Q3 2015 Earnings Call

Company Participants

- Nora Lanari
- Roberto Antônio Mendes

Other Participants

- Bernardo Carneiro
- Bruno Amorim
- Gustavo H. Gregori
- Leandro Fontanesi
- Marcos Martins Pinheiro
- Márcio Prado
- Renato Salomone
- Sami Karlik
- Victor Mizusaki

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Welcome to Localiza Rent A Car's Call to Report 3Q 2015 Results. Roberto Mendes, CFO; Nora Lanari, Investor Relations Director are hosting the event today.

The numbers in this presentation are stated in millions of Brazilian reals and based on U.S. GAAP until 2010. They're based on IFRS from 2011 on. This presentation is being recorded and participants will be in a listen-only mode during the presentation.

Next, we'll start a Q&A session for analysts and investors, where further instructions will be provided.

The conference call audio and slide presentation are being broadcast simultaneously over the Internet at www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking the banner 3Q15 Webcast.

Before proceeding, I'd like to clarify that any statements made concerning business outlook of the company, forecasts, as well as operating and financial targets, represent opinions and assumptions by the company's management and may or may not occur. Investors must understand that economic conditions and other operating factors may affect the company's future, leading to materially different results from those stated in this call.

I would like to invite the company's CFO, Mr. Roberto Mendes, to start the teleconference of the third quarter 2015.

Roberto Antônio Mendes {BIO 7289124 <GO>}

Good afternoon, everyone. Thank you for attending our conference call. During this quarter, Standard & Poor's and Fitch has reaffirmed Localiza's investment grade even after downgrading Brazilian sovereign rating.

Standard & Poor's also reported that those companies with ratings above 7 ratings were submitted to strict stress test. Besides S&P and Fitch, Localiza is also rated investment grade by Moody's. The credit ratings attributed to the company are a result of its discipline to collect cash and debt management; and also its driven flexibility and capacity of coming out stronger after economic and political scenarios as the one Brazil is undergoing right now.

Slide number 3 shows some highlights of the third quarter 2015. EBIT margin in Car Rental Division remains stable. Regarding Fleet Rental, YTD EBIT margin increased this year when compared with the same period last year. Net income reached BRL 102.9 million, 1% above 3Q 2014 and higher than the first and second quarters of this year.

To present the 3Q 2015 results, I would like now to turn the floor to Nora Lanari, Investor Relations Director.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon, and thanks for attending the call. Slide number 4 shows the growth evolution of Car Rental Division. In the first nine months of 2015, rental revenues dropped 3.1% due to a 0.5% reduction in daily volumes and also due to 3.1% drop in the average rental rate, as compared to the first nine months of 2014.

Net revenues were 2.5% lower due to a decrease of 2.6% in the average rental rate if compared to the first nine months of 2014. Rental volumes were stable compared to last year. Margins improved compared with the volumes of the first and second quarters of 2015.

Slide number 5, here you see the evolution of average rental rate in the Car Rental Division. Promotional prices aimed at stimulating demand in the current macroeconomic and competitive scenario resulted in a lower average rental rate for 3Q 2015, when compared to 3Q 2014. 3Q 2015 posts a higher average rate compared to 2Q 2015 mainly due to an increase of higher rate segments in the mix in spite of the promotional bias.

Slide number 6; you see the Car Rental Division's utilization rate. In the third quarter of 2015, utilization rate in the Car Rental Division was 70.7%, 2 percentage points above the third quarter of 2014 and 1.7 percentage points above the second quarter of 2015, highlighting the company's discipline in adjusting its fleet. This occurs after the opportunistic car purchase anticipation in 4Q 2014 prior to the restatement of IPI tax, but also proves the company's commitment to productivity and efficient capital allocation.

Slide number 7; here you see the evolution of Car Rental network. 17 new locations were added to Localiza's network, totaling 557 branches in Brazil and in other seven South American countries.

Next slide, number 8, you see the volumes and revenues of the Car Fleet Rental Division. In the third quarter of 2015, net revenues of the Fleet Rental Division grew 8.5% compared to 3Q 2014, due to a 5.5% increase in daily rental volume and 1.4% in the average daily rental rate.

Next slide, number 9, shows the evolution of revenue from contracts in the Fleet Rental Division. Revenues from contracts grew 22.3% due to the synergies of the platforms, commercial intelligence and market opportunities. Revenue from contracts reached BRL 885.8 million in September 30, 2015.

Slide number 10, you see the fleet net investment evolution. During the third quarter of 2015, 15,521 cars were bought and 15,738 were sold. Even with the 217 fewer cars, investments amounted to BRL 36.8 million due to a mix change, chiefly in the Fleet Rental Division.

Slide number 11 shows the end of period fleet. The Car Rental Division corporate fleet increased by 0.9% vis-à-vis the fleet of the first nine months of 2014. When compared to the end of 2014, fleet was reduced by a roughly 65,000 cars to adjust the fleet size to rental demand. By the end of 2014, Localiza anticipated the purchase of 76,000 cars to avoid higher prices after the reinstatement of IPI tax announced in January 2015. By the end of September, total fleet amounted to 117,449 cars. In that, 104,274 was company property; 13,175 belonged to its franchisees.

Slide 12, consolidated net revenues evolution. In 3Q 2015, the company's net revenues dropped 2.9%. Rental revenues grew 0.8% compared to 3Q 2014 due to an 8.5% growth in the Fleet Rental Division. This increase offset the 2.5% decrease in Car Rental Division revenues.

Seminovos' net revenues fell 6.2% in 3Q 2015 vis-à-vis 3Q 2014. This was mainly due to a 16.4% drop in cars sold. This drop was partially offset by a 12.1% increase in the average sales price.

Slide number 13 presents the EBITDA evolution. In 3Q 2015, consolidated EBITDA totaled BRL 238.8 million, 1.1% below the same period last year. EBITDA margin was 32.4% in the third quarter of this year, up 2.4 percentage points vis-a-vis the second quarter of 2015. In 3Q 2014, the division's SG&A was positively impacted by BRL 7 million due to the new appropriation criteria of the overhead, which is also adopted to Seminovos as reported in the third quarter of 2014.

In the Fleet Rental Division, EBITDA margin was 62.6% in 3Q 2015, up 1.5 percentage points when compared to 3Q 2014. Seminovos EBITDA margin was 7.5% in 3Q 2015. This result reflects an increase in Seminovos' prices pulled (10:47) by automakers' recent price increase regarding new cars. It's also a result of the company's expertise in buying and selling assets.

Slide number 14, the average annualized depreciation per car in Car Rental Division. In the first nine months of 2015, the annualized depreciation per car was BRL 577.9, compared to BRL 1,270 in 2014. Depreciation expenses were lower than last year as a result of an increase in new car prices due to inflation, the end of the IPI tax exemption and an increase in industry costs which ended up pushing the prices for Seminovos.

Slide 15, average depreciation per car in Fleet Rental Division. In Fleet Rental Division, annualized depreciation per car was BRL 3,921, 6.5% down from 2014.

On slide number 16, you see EBIT margin evolution. In spite of 2015's adverse scenario, Localiza posted a BRL 11.5 million increase in EBIT in 3Q 2015. The BRL 2.7 million drop in EBIT was more than offset by the BRL 14.2 million reduction in depreciation expenses.

Slide 17 shows the evolution of net income. The increase of BRL 11.5 million in EBIT was offset by an increase of BRL 17.3 million in financial expenses. This is due to an increase of the basic interest rate from 11% to 14.25%; and also BRL 2.1 million of PIS/COFINS on interest income; as well as BRL 10 million debit of mark-to-market of the Swap contract for protection of foreign currency loan.

This mark-to-market expense will not be incurred by the company since the Swap will be settled as a maturity for the operation. This has a cost of 102.7% of CDI. The market value will converge the same value of the contract.

Also, income tax expenses were reduced by BRL 6.8 million as compared to last year due mainly to an increase in long-term interest rate TJLP. This impacted the amount of interest on owned capital base, reducing the income tax base. All-in-all, even in this scenario of higher interest rates, net income grew 1% to reach BRL 102.9 million in 3Q 2015.

Slide 18 shows the company's free cash flow. YTD, the company's free cash flow before interest was BRL 193 million.

Next slide, number 19, you see the change in debt. Net debt rather increase of BRL 103 million is mainly due to shares of stock buyback and to the payment of dividend and interest from capital, which increased due to the hike of long-term interest rate, from 5% to 6.5%. 720,000 shares were repurchased at an average price of BRL 23.23.

Slide number 20 shows the debt ratios, which reflects the company's financial discipline. The company continues to be in a comfortable position regarding its debt ratios. Localiza is prepared to face this turbulent period in this economy and to capture market opportunities.

Slide number 21 shows our cash positions and the debt amortization profile. The company's strong cash position and the debt profile places the company in a very comfortable position in comparison to major competitors. This financial discipline led to Localiza's investment grade be maintained by S&P and Fitch and Moody's, even after downgrading of this in the sovereign rating.

On slide number 22, it's possible to see that even with the adoption of more aggressive commercial policies in an adverse economic environment, Localiza continues adding value to its shareholders with an ROIC of 16.3%.

Let us now move to the Q&A session.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. First question, HSBC, Gustavo Gregori.

Q - Gustavo H. Gregori {BIO 16209398 <GO>}

Good morning, Nora and Roberto, I have two questions. The first one, could you give some color regarding the different segments in rental costs, I mean, individuals and companies? The second question, we saw another drop in the volume of Seminovos in sales. Can you see a new risk that this volume might keep on dropping? Do you think Localiza might have to decrease the spread between Seminovos and new cars in order to have an adequate volume of renewals next year?

A - Operator

Thank you for the questions. Regarding the first one, we really don't give this sort of information, but what we've seen so far is that corporate segments have been hit the most in this adverse macroeconomic scenario. In leisure, either due to our lower tariff or due to the fact that the exchange rate is favorable to foreigners who come to Brazil, this segment has been faring better in 2015.

Regarding your second question, a drop at Seminovos volumes and its potential impact in the spread between Seminovos and new cars. What we've seen so far is that the volume of new cars has been dropping and the automakers have passed this on to prices, so the prices of our Seminovos will follow this movement in price. So the sales volumes have decreased a little bit.

We are prepared to sell the cars. The volume is a little below our expectations. It's nothing that will impact the age of the cars sold, cost or customer satisfaction. So we believe that we'll keep our renewals on schedule in an adequate manner. We have a network of resales that can be a cushion to this sale. We're totally prepared to an adverse scenario. We don't expect a reduction in the spreads, either for this year, nor for next year.

Gustavo, the scenario is a bit more difficult. Consumers' confidence is dropping. So maybe it's not a matter of price, it's more a matter of demand. We need to be ready for a scenario ahead. But instead of that, we don't expect this to impact depreciation, because our margins are robust. Should this happen, this might have an impact. But when we calculate depreciation, we estimate the depreciation for cars to be at today's prices. So we are prepared for this scenario.

New cars, we expect will keep on appreciating. Yesterday, newspaper Valor wrote an article, had an article along these lines. The automakers need to pass on the increases they are incurring in with the energy and the effect of the exchange rate and so on, they need to increase – pass this on to their prices. So, apparently, this is the scenario from now on and we expect this to be the same scenario for next year.

We are prepared for these challenges. This crisis has been announced and we have a very good knowhow, not only in selling cars, but also in buying them. We don't expect a relevant fluctuation in this spread.

Q - Gustavo H. Gregori {BIO 16209398 <GO>}

Thank you.

Operator

Next question, (21:09) from Votorantim Bank.

Q - Sami Karlik {BIO 16221284 <GO>}

Sami Karlik is speaking. My question is partially answered by the previous explanation. But I would like to see whether this BRL 473 million annualized is something that's going to be sustainable. Roberto has said a few words about this already.

A - Operator

Yes. Actually, this question is a recurring question. That's why we take it back on the previous question, because this is a general question. We are very careful in terms of our depreciation calculation. We reassess fixed cost, variable cost, market value for old car into this periodically every three months. So we want depreciation well-adjusted in any scenario. We're always doing these calculations, so we're comfortable with the level of depreciation that you mentioned.

Q - Sami Karlik {BIO 16221284 <GO>}

Thank you.

Operator

Next question comes from John Milford (22:24), Morgan Stanley.

Good morning. Thank you for the call. Can you give us some color on the fleet management? The volume is very resilient given the macro scenarios. What do you expect from now on? This is my first question.

Thank you for attending the call and for asking the question. The macro scenario is challenging, so it's both an opportunity and a challenge for the company. Challenge because we need to deal with the reduced demand. But we see companies with their own fleet with greater outsourcing appetite to release some cash. These companies prefer to outsource or to rent the cars from us.

So we've been using commercial intelligence to capture these opportunities and also in terms of pricing these opportunities. The contracts terms have been increasing, the prices are a little lower; and this is a market of low penetration. So we estimate 4 million cars in corporate fleets, 440,000 of which are outsourced. So we have a relevant amount of owned fleet and we want to capture at least part of this volume. Any other questions?

About the cost and reimbursements, can you tell us about what these opportunities would be? And when would we be able to see these initiatives being deployed?

We have some important cost initiatives, but we're currently reviewing all the company processes to find out what we can capture in our benefit. The future scenarios are positive, we'll have some challenges. So we're starting from the assumption that we have to improve efficiency, productivity in our processes. We don't have any figures to give you, I'm sorry.

Thank you.

The next question comes from Márcio Prado, Goldman Sachs.

Q - Márcio Prado

Good afternoon. Thanks for the call. I'd like to follow-up on the previous question about fleet management. Talking about slide number 9, you see the evolution of contracted fleet, 22% evolution; and revenue has been growing strongly 7%, 8%, 9%. Could you please give more information on this chart on page 9? Plus the GAAP, when does this revenue become realized revenue? So some more information about the fleet management.

A - Operator

Thank you for your question, Márcio. The revenue per contract today is BRL 885 million, whereas in the first quarter of 2014 it was BRL 647 million, as you see. So we had contracts between two years and three years, and the trend was for this contract to migrate to three years. So we have a better revenue streamline. I'm not saying that this 22% will realize itself in three years.

Q - Márcio Prado

But in simple math terms, if you didn't have any new contracts, just to understand this BRL 885 million, so if it were realized in three years it would be more or less BRL 300 million?

A - Operator

Not really, because it's up to three years, right? It's not exactly three years. There are some contracts which were signed three years ago and will be realized in one year, and some other ones will be realized in three years.

Q - Márcio Prado

So a year-and-a-half, so BRL 600 million. Can I?

A - Operator

Yes. That's more like it.

Next question, Leandro Fontanesi, Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

I'd like talk about depreciation. So you posted an increase quarter-on-quarter on depreciation. But I understand there's a difference between the purchasing and selling prices. So last year we still had very good discount at big automakers; now the sales prices have gone up 4% quarter-on-quarter. So why did depreciation increase? Does it have to do with the average age of the cars that you sold, or do you think the sales price would be even better than what it was?

A - Operator

Thank you for your question, Leandro. One quarter does not determine a trend. So in one quarter you may be buying cars of a higher or lower category. So you need to look at a longer period. When you talk about the age, 13 months or 14 months will not impact the sales price. So this is not what would lead to an increased depreciation.

So there was no change in the scenario so far. Prices have gone up 4% this quarter. So, in principle, there would be no reason to increase depreciation. So that's not it. It's not that we're saying to the market that the scenario is deteriorating or the situation is becoming different. Depreciation in (29:47) this quarter is similar to last quarters.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

So it's more about the mix?

A - Operator

Yes, it's more about the mix.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

And when you look at the fourth quarter 2015, last year you bought 7,600 cars in anticipation with a good discount because of the IPI reinstatement. Do you think this could hold depreciation or improve when you are to sell the cars now or at the beginning of the next year?

A - Operator

Well, as a whole, the whole increase was more than 10%. Part of it can be attributed to new and used cars, and part of the increase is about the IPI reinstatement. But this is already considered in depreciation. So we have already considered a depreciation for these cars with an additional discount of, let's say, 4%.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

I get it. Thank you.

Operator

The next question comes from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have two questions. The first one, you look at Localiza's site in CS for rental of BMWs and Volvos, how is that negotiation going on with the automakers? And looking at the capital structure, you see that there is a cash excess and the investment grade gives it some competitive advantage. So what's the cash excess so that you could pay dividend or accelerate the buyback program?

A - Operator

Actually, we did buy some Volvos and BMWs; not too many. The demand for these cars is not so great. But we wanted to meet the needs of the Executive segment. We had good purchasing conditions, and we decided to buy because of this. Regarding the second question, Roberto will answer.

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

There is no recipe for this investment grading, but we did make some demonstrations and they were very comfortable in the way we were managing our cash, preparing for a possible scenario deterioration.

So on slide 21, for example, you see that you have BRL 1 billion in debt for the future. You also need to see what are the suppliers that you have to pay. So looking at this debt, short-term debt, you see that you have BRL 1.5 million debt with the automakers, plus BRL 600,000 in short-term. So we have twice as much a need in the short-term. There is no magic figure. But what's important is how much it would cost to have this cash. We have looked for applications that will give us a good possibility of reloading this cash.

We believe that this difficult scenario will be a long-term scenario, so more than what we saw in 2008-2009. So that's why we needed this comfortable cash position; and we think this is adequate now.

Operator

Next question comes from Luis Barbosa (34:29) from UBS.

I have two questions. First one a follow-up in terms of depreciation in Seminovos. What do you expect in terms of Seminovos' margin for next year? Would it be stable? This is my first question.

We don't give results guidance. But in a scenario where new cars are appreciating, Seminovos will also have an important margin in a very robust level. Now if the market changes, if the new car prices do not increase, while Seminovos deteriorates, then we might have a different attitude, but it's not our policy to give you guidance.

Second question, the car rental volume, you have your own network and new stores since the beginning of the year. Do you have any franchisees and what's the same-store sales growth?

The 10 stores were greenfield, so no purchasing from the franchisees. So same-store sales is little affected by the Corporate segment. From these 10 new branches, they are smaller size, so marginal contribution to our volumes.

Next question. (36:21), Bank of America.

My first question has to do with the competitive environment. Localiza has improved its margins, tariff volume. And we know you have a competitor that's growing a lot, and they must be suffering with Localiza's strategy with the promotions for individuals, because this is most of their volume. So I imagine that you must be feeling the impact. Would you see the appetite improving? Is this too early to talk about this? Is this something for the future? This is my first question.

Thank you for your questions. Yes. We need to see what the competitors have in terms of figures in order to understand what's happening to them. We haven't seen any relevant changes. We'll wait for the results to be published and then we'll be able to answer you.

Second question, in terms of sales prices. In the first half of the year, the buying price was increasing much more than the sales price; now we see a reverse of that. Buying prices increased less and sales prices increased more. Do you think this is about mix? Are you selling cars which are more expensive? And if you consider it, in yearly terms, do you think the sales price (38:09) purchasing prices are going to increase or not?

Yes. Car prices fluctuate. They do fluctuate during the year. In the beginning, the market was warm. And so there's a number of factors which will have a positive or a negative impact on prices. That's why we suggest you look at a longer timeframe, not just one quarter, because sometimes we have cars of lower or higher added value; and this will have a lot of impact on the price in a couple of quarters.

And the same goes with sales. At the beginning of the year, we will buy new cars with increased prices after IPI restatement and we were selling last year's cars. So there was a lag of, let's say, one year. That why we suggest you look at a longer timeframe. Then, you can spot a trend. Thank you.

Next question comes from Bernardo Carneiro, Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

My question is about the others fleet. We know that there is a mix effect. We know that there is a strong competitive pressure from competitors and the company placing more cars in certain segments to improve ROIC and improve utilization rates. But we also know that in two years or three years where the rates are not in line with inflation. So if you consider the rental space and the marketing and all the other expenses, the tariffs were not in line with inflation.

So what are we to expect for next year and for 2017 in terms of tariff evolution? Not only adjustments by you, but also the mix effect. How is the average rate of ROIC next year because we expect – because there's this scenario to keep on being fierce and the economic scenario shouldn't be any better. So what do you expect for next year?

A - Operator

As you know, our main indicator is the return on capital invested and the spread regarding the money after income tax. So all our actions, price-wise, will depend on this indicator, which is the most important indicator. So think about EBIT, which is something that comes before ROIC. EBIT is very favorable. And even in this scenario of higher costs and more competitive prices, we are okay. But we are growing in the segments with better tariffs. So our profitability is stable or even better than the best.

In the long-term, we cannot imagine that tariffs are not going to increase. But for as long as we can remain competitive and profitable, we'll use this strategy. It's a strategy that is working. And I think that the country should, in a little while, overcome this deteriorated scenario.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

What about percentage terms? You think it would be optimistic to have an increase of the average rate by next year?

A - Operator

This year it's about zero or even there's a small or a slight drop.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

What about next year? Do you expect to keep on trying to attract individuals with lower prices? What do you expect for 2016 in terms of rates?

A - Operator

We cannot give you this guidance. We'll be focusing on returns. So our tariffs will be competitive. It is our strategy for next year.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Thank you.

Operator

Next question, Bruno Amorim, Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning, Nora and Roberto. I go back to the previous question about cars sold. The average age of vehicles sold was 14 months and now it's 15. What's the limit of this age of cars sold? What do you think? And when do you think this increase in the age would have an impact on costs? In 2012, you reached almost 16 months and you didn't have many problems. So is it something you monitor? And when do you expect to start having problems with the age?

A - Operator

Thank you for your questions. We have some metrics here. But as you said yourself, we have already reached 16 months in the past and this does not deteriorate the results. The turnover of our inventory has de-accelerated a little bit. So we went from 14.3 months to 15.1 months.

Last year, we had the World Cup, so we bought some cars in order to meet the demand for the World Cup; and we don't want to deactivate them all at once in order to not to put a pressure on prices. So we are delaying this turnover; and this has an impact on the cars sold.

The Seminovos market is a little below our expectations, especially in September. But it's not something that will change our expectations. This figure would start to have an impact if we waited for 18 months to sell the cars.

Next question comes from Renato Salomone, Itaú BBA.

Q - Renato Salomone {BIO 17292431 <GO>}

Hi, Roberto and Nora. Regarding yield management, how is the learning curve of this tool? Is it possible to say that part of this sequential recovery has to do with the yield management ramp-up, together with the competitive intelligence? I know that there is a mix factor, but would you say that you are already reaping the yield or the fruit?

A - Operator

Yes. I think we can say that. We can say that we are already reaping the results of this tool that we're using. The learning curve is very good, and we're developing a robust system; and we're seeing good results from this price fluctuation.

Q - Renato Salomone {BIO 17292431 <GO>}

Also regarding Seminovos, could you say a few words about the monthly sales volume, how it was? And looking forward, do you think you can keep a monthly average around of 5,000 cars? I think this would be a healthy target that you are also looking for.

A - Operator

So, Renato, the average was pretty much the same along the six months. It was a little worse in the last month; and this is seen in the news because there was an effect in September. But this does not represent a relative – a very important change. Our objective is to maintain the fleet renewal pace, not letting your fleet to get too old.

Q - Renato Salomone {BIO 17292431 <GO>}

If need be, are you going to sell to open new points of sales for Seminovos?

A - Operator

Thank you for your question because we have 76 stores and we have another two being built in addition to our distribution channel, which is all over the country and which can be a cushion in case the scenario worsens.

Q - Renato Salomone {BIO 17292431 <GO>}

Thank you.

Operator

Next question comes from Stephen Trent.

Hi. Good morning, Roberto and Nora. This is (48:30) in for Steve. Thanks for taking our questions. Firstly, what are you seeing from the main competitors? I know that you said you were waiting for the reports to get published (48:43) you can kind of see what's happening. But do you have any kind of indication on how Unidas is continuing to grow and are they still growing at a very strong pace? And we also heard that their current company has been able to refinance. Do you have any color on Unidas? And do you kind of have any expectations on what they might like a couple of years from now? That's my first question.

Just to make sure I understood your question. You asked about competitiveness, the Movida, Unidas and funding?

Yes.

In order to answer this question, we need to wait for the results of Movida and Unidas. This should be published in November. What we've seen so far is that the third quarter was better than the second quarter. We have already seen some better results due to our strategy of revenue management. It's very hard to tell you about the competitors because we haven't seen their results yet.

What we know regarding financing is that there are some players with a profile that's very concentrated in the short-term and the funding will be complicated. The leveraging of these players is much higher than Localiza's high leveraging, and this makes for a harder funding. Brazil lost its investment grade, and this could have an impact in the ratings of some of our competitors. And the debt market is more difficult these days, so there might be a relevant impact especially in terms of funding costs. According to what we've seen recently, the demand is below the supply. So the market might be a little more difficult, I guess.

Okay.

Next question comes from Marcos Pinheiro, Opportunity.

Q - Marcos Martins Pinheiro {BIO 20544440 <GO>}

Good afternoon, Nora and Roberto. Looking at the fleet, the daily rates year-per-year grew only 1.4%. We've always believed that the fleet prices would grow in line with inflation. This year, our inflation is more than 9%, so how come the fleet price is not in line with inflation? Why is it so much lower than inflation?

A - Operator

Thank you for your question, Marcos. You're right. In the current contracts, there will be better inflation. But this growth in terms of new customers was very relevant. And we've been trying to make the average contract prices longer in order to have better pricing in this segment.

Q - Marcos Martins Pinheiro {BIO 20544440 <GO>}

But it's longer profile, will it have an impact on old contracts? Will it generate a reduction in prices in the old ones or just for the new ones?

A - Operator

No. Just for the new ones. Now this depends on the mix. So, hypothetically, if customers are choosing cars which are less high-end, this will have an impact on the average rates.

Q - Marcos Martins Pinheiro {BIO 20544440 <GO>}

So we're talking about an average, so it's more difficult to understand. You have the old contracts and you have the new ones with the new pricing.

A - Operator

So the old ones are being allocated in order to improve our competitiveness. But, obviously, the quarter tariffs will be impacted by the contracts, by the new contracts (53:09).

Now we bring the Q&A session to an end. Let me give the floor to Nora Lanari for her final remarks. You have the floor.

A - Nora Lanari {BIO 18838335 <GO>}

We would like to thank you, all, for attending. And let you know that our IR Department is available for any questions you may have. Thank you very much.

Operator

Localiza Rent A Car call is now finishing. We thank you, all, for participating and have a nice day.