Q2 2021 Earnings Call

Company Participants

- Carlos Horacio Sarquis, Rent a Car Head Officer & Member of the Executive Board
- Luis Fernando Memória Porto, CEO, Member of the Executive Board & Director
- Marco Tulio de Carvalho Oliveira, CFO, IR Officer & Member of the Executive Board

Other Participants

- Fernando Abdalla, Analyst
- Lucas Lidere, Analyst
- Lucas Teixeira Barbosa, Analyst
- Regis Cardoso, Analyst
- Rogerio Araujo, Analyst
- Unidentified Participant, Unknown
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Conference Call of Unidas where the Results for the Second Quarter of 2021 will be presented. (Operator Instructions) It's worth reminding you that this conference call is being recorded. The audio will be available at the company's website within 24 hours.

If you do not have a copy of or if you need this earnings release, you can obtain it from the company's website ri.unidas.com.br/en. This conference call along with a slide deck is being simultaneously transmitted over the Internet, also accessed through the company's website.

Before proceeding, I would like to clarify that any statements that may be made during this conference call regarding the prospects of the company's business as well as projections, operational and financial goals regarding its growth potential are forward-looking statements based on the expectations of the company's management regarding Unidas' future.

Such forward-looking statements depend on the performance of the industry, general economic performance of the country and the conditions of the national and international markets. Therefore they are subject to change.

Today with us we have Mr. Luis Fernando Porto, Chief Executive Officer; Mr. Marcos Tulio de Oliveira, Chief Financial Officer and Investor Relations Officer and Mr. Carlos Sarquis, Head of the Rent a Car division. Now I would like to give the floor to Mr. Luis Fernando Porto. Please, Mr. Porto, you may start.

Luis Fernando Memória Porto {BIO 17175861 <GO>}

Good afternoon, everyone. Welcome to Unidas' 2Q '21 results conference call. Today I have here with me, Marcos Tulio, our CFO; (inaudible); and Carlos Sarquis, our Head of RAC. Before getting into the results, I would like to say that an important milestone of the company has been achieved. We have launched our unique sustainability today to celebrate the achievements of social environmental agendas that mobilize employees, customers and partners in favor of a more sustainable and balanced environment for the entire society.

The data has been shown in our sustainability report and divided into environmental, social employee recognition volunteer programs, inclusion and diversity areas. On the same day the company launched you need this carbon neutral program, which aims to neutralize all greenhouse gas effects by 2021. So on the next slide, and as held its winter clothing campaign, in which to individuals who are homeless, received blankets, personal hygiene kits and food and more than 15,000 people were assisted with a basic food basket corresponding to more than 160 tons of food distributed.

Lastly, we added 14 institutions to our ELO program totaling 31 institutions and totaling more than 4,000 people assisted while our program Unidas for or United for a better world already assisted more than 21,000 people in 2021.

On Slide 4, you can see we need this balance sheet. In the first part, we show our indicators and profile, both for the company, general population and our leaders, inclusion and diversity are equally important things in our daily lives where we have established as a goal to have 13% of our employees above 50 years of age until 2023. Currently, we have 11%.

The company currently has 41% women in leadership position and intends to increase this number to 51% by 2023. We continue to invest in our people. The total training hours that our leaders had in the Q2 2021 were 10,700 hours, which is 7x higher than the hours of training that we had in Q2 2020 at 84.4% higher than the hours in Q1 '21 as presented at the bottom of the slide.

Now on Slide 5, we will show our fleet profile at the end of the period, which besides reaching a record consolidated feed of 178,608 vehicles also reached a total of 100 and 5,000 [ph] vehicles in fleet management being the first rental company in Brazil to exceed the historical mark of more than 10,000 vehicles as demonstrated in the chart at the bottom, an important highlight for the rented fleet in both rental segments at the end of the quarter, which present an important growth compared to the rented fleet at the end of the First Quarter. On the next slide, in addition to the previous slide, we bought 26 0.6 thousand [ph] cars in this quarter, a record net addition for one quarter of 12,200 cars.

Now on Slide 7, we will talk about our excellent results in fleet management. In this chart, we showed a record with a global volume of contracts in 2021 has reached BRL 1.9 billion and is equivalent to the entire year of 2020. This quarter alone, we contracted 15,600 cars, a growth of more than 300% as compared to Q2 2020. It's 31.6% higher than the strong First Quarter of 2021. In 2021, we have already hired for Fleet Management segment and even with this record volume of contracts, we continue to dispute more than 73,000 cars for the next quarter, as demonstrated in the chart below.

Now on Slide six and the chart at the top, we continue to show to break records in terms of volume with a growth of 21.8% and record in the average monthly rate that reached BRL 1,814 per vehicle, an expansion of 14.7% as compared to Q1 2021. In the chart on the left-hand side at the bottom, the occupancy rate of the segment in Q2 '21, which stood at 97.7%.

Then next week, we show the record of net revenue from Fleet management, which was for BRL 435.5 million in the quarter, a significant annual growth of 40% and 10.2% compared to the strong results of Q1 2021. This growth does not yet consider the record backlog volume of more than 24,000 vehicles. This results in addition to demonstrating the strength and resilience of the business segment makes us comfortable to continue or we are confident that we are going to continue to deliver revenue growth at the current levels.

On Slide 9, we'll be talking about used cars this quarter. The chart at the top shows that the market of used cars with up to three years of usage presented an annual growth of 70.3% in Q2 '21. The market of used cars totaled 6 million cars sold in the first half of the year, and we believe that this scenario will continue to be favorable for the segment of used cars because of the short-term supply of new cars.

Now the chart at the bottom, we can see the record in the average vehicle in terms of selling price with an expansion of 53.3% as compared to the year before. Sales continue to benefit from the strong demand for used cars as a result of continued price increases in new cars that were introduced so far in 2021.

Now on Page 10, we have the net revenue from used cars totaled BRL 843.5 million this quarter, almost twice higher than the BRL 425.6 million in Q2 '20. In the chart at the bottom, we show our portfolio of stores, which in this quarter had the opening of one new sales store and the closing of six retail stores, four of which under the franchise model. Now I give the floor to Sarquis, our Head of the Rent a Car division, to present more details of the company's results in this segment.

Carlos Horacio Sarquis {BIO 20060508 <GO>}

Thank you, Luis. Now moving to Slide 11. The Rent a Car segment had a rapid recovery in the quarter in relation to the lockdowns that took place between March and April last year, so much so that the end of the June, the number of rented cars was 12.7% higher as compared to the last day of the First Quarter, as shown on Slide 5.

In the first chart, we show the annual growth of 25.2% in the volume of daily rentals, reaching a volume of BRL 4.5 million in Q2 '21, which and even higher growth could be observed had we received more costs throughout the quarter. The company continues to work with excellence in its fleet management as presented in the chart in the lower left, and we have set a record for occupancy rate level of 86%, 24.6percentage points above Q2 -- above Q2 2020 and 3.5percentage points compared to the 82.6% in the First Quarter this year. In the lower right-hand chart, you can see average daily rates that grew in comparison to the year before reached 73.2%, a positive variation of 45.3% as compared to Q2 '20.

Now moving to Slide 12. The first chart here, we show the growth of the net revenue from Rent a Car, excluding franchises, which totaled this quarter, BRL 299.9 million, a growth of 81.3% as compared to the same period 2020. In the second chart, we are showing that in the last 12 months, we opened 59 stores in now our own customer service network, considering the incorporation of some franchises, which represents a net addition of 43 stores to our consolidated network. We remain strong in executing our long-term growth strategy in order to reach an increasingly closer relationship with our customers and to capture all the repressed demand, all the demand that was requested by the pandemic, mainly once the 0-kilometer cars and their sales are back to normal.

Lastly, I would like to highlight the growth of 5.7% of our total fleet in this quarter compared to Q1 '21, which represents a net addition of 3,400 cars, making ensure that we will start much stronger next quarter. Now I would like to give the floor to Marco, our CFO Enero, to talk about our financial performance.

Marco Tulio de Carvalho Oliveira {BIO 20074241 <GO>}

Good afternoon, everyone. Thank you, Sakis. Now moving to the number 13, I have the pleasure to highlight that we are still breaking records in EBITDA margin. The recurring consolidated EBITDA of Q2 '21 has reached a new record of BRL 557.2 million, a growth that is more than twice as much then to Q2 '20. And 5.5 greater than the EBITDA of the First Quarter.

The consolidated EBITDA margin has booked a new record and now it's 75.4%, an expansion of 32percentage points as compared to previous years. So we had an increase of 19.3% in EBITDA margin, an increase of 17.3percentage points as compared to Q2 '20, a sequence of growth of 5percentage points as compared to Q1 2021.

On Slide 14, the consolidated EBITDA totaled an amount of million BRL 419.2 million, almost 6x the EBITDA of the Q2 2020. Looking to the first half of 2021, we consolidated -- the consolidated EBITDA totaled BRL 831.1 million, an amount higher than the BRL 809.2 million for the entire year of 2021. EBIT margin of 2Q 2021 showed an expansion of 44.1percentage points to 56.7% with the benefit -- benefited by the EBIT margin from both segments in Rent a Car with an expansion of 80.1percentage points, reaching 51.9% in fleet management, which represented an EBIT margin of 60.1, an expansion of 25.2percentage points.

Now on Slide 15, in the first chart, we show the recurring net financial expenses that totaled BRL 78.8 million this quarter, an annual growth of 10.2%, and net revenue dropped 4.2percentage points reached 10.7%. So we reached the amount of BRL 241 million this quarter, a growth of 4.2% in sequence over BRL 231.4 million in Q1 '21.

Now on Slide 16, the company continues to deliver significant growth without giving up the return on investment. ROIC reached a level of 14.4% this quarter, making it possible for us to reach the spread percentage points, which led to an annualized ROE of 25%, demonstrating the consistency of our operations as part of the challenging scenario. The chart below, we ended the quarter with a comfortable cash position already considered BRL 200 million issued in July of BRL 1.9 billion, equivalent to 121.2% of debt for the next three years. We continue to work and invest and to be ready to capture all the potential growth of our rental operations, and we are confident in terms of our capital structure. This quarter reached the leverage in terms of net debt over annualized recurring EBITDA of 2.3x. Now I give the floor back to Luis.

Luis Fernando Memória Porto {BIO 17175861 <GO>}

Thank you, Marcos. And before we move to our Q&A session, I would like to give my final remarks. We ended another quarter with a satisfaction of delivering excellent results and certain that we are on the right track to become even better. This is part of Unidas DNA. We are passionate about we do, we do it intelligently in an innovative way and we seek to be ever closer to our customers delivering convenience and satisfaction. The short-term scenario is still challenging. But in any way we are still sure that we will overcome the challenges and continue to deliver strong growth in line with high rates of return to our investors.

Lastly, I would like to thank our team for the intent and exemplary work, which constantly demonstrates its strength and excels quarter after quarter, allowing us to achieve increasingly better results, always count on me and our entire Investor Relations team. Thank you.

Questions And Answers

Operator

(Operator Instructions) Now we have a question from Lucas Barbosa from Santander.

Q - Lucas Teixeira Barbosa {BIO 20835372 <GO>}

Congratulations on your performance. I have two questions. Could you give us a more details about the backlog? So what is the share that is coming from each modality of sales? I imagine that you wouldn't be able to share all of the numbers with us, but well, as much detail as you could give us. I would appreciate.

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

ucas, thank you for your questions. These costs for which we already have contract signs, these 4,500, we already had an -- in the process of implementation, and they're going to become operational in the short term. We cannot break down by product where each thing is coming from. But what I can tell you is that all our channels are having record sales. So with something that is taking place in the industry as a whole, there's very strong demand coming from every size of customer for all products aligned with a large product platform in Brazil today. Undoubtedly this provides wide rating and complete solution in fleet management business even with trucks to that we can offer to customers.

So aligning these two on -- two things. Our product platform, our commercial strength and very strong demand. We have an explosion of sales, as you've been seeing in the past few quarters. I can tell you whether it's car subscriptions, whether it's individuals or company is big companies, small companies, trucks or cars. It's an overall movement. We are growing very strongly in our business of fleet management, which is part of Unidas' DNA has always been.

Q - Lucas Teixeira Barbosa {BIO 20835372 <GO>}

If you allow me to ask a second question. So car prices have gone up year-on-year. What got my attention, quarter-on-quarter was the 10% difference?

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

Thank you for your question. And Lucas. Well in terms of used costs, this is a combination of two things. So the mix of costs and channels because the share of the retail channel has been growing as compared to wholesale, especially because we have a shortage of new cars. And all of this has an extra item, which is the strong increase of new cars, which brings up used cars. So there is an increase in the face value price of cars, it's a real actual increase, so there are more expensive cars being sold a higher volume because of supply problem of shortage because the factories are not delivering and then more in the retail than in wholesale. What we should point out is that today we are sure if the scenario we are seeing in the used cars will last longer than we initially expected and it's simple.

There is a cycle of 2018, 2019, 2020 used cars as compared to 0-kilometer sales, which is below the expectations in the market. So it leads to a lower offer of used cars in future years because the average of used cars, they start being sold in the second, third and fourth years, sometimes on the fifth year. So certainly, this year will be a year of not low sales also because car manufacturers will not be delivering too many cars. So we can see that in the next two, three years, the scenario is going to persist because even if new cars recover, used cars in our perception will have a long period of short offer, especially those that are from to three years of life, which is what we work with. So I took the opportunity of your question, and I give you a longer-term vision for used cars, and we are going to have this scenario persisting longer than we initially expected.

Q - Lucas Teixeira Barbosa {BIO 20835372 <GO>}

Thank you for giving details. Good luck, and thank you very much.

Operator

Now we have Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Congratulations on your results. I have two questions. One of them regards the carmakers. We have heard different news. Some say that things will get worse before they get better. Others are more optimistic and say that there may be a full recovery in Q1 '22. So what are your expectations when is it going to go back to normal? This quarter, you have received a little bit more (inaudible) than originally expected. What are your forecasts in terms of receiving vehicles. I mean how do you decide how many cars go to our AC, how many go to fleet management? How do you decide the share between the two, which one goes where. Where do you allocate the cars. So if you're selling more or less, just to understand your rationale. Then I move to the next question.

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

Rogerio. Thank you very much for your question. Car makers, you started your question talking about the reality. We have very diverse situations in each one of them and very different realities in each one of them. And as you said very well, we have received more cars than the market expected, but we did not get more cars than we had expected. We were sure about the numbers. And as we said a few times before, but it's good to remind you that we do not work with spot purchases with carmakers. It's usually long term, usually annual contracts with carmakers and considering the current scenario, they are meeting the agreements, they are complying with the agreements.

Sometimes when they shut down their factories, they have already announced that they will not be able to deliver all the costs to us this year. Then obviously we have balanced out everything so that this will not have a major effect. In terms of distribution, we are clearly favoring rental business. Then we have not defined what is going to do to Renata, what is going to go to fleet management? What helps us to regulate are the occupancy rates. So if Rent a Car doesn't have a high occupancy rate, we go to see management. If the occupancy very is very high, we'll put more cars but the definition is number one for the Rent a Car customers.

Why do we do that? Because those are our core used cars to that we are not interested, but everyone knows that we write down our assets. So the cars are going to stay longer. Then we would like and will have higher mileage for used cars and for Rent a Car also than we expected. So we'll be providing services to more customers right now. This is what is going to make it possible in spite of higher maintenance costs. So in the short term, we want to continue receiving a good volume of cars. And as you heard in the previous answer, so if we have had -- we had 24,000 new cars with us, we would be using it going to fit management or to Rent a Car. Not to mention the (inaudible) demand for the Rent a Car. So there's a large number of cars that we would need today. We're still really short by far, and we work with what carmakers sellers, and this is what's going to happen and things will go back to normal more towards the Second Quarter next year rather than the end of this year.

So we are working with these expectations, which does not mean that until then, we will be able to get cars or anything that will help our growth, no. The whole market needs to understand that the scenario and sometimes what we read in the press. What happens in one company or in any really different from the other. And here, you need us, as we said, we have contracts and agreements for the long term with car makers. In the Second Quarter, we are going to receive the same number of cars. It's going to be slightly better slight worse but more or less flat. We will be able to reach all our goals financial and in terms of growth and all the commitments with our shareholders.

So of course this is a delicate time, but we're keeping on our investments so that effectively once we have more costs. We receive more cars, we will drive even stronger growth and then gain operational leverage and to keep the profitability for the three pillars of the business, in terms of fleet management, rental and used cars for a long term, which is what we are interested in because never had we had such high profitability before, and we never had growth with profitability at these levels in our industry and our objective here is 100% focused on keeping this for as long as we can in the long term, and we think this is possible, especially because we are going to the used car market that is going to remain stable in the long term.

So we're unique moment in terms of delivery of cars. And as I said, our expectation is, as I told you, distribution, fleet management and RAC. We haven't formatted anything here, but considering our businesses, we always -- the priority goes to Rent a Car in detriment of used cars because this is what provides -- this is our core business. When we have cars, we will be able to sell many more cars 2x or 3x more if the -- we had used cars available. We believe that this market is very solid, and it is for the long term.

Q - Rogerio Araujo {BIO 17308156 <GO>}

So this is very clear. My second question is about the need of increasing fees. With the increase in the prices of cars, the increase in interest rate, we've been seeing price increases in fleet rental in the post-COVID era or time. So what about your fees or is there a variation or how much higher they are as compared to pre-COVID times and your expectation in terms of RAC fees. We have seen almost a recovery as compared to pre-COVID times and considering all the transfers that were necessary and what you're expecting and when do you think this is going to happen?

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

Thank you, Rogerio. I'm going to talk about fleet management and then Sarquis will talk about Rent a Car. But you also put very well. You are absolutely right in saying that undoubtedly fees have gone up every quarter as they go up, and this is going to continue. If this scenario of interest rates persist and also increase in car prices. If it continues over the next few quarters? So this movement, there's no way of it being different. So Unidas will not give up profitability or any other strategy. Our business is a very good business if it's well managed and it provides good margins and a lot of cash because it's investment intensive.

It grows a lot in demand cash to grow. Yes. We are testing those prices to our fleet management fees, all the increases that the industry is having to bear this moment. On the other hand, what we do to mitigate and to be competitive, what we have to do is to reduce our earnings and operational costs. This is in terms and continuous work in here so that we can mitigate a little bit the peaks that we have depreciation and interest rates and we offset something that we can control, which is admin fees and operational.

But the reductions in the (inaudible) and operational figures, sometimes they cannot be enough to fight the higher interest rates and then there is a high in prices and in our perception, at least until the end of this year, you should expect high or increases in terms of fleet management fees.

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

Thank you for the question. (inaudible) Rent a Car, you see an evolution of the fees but Rent a Car fleet is considerably impacted by the mix of customers in a fee. Of course if the long term, the higher fee than the short term. If Rent a Car had a similar mix than what we had in the Second Quarter of 2019, so pre-COVID times, the fee would have been between 7% to 10% higher. We believe that somehow, this mix will start to converge to the mix of a normal year, and we believe that in the second half of the year, there will be a recovery of construct leases. In April, some regions had mobility restrictions on lockdown.

So we had to cut SKUs in Rent a Car to remain occupancy at acceptable levels. So fees depending on the segment, all fees are reasonably above what they were profit. So what has the biggest impact is the issue of mix and we are in the beginning of this price evolution. We still have a lot of room to see an evolution, especially in terms of what Nessa Luis said. We think it will go back to normal in the second half next year. We have fewer cars than we would like to have. Of course this is going to have an impact on the evolution of prices.

Q - Rogerio Araujo {BIO 17308156 <GO>}

If I could follow up, do you have any targets of a higher return than historical levels because of this limitation in vehicle offers. Can you increase fees even higher and increased EBITDA?

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

For sure, Rogerio. Today our understanding is the following: We are on a race. We have the best cars. We are driving a Ferrari, and we are managing and we cannot speed up. But undoubtedly, if we cannot grow anymore, we're going to try and find more profitability and we are going to manage the business very well. We're keeping all investments, and we believe that we are going to have a new profitable growth cycle. So we are going to have growth with profit, and this is what will happen. We are sure that this is going to happen over the next few quarters. If you -- for all of the news, in the U.S. market of Rent a Car, Brazil is still lagging behind that effect considering the impact of a lower vaccination campaign here in Brazil? And what is related to the fight against COVID. But this is going to be very similar. I'm not sure whether we are going to be at the same levels as the U.S., but we are going to see similar trends as compared to the U.S.A. market, especially in the second half of the year.

Operator

Victor Mizusaki, Bradesco BBI is going to ask a question.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Congratulations on your results. So we have two questions. The first one, going back to the car rental. I would like to understand the strategy with the French brands that now are under the same under. Does it make sense? And do you see the possibility of increasing it with the Chinese brands? Then regarding what you expected to happen. What is the ideal level in your opinion? Are we going to see an increase in depreciation along the second half of the year, considering the fleet renewal process.

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

Victor, thank you for your question. First, the French brands, we have a great admiration what has been doing in Brazil over the past few years and the way to manage their business so much so that in Brazil has taken on the French brand in at least it was the opposite. I think we're integrating the business is due to fully. We think that French brands can be important is would still in its management. We have bought some of their cars. Our vision is always that we have a lot to do, but the marketing -- the network will certainly be something else. The French has had a very small network. We believe that these costs are very good for operations. It was not a problem of product of brand perception, network management and things that we believe now it is doing this very well for them.

So yes, we do believe we have already ordered some kind and some of them are already in our stores as Chinese brands. In Brazil, we don't have many brands today. We have Jack and their products are not very much in line with ours. Then we have (inaudible) that does beautiful work in Brazil. But we still do not have Chinese brands in our portfolio, but we are having some talks with (inaudible) in that regard. But right now, there's not much volume. So for Chinese, unfortunately, we do not have many options in Brazil and now the French under the management of Stellantis, we really believe in these brands because these projects have no problems, they are good. What was missing was more management, more marketing and business management and you're doing it very well now.

About depreciation, we have always been very conservative in that. We've been working in that with that for over six years. We think that this is an important tool for us to prolong the cycle of profitability of our business in used cars specifically. So we -- that we are going to have a longer cycle of depreciation going up, but it depends very much on the dynamics on the -- how much cars we get, fee prices and also the profitability dynamics that we are going to have over the next few quarters. So in my opinion, yes, we are going to be conservative in terms of depreciation. In this manner, we'll try to perpetuate as much as we can profitability sample that we are going through.

Operator

Now we have a question from Credit Suisse. Thank

Q - Regis Cardoso {BIO 20098524 <GO>}

I had a problem in my connection before. I have two questions. First is a follow-up on this issue of depreciation. I would like to understand the dynamics between the segments. So the depreciation of GTE has gone much more -- is much higher than age. So it depends on the type of car. And another theme that I would like to talk to you about and that increase in the fleet. So this model of heavy fewer sales. And could that turn into a limitation to growth. If you allow me specifically about the RAC segment, do you have the July numbers in terms of fleet and utilization so that we know level without the effects of the pandemic.

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

What happens is RAC in depreciation, we are leaving at time, and then it gets clearer and clearer every quarter, which is an approximation of the prices of cars of one to two years to 0-kilometer in new cars. So we have a smaller depreciation, although we have a high investment in cars right now. So new car prices have gone way up. So automatically, there would be more depreciation discount. The difference between the 1- or 2-year-old car as compared to the new car is much smaller.

Why? Because there is a shortage of new cars and also have a shortage of 1- and 2-year-old cars. So this stream alone makes us confident in terms of depreciation in RAC will not go up so steeply as it will in fleet management. Fleet management is two, three, four years ahead, and then we prefer to sell two, three, four years later and normalized fees. So this is a difference. In our case, GTF has gone even more than RAC, if we analyze each car per channel RAC versus GTF of defined priorities. We do not believe because this function only seen both. It will only happen that this model will only be depleted, so to speak, because there is a limit. So here, we have added something stores to sell cars. We have a car sales team. So it gets to a point that you not fail or not sell cars, there's a machine that we need to move.

We have customers. We cannot leave our customers without any cost because to more, we can come back. They will come back to look after. So we need to look after our team, our customers, our teams, our stores. Then there's a point when the cars are to let it doesn't make any sense to us. So this cycle is back into itself. So we did last another six or nine months according to our expectations. I think things can work. If things happen, as industry is determining which is six to nine months and things are going to go back to normal. This will be to meet needs of all our customers. So this is a meaning and profitable model. So I want a car without any growth, it's much more profitable than a party company debt growth because we need to in have a lot.

So we are growing. We are not going to talk about year-on-year because there's an impact of the pandemic. We were in a pandemic last year too. So you need a grown 40% in this business. If you compare the First Quarter to the Second Quarter, so we have had growth rates may be the highest ever in our history. So in my understanding, we are not seeing an explosion in demand. So I don't think this is a one-off effect. I think this culture and if it's culture, I am seeing a great cycle ahead of us for six, nine months. Once we go back to normal, we are going to see an amazing operational leverage with strong growth and profitability in the long term, and we are really working to deliver that. Now I give the floor to Sarquis.

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

This was for Rent a Car. Yes, the fees in July, obviously we are not going to give you detail. But range -- the fee will be 7% to 10% -- July fees will be 7% to 10% higher. This is very much impacted by the mix and the shortage of cars because the demand in July was much higher than our offer of cars. In terms of the offer of cars, this has grown a little bit less than the banking I mentioned to you. But it has grown to -- It has grown. It grew in July, about 5%.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay. Congratulations on your performance.

Operator

Fernando from BTG would like to ask a question.

Q - Unidentified Participant

And all congratulations on the results. Thank you for the opportunity. I would like to talk a little bit about margin. Year-on-year, we have had a good margin expansion. If it's quarter-on-quarter, it's offered, especially in -- so a slightly higher expansions. Could you give us more details in the second point going a little bit more into RAC. How do you divide by segments. What is underlying this 5% increase that you have mentioned, the increase in volume?

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

Fernanda, well, margin GTF, it has dropped a little bit quarter-on-quarter. There are many costs that have an impact in the short term, of course maintenance and the renewal of our cars. We are extending more than the contract period and then we get a car. We need to change buffers. Then you need to change tires and everything. There is a logistics problem to deliver a car today. It takes much longer than it did in the past because some factories just are not operational at the time. We still have restrictions due to COVID. So life is not easy to operate now. So If we could put the back one out on the street, it would reduce significant cost because once we demand a card for the first three or four months, we spent nothing in operations. So a company growing as much as we are and we cannot build the backlog cost. This compresses the margins. But this is just for a short period of time, this is temporary. We are not expecting it to continue to persist for a long time. We expect to see an improvement in margins in the few quarters.

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

What is recovering the fastest is the leisure segment, although corporate short-term travel is still very much impacted. Same thing with reserve cars is impacted because mobility has not yet gone back to pre-COVID levels, but the segment of individual is definitely growing another one that has grown very strongly is the company is the market of companies. This is very strong. This is evolving very well. It's the bounds to circulate much more. So this also favors in terms of long-term contracts. So the carry of individuals. The Second Quarter is bound to be very, very strong. A lot of repressed demand shortage of cars. This is going to drive prices up. So demand is likely to continue in a very robust manner. So more store, it's going either the brand and we're very happy with the new evolutions that we've seen, more customers will be attracted. So it's a virtuous cycle that we are starting in Rent a Car after a very difficult year in the half, more or less because of its pandemic.

Operator

Fernando from JPMorgan would like to ask a question.

Q - Fernando Abdalla {BIO 15381888 <GO>}

A follow-up with (inaudible). So it's not very clear to me. One, there was a drop in quarter-on-quarter, but the First Quarter, the margin was 43, now it's 38. Now if you look at your average fees have gone up, but margins have gone down almost 5 points. I was looking if we look at the fleet, so we have a lower volume of daily fees. Is it because you're able to capture all the revenues from the past that you have added is think of management. So there was a much lower margin in RAC.

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

There was one thing. We have a record average age in Rent a Car is almost 11 months. This impacts severely maintenance costs and also -- So there was also as much in line with IGPM than IPCA. Number two, it started week for all rental companies. So some segments recovered very strongly. So our revenue of the Second Quarter suffered a much more intense impact than we had in the First Quarter. The First Quarter, we just got by and also in the North and Northeast of (inaudible), but the Second Quarter was worse. It had an impact, so it has an impact on margins and cost.

Remember, it's related to our strategy. So we continued expanding and investing in bringing stores closer to customers and we certainly have an installed base that can make much prior number of lease. So you need (inaudible) Rent a Car. (inaudible) could have a very significant growth in the volume of daily fees without increasing fixed costs. So if we were talking about it we would have gone to 0. So we assure and that this is going to make it possible to understand the last part of the question, and then we can recover margins in the short term in terms of growth in revenue, and we were really confident that this will come, not just in terms of volume that will grow, but definitely, it will be helped by the increase in fees because of the mix and also because of the ticket segment by segment, we are trancing the increase in cost of maintenance and depreciation and everything.

Operator

Now, we are going to get the questions from the webcast. So we have a few questions from the webcast. I'm going to ask a question. Some of them have been mentioned. We are going to stick to the ones that have not been answered. We have two questions about Rent a Car. So the first one is the occupancy rate for RAC was 86%. And how much is this level sustainable? And what is the top level that we could accept with the increase of operation in Rent a Car. The second question, how much more can we add to the average age of Rent a Car? Is there a level that we know that we know that there is the top or the August that we can Rent a Car.

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

About occupancy rates, yes, we do think this is sustainable. As the fleet is much older than we have to date this influences the occupancy rate. So we have more cars and maintenance. Once the fleet is new, this number is much smaller. But certainly, the occupancy rate would be better if the average age of the Rent a Car fleet were under. As an example, enterprise has 91%, 92% occupancy rate. So we are investing in systems a lot so that we can have high occupancy, eliminating the problems, which is obviously capturing businesses or failing to capture businesses that we could capture more investing more in customer relationship, we are investing in systems so that we are more -- our systems are more assertive and more flexible so that we can earn with a high occupancy rate, reducing the negative level. So we think these occupancy rates are sustainable and fleet get me with this will favor a very high occupancy.

About the average age of the fleet, Yes, of course we can stretch it even further. We want to reduce the average age of the fleet also to reduce maintenance costs to provide best services to our customers. We know just at par with 50 kilometers, OMA in contrast with a car with 1,000 kilometers. The difference in NPS is very significant obviously.

So it's not trivial having an older fleet. It's not just a matter of cost, but also in terms to deliver the best service possible to our customers. We don't want to stretch it much longer. The (inaudible) happened because of all the problems that we mentioned this temporary problem that we have in the supply of cars, but in normal situations, profit should be lower than what we have in this quarter.

Operator

Next question comes from Lucas Lidere from Sandra Capital.

Q - Lucas Lidere

Could you tell us more about the heavy division? What are the volumes? How has this been evolving in the company? How much are you allocating to that front?

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

Lucas, thank you very much for your question. Well today we are close to 1,000 items in terms of heavy, including trucks and machines. It's so secret to the market that we need has already been operating in this business segment for more than 10 years. So we have had two full cycles. We have sold the trust and machines. It's still a small business compared to the other businesses that we have. But I can tell you. And I cannot once that early last year or earlier this month, rather, we have hired on the head for the heavy department. He's Fernando Guimaraes, he is a seasoned executive with a lot of experience in this business. We expect that over the next few quarters, we will be able to announce the data of the heavy department as a business division. So you're going to have a third business unit. So the heavy business unit with the mission of having a significant share of our businesses. That's everything that we do in Unidas. We always try to have strong growth with profitability. So what I have to say to you about our heavy business unit. Thank you very much for your question.

So these were the questions asked over the webcast. The other ones, we have already answered them. If you still have any questions that have not been answered our Investor Relations department (inaudible). Thank you, all very much. Have a good afternoon.

Operator

The conference call of Unidas has now ended. Thank you very much for your participation, and have a good day.