pilot projects, but we don't have anything that could be scaled up. Maybe second half of the year we will keep the market posted.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Perfect. Thank you.

Operator

Our next question is from Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hi, everyone. Good morning. Thank you for taking my question. I'd like to talk about Seminovos. We had seen an increase in depreciation in the past quarter and when we look at the purchase and sales spread of RAC, we see that quarter marginal increase. We did have an increment in vehicle or an increase in vehicle depreciation. Could you talk about that driver, the driver for that new expectation in these Seminovos market? Is it already worsening in 1Q '20? Is that future expectation? Will you grow more, sell more cars? Could you give us some flavor on that? Thank you.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Good afternoon, Rogrio. This is Mauricio speaking. We've seen this movement in depreciation in 4Q over 3Q at BRL100. So if we do the math, it's a natural volatility. What we saw end of last year and beginning of this year, we saw very strong sales record, sales of 40,000 cars in 4Q and this year sales started really strong. So it's natural maturation and very small compared to the cars. Sales are still strong, even now in the beginning of 2020.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Perfect. I imagine that you had mark-to-market in the last quarter and this quarter could have had some sort of reduction in the depreciation level, but based on what I understood you didn't. You already had an expectation of maintaining that level for the next quarters. Is that correct?

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Yes, it was a new level and the curve of depreciation inclination changed. When we say mark-to-market, it's a change in the inclination of the curve. It changed -- it didn't really change, it reduced. So let's see how the next quarters will behave. We still have a positive vision for 2020 even considering transferring automakers price in new cars considering the exchange rate, but we have a lot of instability in the market right now in the news and in practice though, they haven't reflected on our business. So it's hard to give you, let's say, a perspective. There's a lot of things to come, the coronavirus supply and demand, but so far what we are seeing is a very positive scenario for 2020.

A - Nora Lanari {BIO 18838335 <GO>}

Rogerio, this is Nora speaking to add. When we see the inclination of the depreciation curve throughout the third quarter, it was going up. Especially in September or end of August when we had the news from Argentina. The -- it's reflected in the price of new cars and used cars. So the adjustment of depreciation was in September, and that changed how the curve. But remember that the change in the level of depreciation is divided by the rest of the useful life of the car.

So when they're close to the end, they have they're marked almost one off, but the rest cars have a higher depreciation curve moving forward until they're sold. So you can say that in 4Q it has already settled downwards but not enough to change the quarterly average. So the adjustment in September was more relevant in fact. All right?

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay, very clear now. Thank you, Nora and Mauricio. If you allow me, a second question now about Fleet Rental. You had an increase in the speed of that. Do you have contracts with smaller players or new players. So -- and a little bit about what you expect in terms of fleet rental for the next quarters -- upcoming quarters?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Good question, Rogerio. I would say that, that growth is the sales efficiency and it's very disseminated, it's very spread out. So we've gained momentum in many different fronts and what we believe it's about a change in mindset instead of owning it's about use. So I think that the general culture in Brazil is changing and also in companies is changing. So you can see a very disseminated growth spread out growth and that based on the efforts from our team in fleet management.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Thank you. Very clear.

Operator

Our next question is from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, good afternoon. I have two questions. The first one to follow up on Rogerio's question about depreciation. I think it was in the beginning of November, where you had an event here in So Paulo and you talked about depreciation. There was a slide where you showed the price dynamics for new cars. And then in September, new car prices were dropping a little and you were marking that. So my doubt is, even though it's a small decrease, BRL100 per car in depreciation, and there was just a press conference given by ANFAVEA saying that with about the devaluation of the exchange rate, you can have an increase of about BRL2,500 in new cars.

I'd like to understand why there would be another increase in depreciation. And in the first quarter, what do you see in terms of the dynamics. Is it going to stabilize drop or is the depreciation per car going to increase?

And my second question also related to the coronavirus. When we see what's happening in the Asia and the Uber shares and Lyft shares, everybody's concerned with the risk of contamination and they're starting to -- stopping to use ride-hailing services. So your exposure to ride-hailing today, how much -- what's the percentage of your fleet and RAC revenues account for that?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Thank you for your question, Victor. First, about the prices of cars that reflect in Seminovos and depreciation even though there's a price increase -- signs of price increase that's actually real. So, if the exchange rate goes up, it should be reflected in the car price. We depreciate actually to what's happening in the market and not related to expectations and we don't see that happening in new car prices. Therefore, it's not reflecting on the used car prices. So if new car prices go up, the historical trend is that used cars also go up and then depreciation will drop and that's natural, but we will only lower depreciation if we actually see that in the list price, which we haven't seen yet. And if that happens, that is the phenomenon the depreciation will drop.

About the coronavirus, in the ride-hailing segments we don't see that risk, and actually that's an option instead of using public transportation -- because and public transportation is packed here in Brazil and people are all packed together. So, I believe that the risk of contamination in the subway or in a bus during rush hour is much worse than riding than using ride-hailing, so there are a number of different hypotheses for coronavirus. Actually, I believe that it would increase the demand in ride-hailing because people won't -- want to share a packed environment with other people that could be contaminated, but these are hypotheses. We don't see this, we haven't seen a coronavirus impact to our business yet either positively or negatively, but I believe that the demand would increase for one driver and one car instead of sharing a bus with 70 other people.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, great. Thank you.

Operator

(Operator Instructions) Our next question is in English from Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good afternoon, everybody, and thanks for taking my questions. The first one if you could maybe provide, a little color on the car rental segment to refresh our memory and what portion of your demand comes from the corporate segment? And within that corporate segments are you guys relatively diverse in your customer base or do you have a lot of corporate demand coming from big natural resource companies?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Well. Steve's question is about the corporate demand and how much it's concentrated or not. We don't break down the segments in Rent-A-Car, but the corporate segments are relevant and I'd like to remind you that in the past years given the recession this segment, especially in the it loses relevance and what gains relevance is individuals and the app drivers, but it's still a relevant segment, especially in the corporate monthly and not concentrated. We don't have concentration in one big customer or big industry. It's very fragmented. That's why we don't have much exposure risk to a specific industry or segment.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Appreciate that. And on the fleet rental side just out of curiosity. Can you also trying to refresh our memory with respect to the turnover of those contracts, the relatively long-term contract. So in other words would the fleet rental segment be somewhat insulated from a short-term demand shock, because of the long tenor of the contracts? Thank you.

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Exactly. See fleet rental, we have average tenor of 30 months, so 2 to 3 years most of them 2.5 years. So, it's -- I'd say it is insulated into -- compared to those short-term fluctuations.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Thank you very much.

Operator

Our next question is from Samir Patel from Merian.

Q - Samir Patel {BIO 16376994 <GO>}

Yes, hi there. Sorry, can you hear me? Hello? Hi there. My question was just on the Seminovos division. Could you give an explanation of how much of your sales or used car sales are done through third-party points of sales?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Currently approximately 46% of our sales are direct to end users and the rest to wholesalers as we call them.

Q - Samir Patel {BIO 16376994 <GO>}

So 54% is also. And wholesale, could you just clarify, in terms of the Seminovos stores that you have, what the potential capacity is there just to get a sense of the number of cars you're putting through the stores historically versus say whatever it was last year? Just to get a sense of what the throughput could be in the store level? And I appreciate that obviously the makeup of the stores can be quite different as well as geographies.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Exactly. If we do a math for total sales of the period divided by the average number of stores, we can see efficiency, approximately 115 cars sold on average per month per store. It goes up and down a little, but we've been able to gain in productivity in that indicator. And that's why that the SG&A for Seminovos over the sales revenue they dropped from 9% to 10% to something close to 6%. So we've been able to gain efficiency and productivity in the Seminovos store. So said that we're going to have to open more stores, so that we can renew the fleets in 2020. Therefore in 2019, there were 16 new stores opened and that number of stores new store openings should increase for 2020.

Q - Samir Patel {BIO 16376994 <GO>}

Okay. Thank you.

Operator

Our next question is from webcast.

A - Nora Lanari {BIO 18838335 <GO>}

We've received the following question here. What do you think about automakers and dealerships going into the rental market?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

It's not a new phenomenon. Actually, we've seen that in the past way back when, when Ford bought Hertz heard and Chrysler entered the business. In Brazil we saw that some years ago and usually they come in and then they go out, it's just that they're testing the market. That's what it seems to us. I think it's normal competition, they have less scalability than us, because they use in the Rental Car, their dealerships and they could eventually go into fleet rental, but these capabilities are completely different than what they currently have.

It's like going from industrial to going into the services area. So we see this kind of movement, especially if there's a lower demand or repressed demand in the country for some years, so there are attempts that they're making but, we haven't seen a consistent case yet of them actually staying in the market in the long-term renting to individuals or even to corporates, in a successful RAC in the short term. We're monitoring that closely, but we don't have -- we don't see any major threats in that sense for us at this time.

A - Nora Lanari {BIO 18838335 <GO>}

We have another question from the webcast about the COVID-19 effect in the day-to-day rental. And in addition to that what's the outlook for car prices in Brazil? And if it's reasonable to suppose that depreciation in RAC will continue to go up?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Well, let's split this question up. First of all for about the COVID-19 we mentioned that in the beginning of the call. We have an exposure in airports. So at first, we believe that the international flow of tourism will decrease, but domestic tourism might even benefit from that. If there's more contamination, we believe that domestic travel could decrease. And in that sense if the demand has a relevant drop, it's worth noting that our assets are flexible and easy to monetize. We experienced that in the recent past with the 2019 financial crisis, where we closed, or we stopped buying a little, but kept selling and adjusted the fleet according to demand.

So Localiza has that room to do that. And if the case we can reduce the fleet to maintain the utilization rate. Obviously we would have less revenues, but on the other hand as we did in 2009, there could be an opportunity for prepayment of part of the debt, which would in turn reduce financial expenses. A good example of that was 2019, no -- 2009, sorry. About the car prices for 2020. If we consider ex coronavirus or COVID-19, we had a positive evolution of car prices that 2019 didn't follow inflation and that it would at least follow inflation go up new car prices then Seminovos, your used cars and then depreciation would lower.

With the impact of COVID-19 to the sales of the used cars. There's some uncertainty. People might say that there's a lower demand, but there's also a scenario that could be less supply, as a result of lack of parts at the auto makers and less working hours in automakers, and there's the exchange rate. So Seminovos or used cars would be cars, so the price would go up and then we would reduce depreciation faster. So to summarize, if you ex-COVID-19, we don't see depreciation going up. But even with COVID-19, we don't see this hypotheses in all the scenarios that we simulate. The depreciation would still drop.

And a little bit more of color relating to car prices, I think it's worth noting that the exchange rate is affecting that and on the other hand or and also steel prices were adjusted. And in the beginning of the call ANFAVEA the association has signaled an increase of production cost about BRL2,600 per car. So I believe that the automakers are suffering pressure to raise new car prices. And if that happens, used car prices will increase and depreciation will drop.

So I'd say -- and that's the last part of the question here from the webcast. The depreciation trend is more prone to flattish with a gradual decrease, if new car prices go up. Used cars will as well and depreciation will fall faster, but we don't have the evidences of that and Mauricio mentioned that. We don't see that price increase being transferred.

A - Nora Lanari {BIO 18838335 <GO>}

We have another question here from the webcast. When only 39% of your revenues come from rental, isn't that dangerours a risk depending on sales of used cars?

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

Well, the fact is that Seminovos isn't an area of result. We don't have a profit in buying and selling cars. Quite on the contrary for each car that we sell, we lose a little money. The objective of the Seminovos division is to reduce depreciation and renew the Localiza fleet. So the revenues we get from Seminovos division that cash is used to buy new cars to replace the ones that we're selling. So it's not an area for company's results. Our results, our EBITDA, EBIT and profit come from Car Rental and Fleet Rental.

Operator

(Operator Instructions) As we have no further questions. I'd like to hand over for Mr.Mauricio Teixeira for his final comments.

A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you, everyone for your presence and IR team is always available for any clarifications. Now I'd like to hand over to our CEO, Eugnio.

A - Eugenio Pacelli Mattar {BIO 3986664 <GO>}

On behalf of Localiza and everyone at Localiza I'd like to thank you for your interest and participation in this conference call. All the care and the relationship that you have had with Localiza throughout all this time, I'd like to stress our satisfaction, and there were always concerns in being very transparent in our investor relations. And I'd also like to say that we are still excited about our business and also very cautious with any issues that may be caused by the COVID-19 in our activities here in Brazil. Thank you very much.

Operator

The Localiza Rent a Car conference call is now over. Thank you for your participation, and have a great afternoon.