Q2 2021 Earnings Call

Company Participants

- Nora Lanari, Director, Investor Relation
- Rodrigo Tavares Goncalves de Sousa, Chief Financial Officer

Other Participants

- Fernanda Recchia, Analyst
- Josh Milberg, Analyst
- Lucas Barbosa, Analyst
- Regis Cardoso, Analyst
- Rodrigo Ferreira, Analyst
- Rogerio Araujo, Analyst
- Unidentified Participant

Presentation

Nora Lanari {BIO 18838335 <GO>}

(Foreign Language) (Starts Abruptly) which reinforces our confidence in the opportunities for growth. The company has been preparing itself for the recovery and acceleration of volumes as the delivery of cars resumes more robust levels.

Moving on to page 7 in the Fleet Management division, we see the average rented fleet increasing by 8.8% and net revenue increased by 13.1% year-over-year. In this comparison, the daily rates have increased by 5.9% reflecting the pricing of new contracts in the context of rising car prices. We're very excited about what we have seen in the demand and results of Localiza. The number of orders in the backlog continues to increase, but we are still being affected by the scenario of restricted production and delivery of new cars.

Moving on to Page 8, we show the balance of buying and selling cars. In the quarter, still with the restricted supply, we sold 26,643 cars and 28,653 cars in addition of about 2000 cars in a net investment of BRL329.2 million. Our average purchase price was BRL62,600 compared to a sales price of BRL55,200 resulting in replacement effort of BRL7,500 per car showing the importance of maintaining discipline when buying cars.

On Page 9, we show the used car network. At the end of 2Q '21, we had only 132 points of sale and 26,643 cars sold an addition of 35% in the volumes sold year-over-year, which had been affected by the first wave of the pandemic and more severe restrictions on mobility. The average price was BRL55,200, 31.3% higher than the prices in the same period of the previous year. The price increase reflects the context of a sharp increase in the prices of new cars, which we were able to capture in our decommissioning.

On Page 10, we show the fleet at the end of 2Q compared to 4Q last year. In car rental, we ended the quarter with a fleet of approximately 208,500 cars a reduction of 3.6%. The drop in the fleet size at the end of the period reflects in the lower number of cars being commissioned and decommissioned in addition to the smaller number lower number of vehicles available for sale. In fleet management, we already see the sequential expansion of the fleet by 6.8%.

Moving on to Page 11, we see that the consolidated net revenue for the quarter grew 71.7% year-over-year and 17.2% when compared to 2Q '19. Year-over-year net rental revenues increased 65.5% while Seminovos increased 77.2% impacted by the sale price which reflects the increases in the prices of new cars.

Moving on to page 12, we can see that EBITDA reflects the revenue growth in advances 77% in 2Q '21 year over year. But with a different composition in the context of lower levels of deliveries of new cars and in aging fleet, the Car Rental margin remains affected. However, this impact is more than offset by the advance in or increase in used car margins. As a result, the consolidated EBITDA margin remains at a high level of 62.7%. To give a little more detail, the RAC EBITDA margin was 38.6% in this quarter. As the second quarter margin of last year was positively affected by the reversal of PIS and COFINS credits which helps that quarter's margin by 21.7 percentage points.

We also have the sequential comparison. Compared to 1Q this year, the margin dropped to 4.3 percentage points. There is a margin effect associated to the drop in volume resulting from the second wave of the pandemic, which is not yet been accompanied by a reduction in costs, the main lines impacted our personnel and maintenance. The first, explained by the increase of 11 branches in the quarter and reinforcing our confidence about growth recovery. And the second explained by the higher cost of cars preparation due to the greater number of cars purchased in this division and continued aging of the fleet.

In addition by starting to offer Car protection coverage directly by the government, need two customers, we have a diluting effect on the margin at least initially by the increase in revenue, offsetting the costs associated with clients. As clients management will be carried out by the company, we believe that we will have positive effects on profitability. In the sequential comparison, the Fleet Management division had an increase of 2.3 percentage points in the margin mainly due to the reduction in maintenance expenses due to lower fleet mobilization costs and the dilutive effect of the growth in volumes and revenue on the costs related to structuring and launching of Localiza Mail as mentioned in the previous quarter. Seminovos presented a margin of 14.6% even higher than the one reported in the last quarter, even with the reduction in volumes sold which impacts on the dilution of fixed costs. With this sharp rise in prices of new cars in recent quarters, it's natural to expect that the higher margin will continue until cars purchased before the price hikes are decommissioned and sold.

On Page 13, we see that in RAC the average annualized depreciation per car remained at low levels in the quarter at BRL603. In the Fleet Rental division, the average annual depreciation per car was BRL990, 29% lower than the depreciation in the previous quarter. The depreciation at low levels in the two business divisions is a result of the increase in new cars and the consequent impact on used car sales prices.

On Page 14, we can see that the consolidated EBIT in 2Q'21 achieved BRL673.3 million, representing an increase of 208.3% year-over-year and 96.9% higher than the same period in 2019. Here, we'll also have a sequential comparison, given the weak comparison base in 2Q'20. The EBIT margin of the Car Rental Division was 49.1% accounting for a reduction of 4.2 percentage points compared to 1Q '21 explained by the effects that affected the EBIT as car depreciation and the result of used cars remain practically stable in the quarterly comparison. In Fleet Rental division, the EBIT margin was 73.2%, an increase of 6.7 percentage points compared to 1Q '21 explained by the increase in EBIT added to the region lower depreciation and higher marginal sale of cars in this division.

Net income for the quarter on Page 15 grew 398.2% compared to 2Q '20 and 135.6% when compared to 2Q'19. Compared to the 1Q of this year, the reduction of approximately BRL34 million in profit is mainly explained by the effect of the second wave and lower volume of car sales in addition to higher financial expenses.

On Page 16, we show cash burn of BRL303.2 million in the semester explained by the reduction of BRL547.1 million in the automakers accounts.

As can be seen on Page 17, net debt for the semester increased by BRL484.1 million mainly affected by the reduction in accounts payable to automakers, ending the quarter at BRL6.6 billion.

As you can see on Page 18, we've ended the quarter with a strong debt profile and strong cash position, including the issuance of BRL1.2 billion of debentures with a final maturity in 10 years and rate of CDI plus 1.99%. As a result, we ended the quarter at BRL4.1 billion in cash, an amount that gives us the ammunition to finance growth over the next few quarters as vehicle production begins to normalize.

On Slide 19, we can see that net debt over EBITDA ratio for the last 12 months is 2.2 times, a level that gives us the peace of mind to finance our short-term growth with third party capital.

Now I would like to hand back over to Rodrigo to present our ROIC spread.

Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you. Nora. On Page 20, we present the evolution of the ROIC spreads versus the cost of debt. In 2Q '21, considering the last 12 months and despite the adversities, we see an increasing spread, which reached 11.7 percentage points. We would like to emphasize that despite the high level of short-term returns, the current context highlights the importance of decision-making, thinking about the complete rental cycle from funding going through efficiently allocating capital, generating cash from rentals and selling the cars. Only from the proper combination of all of these steps can we generate value, that's why we maintain our necessity in capital allocation. So, that we are making the right decisions with the long-term vision aiming at growth with value creation.

And finally, on page 21, we'll talk about sustainability. In 2Q '21 driven by the evolution of the company's purpose which becomes with you building the future of sustainable mobility. We've continued to advance in our ESG strategy. We've published the third sustainability report in the GRI format with SaaS indicators. We've launched Localiza Institute to manage private social investments and have accelerated our Diversity and Inclusion Program with the adherence to the UN form for companies with refugees and received the important highlight in the money times ESG ranking. In line with our business strategy and the expectations of our stakeholders, we've updated our materiality metrics which provides this central themes that will guide our actions in the short, medium, and long term.

Now we are open to answer your questions.

Questions And Answers

Operator

(Operator Instructions) (Foreign Language) Our first question is in writing from Rogerio Araujo from UBS. Rogerio, thank you for your question. I'll read that. So, thank you for the call. What is the reason why Localiza has been receiving less cars -- according compared to its peers in lots of basis? Is that relating to with the price of cars? If the case couldn't the company buy more expensive cars, especially in the GTF segment. So, what are the expectations in terms of deliveries and magnitude coming back to normal?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Well, thank you, Rogerio for your question. There are some different reasons. I believe that the volume, the production volume and there is also buying cars, more expensive cars really affects our perspectives in terms of future return. We have been mentioning that our commitment is a sustainable return for upcoming years. So, transferring that the prices and in cases here would be where the cars that wouldn't be feasible given the current conditions, be it in Rent a Car or being it in Fleet Management. So, in the second quarter or second half of next year things should become come back to normal completely.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you for your question, Rogerio. I'd like to add to Rodrigo's comments. We see very different price levels in cars that are also comparable and that also impacts the pricing and fleet is a segment that's very competitive. So, we're very disciplined in capital allocation as Rodrigo mentioned.

Operator

We have a question from Regis. You can unmute and ask your question. Regis?

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you, Nora. Thank you, Rodrigo. Thank you for the opportunity to answer questions here. I'd like to discuss -- well there is the fleet topic that was already touched upon in the previous question. And my question in relation to that is, how long do you believe it would take for the situation to come back to normal, right? So, as from, when do you believe that there is no longer going to be a limited growth I'd say, based on car availability. So, what has to happen in that sense? And specifically in the second quarter, were there any specific effects that made that different from your peers?

Another topic that I would like to clarify with you is, the second quarter was probably very favorable for fleet management. On the other hand RAC suffered more right given the second wave in the beginning of the quarter and I believe that Localiza is more exposed to the RAC segment than your peers. So, could you comment about that? And do you believe that the third quarter would be the opposite that at the end of the quarter? If you could comment on the results in July it seems like it's much higher than average in rates and utilization rates.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Regis. About the automakers, it's a global crisis, right. It's pretty much a result of the supply chain, especially when we're talking about the semiconductors. So, the chain is not competing with each other, but also chips for cell phones and other products. So, there is a restriction in supply and the automakers supply chain, which is led them to lower their volumes and allocate the semiconductors in a global manner. So, today the comparison of profitability is made by the headquarters, automaker headquarters and they're manufacturing cars where they believe they'll get a higher return on that.

So, I think that normalization is gradual in the second quarter they -- some automakers suffered more than others. I won't mention any names, but in fact, they did have a much higher drop in production and that definitely affects our supply as well. But for the second quarter was relatively better than the first quarter. In the third quarter, we also see -- should see well that gradual improvement and that depends on the normalization. And according to current information, it's about second quarter next year and second half of next year, that's where we expect normalization. But that's also going to happen gradually.

About Rent a Car. In terms of your vision is correct, we do have a higher exposure in Rent a Car. And the second wave had an impact that -- on that even though lower than the first with the gradual recovery in volumes and rates as well. So, the recovery continues. The demand is growing. The vaccination levels and rates have been helping. So, we see a growth in all segments in that demand. And those are the prospectus for the upcoming quarters.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you, Rodrigo. If you allow me, I'd like to take this opportunity with two more specific questions on your bottom line. So, depreciation went up just a little in the peers, if you can explain that well. And the effect of insurance, if you can give us some flavor about how that changed in terms of margin and rates? So, we can eliminate that effect. Thank you.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Well, that's a result of our absolute discipline in allocating our capital. So, Localiza has always been a traditional company in terms of depreciation and having competitive depreciation. And now, at this time, I believe that quality that we have stands out even more. That's also related to lower renewal rates, but also being more strict in the way how we take advantage of that demand and growth. So, today there is a huge difference in supply, even though it's limited, there is a huge difference in terms of conditions.

And we are fully aware of an industry that's so capital intensive as ours we are fully aware of the need to have that discipline, even though it may impact in the short term a little. So, maintenance cost for instance when you compare that to the impact of depreciation that trade-off is extremely positive. Nora, can you address -- she will address insurance, but what I can say about that is in terms of revenues and costs, the impact to the margin is not that material. So, the impact to operation, but in the margin, it's not that material.

A - Nora Lanari {BIO 18838335 <GO>}

Regis, the car insurance, let me explain that. It's not actually insurance, okay. It was done through third parties and insurance and insurer but now based on the favorable decision, we decided to offer that Car protection directly to our customer. Part of the market already does that. So, we estimate that the impact of that change to our average rate of about BRL3 and that will change in the middle of the quarter, but we're still in a transition phase. And we recognize the claims and losses given that migration, we believe that that will be very positive as the company is going to manage the accidents. Did I answer your question?

Q - Regis Cardoso {BIO 20098524 <GO>}

Yes. Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you.

Operator

The following question is from Fernanda, BTG. You can unmute.

Q - Fernanda Recchia

Hi, Nora, Rodrigo. Thank you for taking my question. I'd like to go into margin again. You well explained why you have a weaker margin in RAC in this quarter. But looking forward, should we expect margin close to 30s, the high 30s next quarter? Or should we see in the low margins in the low 40s? So I'd like to understand as well July, what your volume has been in utilization rate to see if you're recovering that to more normalized levels. Thank you.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Fernanda. About margin, just to clarify, first of all, there is an impact from the volume of rented cars. There's an effect of the second wave, even though the first wave is still clear. In the second quarter revenues that we didn't have that was relevant. And in maintenance, as I had mentioned and the aging of the fleet impacts maintenance costs because we want to guarantee a good experience for our customers. So we cannot forget our values, we have and give them a bad experience.

Another relevant aspect is that the number of cars that were activated in Rent a Car compared to rented cars compared to the first quarter increased by 30%. So, that's a one-off activation cost that we have with a lower rented base of car compares to -- compared to activated cars also affects our costs and one-off case. So, those are the main points. We also had an increase given the transition as Nora explained in insurance to protect the cars. So, we had an increase in theft specifically in some cities and we also believe that that's a temporary effect.

In terms of the future, what we believe is that the volume recovery is coming, the demand is coming, we're highly focusing renting these cars in the segments that give the company a higher return. And our focus which is even more than it did a [ph] margin is the ROIC for these cars. And that guides our allocation in terms of segments and the short, medium, and long-term decisions.

Operator

Next question is from Josh Milberg from Morgan Stanley. You can unmute.

Q - Josh Milberg {BIO 19336060 <GO>}

Hi, Nora. Hi, Rodrigo. Can you hear me?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Yes. We can hear you. Thank you.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay, great. My first question is, can you review and give us some more detail of these scenario for app drivers and also the incentives for Uber drivers? We have an understanding that the prices for Uber haven't been going up enough to consider inflation and other cost. So, we'd love to hear your perspective on that and eventually what could be done in relation, so that you can have more growth in that segment.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you for your question, Josh. We launched Zarp. So, in some cities and dedicated agencies, we believe we'll have more operational efficiencies and that will contribute to profitability. It's worth mentioning that we're going to -- we're increased connectivity in more connected cars will lower our default rates in that segment. And what we've also been seeing Josh, not only here, but also in the US, for instance, there is not enough drivers and not only Uber but also more so and the tariffs to offset that.

In addition to the fuel prices effect that go up, there is the car prices effect. So, we've seen an effect in the driver base and that dynamic tariff will probably affect that is well. We do have a lot of appetite for that segment. And there is a relevant growth avenue moving forward, especially if you consider that with the increase of new price -- car prices of approximately 30% or little over 30% in the past 12 months. Rental is even better option for drivers, so that they can test the work with the App drivers and also maintenance depreciation and the time. So, we believe that that context could have a good opportunity in this segment. So, we're very optimistic with the Zarp launch.

Q - Josh Milberg {BIO 19336060 <GO>}

Perfect. And at the end, do you see incentive if that's getting in the way the demand in terms of -- the demand coming from the actual drivers?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

No, Josh. We don't see that in the second quarter, impacted by the lockdowns but we do see an important demand here from these app drivers.

Q - Josh Milberg {BIO 19336060 <GO>}

I have a second question, Nora. Could you comment on the Unidas management in their quarter indicating the plans to invest more in heavy rental? Have you talked about that to the market? So, the question is, do you see a possibility of working in that with Unidas or without them?

A - Nora Lanari {BIO 18838335 <GO>}

Well, the two companies are completely independent. They're sticking to their plans, completely independently. There is no manifestation from the Brazilian Antitrust Agency from CADE about the merger. So, we're not commenting on that strategy. About our strategy, we're always assessing in our plans, up to the time being that wasn't one of the company's priorities.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay. Thank you.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Josh, just to add to that, that could obviously be reevaluated moving forward, but we are working with the CADE Brazilian Antitrust Agency for that analysis. So, the company's plan is to continue growing the core business and supporting CADE in the decision-making in relation to the business that could be reassessed in the future.

Q - Josh Milberg {BIO 19336060 <GO>}

That makes sense. Thank you.

Operator

Our next question is from Rogerio Araujo. You can unmute.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you. Hi, Nora. How are you doing? I don't know what I did here, but you have already answered my question. Thank you.

Operator

Okay. We have a question here from Josh [ph].

Q - Unidentified Participant

Good afternoon. Does the company -- is the company considering in splitting the shares?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Let me answer that. Obviously, the company monitors share prices and in the co-ship and the trading indicators we're analyzing a process to merge with Unidas with the Brazilian Antitrust Agency. And also an exchange ratio that has already been established. So, it's not a moment to consider split, but we also -- always consider that depending on share prices, of course.

Operator

Thank you for your question. Next Lucas Barbosa from Santander. You can unmute and ask your question.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon. Can you hear me?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Yes. Go ahead, Lucas.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Okay. Thank you. Good afternoon, Nora, Rodrigo, and Guilherme, congratulations on your results. So, first of all, I have a question about digitization and internalizing technology at Localiza. So, when we read your press release you talk a lot about that in the first paragraph in the opening remarks. It seems like it to be like one of the biggest priorities on Company agendas. So, that's where my question comes from. Could you share some of the digital initiatives that you believe had made you or have set you apart from the competition or will set you apart? Could you comment on that?

A - Nora Lanari {BIO 18838335 <GO>}

Lucas, thank you for your question. Well, you did touch on an important point and that's part of the message that we'd like to convey. In the past two years, we've been going through the IT internalization process. Our ambition is to build one of the most relevant technology labs in the country without a doubt. And we are really excited with the initiatives on all the different fronts that we can open up based on that internalization of obvious capabilities. I'll mention some of the more obvious ones that you've already seen and try to give you a concept to make this more tangible for you.

So, Lucas, even related to the month seven purchase last year, we have over 100,000 cars that are connected. We expanded the local -- the rollout of Localiza fast and that's more cars and opening more doors for reservation and allocation that's completely digital. We launched Localiza Mayo and the data science capabilities are reinforced and having more connectivity in fleet that gives us wide range of information for us to work and that's very important. So, I'd say that's fourth avenue of growth, the Localiza ecosystem that will be available through the telemetry.

So, but we also have relevant advantages and operating efficiencies that can be captured to in fleet recovery and default and pricing and in the granularity of these movements. Obviously, that requires investment. So, there is a consideration in payroll and our headcount will be increased. But it does place Localiza at another level. Thank you for your question.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Thank you, Nora. That was very clear. My second question is about the growth avenues. You mentioned that in the ecosystem. Can you talk about the opportunities in the ecosystem? Maybe a strategy of offering, Car protection is already one of those opportunities connected to the ecosystem. And you also mentioned that the claims management happening in-house. You mentioned that, right, about managing these claims in-house. Does that mean that you're going to verticalize?

A - Nora Lanari {BIO 18838335 <GO>}

Thank you, Lucas. When we look at our ecosystem today, internally, we always like to say that we're the companies that generate the most funding that washes cars the most, the transportation and maintenance the most. So, we do have a very rich ecosystem. So, we're looking at absolutely all the elements in our ecosystem, be it the financial aspects associated to them or purchase and sale of cars, maintenance, additional services that we can add to customer -- for customers, and the protection to give us a product that will meet our needs.

And the entire side of technology that we mentioned in monitoring vehicles and there is AI related to that. So we have that data of each of our customers that are connected. So we assess that and our ecosystem in a robust ecosystem that we want to implement in the upcoming years. So, we think of the potential of that and generating value of that adjacency. So, we have the competencies to be a relevant player in that. As Rodrigo mentioned the world of information that we will have access to could be relevant in partnerships and things that we can create for the future.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Thank you, Rodrigo and Nora. Good afternoon.

Operator

We have a question from Ivan [ph]. I'm going to read that. Good afternoon. I'd like to understand the apparent favoring of fleet management versus RAC in Car received and what are the prospectus for each segment that motivated such our occasion?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Ivan. Well RAC actually received more cars than Fleet Management. What determines that allocations today is that we have a very long line in orders and fleet management and we can't make our customers wait in that period. These cars are specific car models. So, every time they get a Car, specific and I have a specific order and fleet management for that car, we have focused on fleet management. So, we can service the customer that has already ordered that months ago. So, we can maintain our customer satisfaction.

And in RAC, it's a group system. So, I don't effectively have to have a specific car model. That's what's been motivating allocation even more than any other segment. The perspectives in both segments are very positive, be it in or Mayo or Fleet Management, traditional Fleet Management for companies. And in Rent a Car with the comeback -- well with by speeding up vaccination and the demand recovery in the entire segment, be it in apps or daily or monthly rental, we see a recovery -- a robust recovery in that demand.

A - Nora Lanari {BIO 18838335 <GO>}

Ivan, just to add. RAC is more affected by the pandemic set cycles. So, that highly impacted our Fleet Management available. So, fleet has a more resilient revenue streamline and many growth avenues in the future. So, the message that I have is that we see relevant opportunities in both segments. And we're very careful in capital allocation during the supply restriction. But we believe that there is a lot of space to grow, and in the upcoming quarters. And actually we will get a more robust normalization of production given the issues related to the semiconductor supply.

Operator

So, now to Victor Mizusaki's question. He is from Bradesco. I'll read his question. So, first of all, considering that Car, new car deliveries should come back to normal only in the second half of 2022. Could we consider then upcoming 12 months, we'll see less growth but a higher ROIC? Second question, analyzing the evolution of the end of period fleet, it seems like there was increase in claims fleet, in RAC in the last six months and a bit stronger in 2Q '21. Can you comment on these topics?

A - Nora Lanari {BIO 18838335 <GO>}

Well, I'll start and then Rodrigo can add. Victor, even though we have a full normal -- would have a full normalization as of the second half of 2022, we see any issues related to the semiconductors and stoppage in the automakers we already expect, August and September, more robust and in deliveries. So, we have a volume improvement expected, especially for the fourth quarter and the first and second quarters of 2022. But your logic is correct.

So, the maintenance and depreciation trade off, we are assessing a better use in allocation of our capital. So, we can expect higher ROIC because we have certain benefits in the tail effect, of Seminovos that should last for some more quarters, not only in margin, but also in depreciation, which is going up slower given the price increases this year. The second question about the end of period fleet evolution. The difference between the purchase and sale balance and end-of-period fleet are related to the claims. So, this related to that. So, we have a higher exposure in the daily individual customers. So, we have a higher risk in relation to brought and claims. So, that's why we increased the connectivity for fleet. And I think we'll gain a lot with that in this specific segment, but also in terms of the second half even with a quarter-over-quarter increase, we had the protection, car protection offered by the company and we've lowered that with our insurer partners that we had. And then we manage protection in-house. And we believe that that's giving us a great potential in profitability as we're going to manage that internally.

Operator

Next question is from Rodrigo Ferreira.

Q - Rodrigo Ferreira {BIO 17163678 <GO>}

Good afternoon, Rodrigo, and Nora. With price highs in parts and maintenance overall, you're discussing to do that more expensive maintenance in Seminovos or not incurring that and having a lower price in Seminovos given this good moment there going into.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Well having these cost is still worth it, especially if this vehicle is going to and end-users and not a reseller. The Seminovos or the use cards market is on a high right now. And we can't deliver a car that's not worth it for them, so it's worth it given that the demand in used cars is very heated at this time for consumers.

Operator

The next question from Maurilia [ph] from Onex.

Q - Unidentified Participant

First the lower sequential growth in terms of volume and fleet plus 4% was that given the limitation of fleet. And if you can comment on Localiza Mayo. And the second question, how have you seen the competition in RAC rates given the competition with new cars? Do you expect in relevant increases for the upcoming quarters?

A - Nora Lanari {BIO 18838335 <GO>}

Well, to answer your first question. We're talking about light weight vehicles and automobiles. I don't know if you're talking about competition. This special ones are specific niche that we do not operate in. We see an increase in volume and demand, but especially an increase in the backlog. So, it is because of fleet limitation we already have these orders and we should receive them at the end of the third quarter, beginning of the fourth quarter. So, we imagine like that growth will increase across the upcoming quarters and towards the end of the year. We're very optimistic though not only with Localiza Mayo but also with normalized Fleet Management. There is an important backlog there. So, the increase in new car prices could bring some customers to outsourcing.

The second question, how have you seen the competition in RAC rates given the increase of new car prices? Do you expect other relevant increases for the upcoming quarters? Well, Maurilia, in that case, we're going to stress the discipline in capital allocation again. We've been very careful and obviously in car purchases and in decommissioning in managing the kilometers available for our customers. And you can already see that the average rate has evolved in the last quarters on our side. Obviously, this segment is very competitive and the company tends to, I would say absorbed all the operating efficiencies in order to maintain the competitiveness level towards the market and maintain a strong level of growth moving forward as the delivery levels come back to stronger levels.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

I'd like to add, Nora. It's not clear to me if she is asking about the new car prices increases or the rental price increases. If you're talking about new car price increase, well, it's increased close to 30% since the beginning of the pandemic and there's still cost pressures that should be added to that, but there is a limit of course. So, we expect that new car prices will increase higher than inflation, but not historical levels than what we've seen in the past 12 months. And that Rodrigo does favor the tail in Seminovos in the used cars because it enables us to maintain higher margins until we send -- sell the cars that were sold before the price increases.

Operator

Brunos Delivera's [ph] question. Could you talk about the specific demands for fleet managements' clients for vehicle models? Do they want more SUVs? And the second question is how Localiza handling the Fleet Management backlog?

A - Nora Lanari {BIO 18838335 <GO>}

Well, I'm going to split Fleet Management into two, right. I'm going to call them traditional B2B. So large companies that outsource their fleet. And also Localiza Mayo, that's our subscription car product that would focus on SMEs and individuals. And the second one, yes we see a demand for SUVs more executive like cars. So, that has been one of the demands for that new product line, new segment that is in fleet management. So, it's a good purchase for the company. It's a good sale for automakers. And I'd say that the price is competitive for our customers. In specifically, in fleet management, we see consistent -- demand sort of consistent with the past. So, SUVs is mainly connected to Localiza Mayo. That's why I split the question into two.

And how is Localiza handling the backlog and fleet management? We're very careful with our customers' perception and we want to start relationship on the right foot. So, if we don't have an expectation to deliver, we rather not sell, but we are trying to meet our customers' expectations in the deliveries and we do have the issue with the automakers and semiconductors. So, the backlog is growing. We're being very transparent with the deliveries. And we believe we'll start to deliver more robust growth as of the fourth quarter and as some automakers will recover their production, the ones that had a more significant downtime this year.

Operator

(Operator Instructions)

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

(Foreign Language) Thank you everyone for your presence. Our IR team is available for any further clarification. Have a great day.