Q3 2020 Earnings Call

Company Participants

- Mauricio Fernandes Teixeira, Chief Financial Officer and Investor Relations Officer
- Nora Mascarenhas Lanari, Investor Relations Officer

Other Participants

- Alexandre Falcao, Analyst
- Bruno Amorim, Analyst
- Lucas Barbosa, Analyst
- Murilo Freiberger, Analyst
- Regis Cardoso, Analyst
- Rogerio Araujo, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon and welcome to Localiza Rent a Car Conference Call for the Third Quarter of 2020 Results. Hosting the event today are Mr. Mauricio Teixeira, CFO; and Ms. Nora Lanari, Investor Relations Officer.

We inform you that the numbers in this presentation are stated in millions of Brazilian Reals and based on IFRS. The presentation will be recorded and all participants will only be able to listen during the conference call. Immediately afterwards we will start the Q&A session for analysts and investors when further instructions will be provided. (Operator Instructions). The conference call, audio and the accompanying page presentation are being broadcasted simultaneously over the web at ir.localiza.com/en/. The page presentation can be downloaded at the same address by clicking on the banner 3Q '20 webcast.

Before proceeding, we would like to clarify that any statements made during the conference call concerning the business outlook of the company, forecasts as well as operating and financial targets represent the opinions of assumptions of company management, which may or may not occur. Investors must comprehend that political and economic conditions and other operating factors may affect the company's future and may lead to materially different results from those stated in this call.

To start the third quarter 2020 teleconference, I'll turn the floor over to the CFO, Mr. Mauricio Teixeira.

Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

Good afternoon and thank you all for attending. It's a great pleasure that we present the results of the third quarter of 2020. After experiencing unprecedented challenges that directly impacted the mobility sector, we were able to demonstrate the Localiza team's ability to adapt and execute. After restricting our operations in several locations during the second quarter, we fully resumed our activities when we were sure about the appropriate level of safety for our customers and employees. This environment required agility to make the right decisions, which allowed the recovery of results and the acceleration of investments in new solutions and innovations.

We report extraordinary result with quarterly records in revenue, EBITDA, EBIT and net income. We accelerated investments in building the future of mobility and announced the launch of our subscription car solution Localiza Meoo, which brings long-term rental to the market through a digital journey enabling a superior experience for our customers. This innovation will allow Localiza to open an important avenue for growth.

This quarter we also announced our intention to combine business with Unidas with the objective of bringing together the best of both companies, increasing access to car rentals for individuals and companies, and delivering the best solutions and experiences to our consumers. We remind you that the completion of the transaction is subject to approval by the shareholders of the companies and their respective meetings on November 12 and by the Brazilian Antitrust Agency. We continue with our purpose of becoming even more committed to the community. This quarter we launched our Diversity and Inclusion Program. We're also supporting clinical trials to test the COVAXX vaccine against the coronavirus. We were honored to be recognized first in the Epoca 360 degree ranking as the company with the best Corporate Governance in the service sector. We also won the Ecovadis Gold Seal, which reinforces our work in defense of sustainable development. And we started studies to neutralize carbon emissions in addition to becoming institutional partners of the Ethos Institute's Commitment to Climate. This was the tone of the quarter, recovery of growth and value creation for our shareholders and society.

Now, moving on, we can move on to the 3Q '20 results presentation. On Page 2, we can see the operating highlights for the quarter. In 3Q '20 the average rented fleet in the Car Rental division grew 5.4% compared to 3Q '19. Looking only at September, we were already approaching the level of average rented fleet of the first quarter of 2020. The Fleet Rental Division reinforces its resilience with an increase of 8.6% year-Over-year. Used car sales showed a strong recovery with the sale of 45,536 cars, showing an increase of almost 24% year-over-year. The Total fleet decreased by 6.7% in the annual comparison at 279,885 cars.

On Page 3, we show the financial highlights, which demonstrate the recovery of the company's growth and path of profitability. In 3Q '20 compared to the same period last year, net revenue and EBITDA increased by roughly 19%, EBIT increased by approximately

41%. We achieved a record net income of BRL325.5 million with the growth of 59%. This result after a challenging period was the result of the correct strategy and agility in decision making, which puts the company back on the growth path with value generation. To provide details about third-quarter results, I would like to hand the floor over to our Investor Relations Officer, Nora Lanari.

Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Thank you, Mauricio, and good afternoon everyone. Starting with the Car Rental Division, as you can see on Page 4, in the third quarter, the average rented fleet increased by 5.4% and revenue decreased 0.3% year-over-year, mainly due to the lower in average rental rate resulted from changes in mix composition dependent, mix change the dynamic -- mix of the market, increased preference for private transportation and longer-term rentals with lower average rates.

However, as can be seen on Page 5, we're gradually managing to recompose prices and the average rate of BRL66.8 this quarter, which is already 24.2% higher than the rental rates presented in 2Q '20. The utilization rate directly affected by the drop in volumes during the pandemic, especially at the beginning of the quarter was 75.9% in the third quarter, 2.7 percentage points lower year-over-year, but 23.3 percentage points higher than the rate of 2Q '20. In September, this division already had a utilization rate above 80%.

On Page 6, we show that the network of the own branches was expanded in the nine months of 2020 by four branches and the network of franchised branches abroad has been extended by one unit. On page 7 in the Fleet Rental Division, we also see the resilience of the segment, with the average rented fleet increased by 8.6%, and net revenue increasing by 9.4% year-over-year with an average rental rate that's practically stable.

On Page 8, we see the buying and selling of cars. In the quarter, we bought 22,881 cars and sold 45,536 cars, a decrease of 22,655 cars in the fleet with a net sale of BRL972.9 million. The reduction contributed to the resumption of fleet utilization levels in the Car Rental Division. On Page 9, we show the Seminovos Network, which increased by four stores throughout 3Q '20, ending the period at 129 points of sale. We saw strong recovery in the volume of car sales and ended the period at 45,536 cars sold resulting in a lower cost to sell per car. On Page 10, we show the End of Period Fleet, with car rentals showing a reduction of 4.6% and fleet rental, a decrease of 10.3% year-over-year. Thus the total fleet was reduced by 6.7% on the same basis of comparison and reflects lower volumes of cars being activated, decommissioned and less cars available to sell.

Moving on to Page 11, we see that the consolidated net revenue for the quarter grows 18.8% year-over-year. Net rental revenues increased by 2%, while Seminovos increased 29.6%. In the accumulated result for the year, consolidated revenues increased by 2.4% with rental revenues growing by 2.9% in Seminovos increasing by 2.2%.

Moving on to Page 12, consolidated EBITDA increased 18.9% in 3Q '20 compared to the same period last year. Third quarter EBITDA results mainly from the rebuilding of Seminovos and Car Rental volumes and the resilience of the Fleet Rental Division combined with an efficient cost and expenses management, reinforced throughout the period of the pandemic, which enables a consistent rebalancing of margins. EBITDA margin for RAC was 42.9%, pretty stable compared to 3Q '19. The flat margin in a context of lower rates confirms the efficiency of cost and expenses management. Fleet Rental had a margin of 73.4% reflecting an expansion of 7.2 percentage points. Seminovos presented a margin of 6.3%, reflecting the increase in the price of cars and dilution of selling costs as volumes were recovered.

On Page 13, we see that in RAC annualized average depreciation per car was BRL1,272 in the quarter with a 51.8% reduction compared to the last quarter. This drop in the level of depreciation was due to the increase in market prices for new and used cars, which were reflected in the estimated sales percentage. In addition, the higher sales volume contributed to the reduction in cost per car sold, another relevant input to calculate depreciation. In Fleet Rental Division, the annualized average depreciation per car was BRL2,312, 10.5% higher than the last quarter, but in line with the year average.

On Page 14, we can see that consolidated EBIT for 3Q '20 reached BRL503.6 million, an increase of 41.1% year-over-year. The EBIT margin of the Car Rental Division was 40.8%, representing an expansion of 10 percentage points Year-Over-Year. This increase in the margin reflects the lower average depreciation per car and the Seminovos results. In Fleet Rental Division, EBIT margin was 73.4%, and increase of 23.3 percentage points compared to 3Q '19. Due to the factors previously mentioned that affected the EBITDA positively and the decrease in the annual average depreciation due to the higher prices on car sales and the change of the depreciation method to the linear method.

Net income for the quarter on Page 15 grew 59% compared to 3Q '19. This increase is explained by the increase in EBITDA by approximately BRL103 million together with the reduction in the depreciation of cars by approximately BRL50 million and financial expenses by approximately BRL40 million, partially offset by an increase in income tax and social contribution of approximately BRL66 million. On Page 16, we show that over the nine months of 2020 cash generation after growth was explained mainly by the cash generation from rental activities of approximately BRL1.2 billion. The reduction of the fleet also generated another BRL1.6 billion, however, this was consumed through payments made to automakers. Therefore, the balance of accounts payable to automakers was reduced from BRL2.4 billion at the end of last year to BRL857 million this quarter. As can be seen on Page 17, net debt decreased approximately BRL415 million mainly due to the cash generated by rental activities and fleet reduction, ending the quarter under BRL6.2 billion.

I would like to turn back over to Mauricio to present our cash position and leverage.

Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

Thank you Nora. You can see on Page 18 that we ended the quarter with an extended debt profile and with adequate liquidity to resume growth. At the end of the quarter, we had over BRL4.4 billion in cash, which would be enough to pay of our debt commitments by 2023. On Slide 19, we can see that net debt divided by annualized EBITDA ended the quarter at 2.7 times for the purposes of our convenience. We measure the ratio with last 12 months of EBITDA and in this case, the ratio was 2.6 times. It's worth noting that last quarter, the ratio was at 3.6 times.

On Page 20, we present the evolution of ROIC spread versus the cost of debt. In 9M '20, we delivered a nominal spread of 6.6 percentage points, which is quite healthy considering the pandemic that has affected our operations for most of the period. Analyzing the annualized 3Q '20 spread only, we reached a level of 9.5 percentage points. We'll always continue being bold and playing star role to develop new opportunities for growth and value creation.

We're now open to answer your questions.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the Q&A session. (Operator Instructions) First question is from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hi, everyone. Mauricio and Nora, good morning. Thank you for taking my questions. I'd like to touch on some points that you've already mentioned during your presentation. One of them particularly is depreciation, I understand that the increase in new car prices contributed to reduced or to lower depreciation. I understand that it contributed to that effect. What stood out to me is first of all, the magnitude, the (inaudible) from one quarter to the other, and the fact that it's completely in RAC (technical difficulty) I don't want to have a similar effect? And another question, if you allow me, about your subscription program Meoo. How do you believe the adoption curve will happen across time. So as from -- what moment should we expect that this program for individuals will be a relevant part or share of the consolidated company revenues and results. I'd also like to understand the negotiations you have with automakers that you've concluded for the fourth quarter and for 2021? Thank you.

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Hi Regis. Thank you for your question. I'll start off with depreciation. Just to do some easy math in terms of BRL per year, it's a little less than 4% of the price of the car. that's per year. The level of price increases that we see in new cars that reflect on Seminovos on the used cars with about 4% to 6% in some cases, achieving 8%. So in those cases many cars that were already being depreciation had zero depreciation in the quarter, they didn't depreciate anything because they already had an adjusted price based on what we expect to sell it for. So when it's at that levels that we reported, you have cars that are being depreciated in somewhat zero depreciation because the price increase was much higher, that's why the depreciation reacts fast and the levels are lower.

In fleet management, we also had a reduction, but the depreciation throughout the contract that's two or two years. And we're still moving from solid depreciation to the linear method. Therefore, we still have a mix and we lowered the level for -- the new cars have a lower depreciation (Technical Difficulty) in technology and productivity, so we can capture efficiencies throughout time, and the pandemic has reinforced the company actions in the sense of having stricter controls and closer, if we have a recurring benefit here. But the fact is that the spreads is assisted by the context of lower depreciation.

The lower depreciation last while the prices of new cars are going up and the trend is that at some point, it goes back to normal but until that happens, we always signal to the market from like spent of 8 percentage points. So we probably maintain that in that range, if depreciation or while that depreciation continues to help. The rates and returns in lack, we see that there is a utilization rate as Mauricio mentioned that goes up to 80% already in September and we see a resumption of growth that's faster than what we originally imagined and obviously that's been helping in price recovery.

So when we look at the mix effect, it has its impact -- I'd say detracting and not in a bad sense, but in the long term, that gives us lower rates. On the other hand, we have a favorable price given the recovery, especially now in August and September of the individual segment that contributes with higher average rates. We don't provide guidance, but the expectation for the fourth quarter is that these trends continue. We've seen a lot of demand and more mainly in the short-term now and that indicates a recovery of the daily rates and that's what suffered the most in the crisis.

Q - Regis Cardoso {BIO 20098524 <GO>}

Perfect Nora. Thank you. And the next question is about the merger with Unidas. Is there any clause in the contract of any prudential adjustment of the share swap depending on the results? Could that happen before the General Shareholders Meeting or is it fixed for that and that won't change? Thank you.

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Hi Rogerio [ph]. That's fixed -- it's regardless of the results. The only adjustment has to do with the dividend and interest over capital. So the rest the results that we would not change. The only adjustment in relation to the dividends are they already agreed dividends of BRL425 million, so additional dividends, yes, would be adjusted. The BRL425 million dividends that have to do with the closing only that which will be declared in every quarter. Not only us, but also you need us.

Q - Regis Cardoso {BIO 20098524 <GO>}

That's very clear. Congratulations again. Have a great week.

Operator

Next question is from Murilo Freiberger from Bank of America.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Thank you. Hi. Mauricio and Nora. Good afternoon, everyone. I have some questions here on our side. First of all, if you could talk about fleet, we see that the volumes are very good, even though we have a slower economic activity, because it's a business that doesn't really have financial leverage, but you're still increasing margins. So could you talk about volume and margin in the competitive environment that is? That's my first question.

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Hi, Murilo, thank you for your question. We, as I mentioned in the risks -- in the answer to Rogerio, we've been working and operating excellence in terms of productivity gains and in general, we've seen a reduction in maintenance cost per unit. Of this, it depends on mileage and other things, but when we look at that per item and per unit, we've been achieving efficiency and that helped in terms of margin. Another point that helped was bad debt. We had a reversal of bad debt in this quarter that also helped the margin. We also have to remember that in the past three years, the average rate in fleet was dropping as result of repricing of new contracts to reflect the drop in interest rate as of 2017 until today.

Now when we look at the future curve, we see an upwards trend. So the average rate stops dropping here and that already we consider the operating efficiencies that we've been building in the past one year and a half, which enables us to support a higher margin. And it's also worth mentioning that until the last quarter, in the first quarter of this year, we provisioned PIS and COFINS tax and given the favorable -- second favorable decision in March this year, we're no longer provisioning those taxes. So year-over-year, that generates 1 percentage point extra in fleet and 1 to 2 percentage points in RAC in addition.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Thank you Nora. That's clear. Second point and I know you can't give guidance on this and I know that this topic is very dynamic. But in the first, Regis -- first of Regis's question that was already addressed, but I'd like to understand what happened in this specific quarter. So it's best of both world, given company -- the company being conservative that you were -- are now that -- Seminovos has a good margin because you are coming back to the margin and also the depreciation, so you have something that's very favorable rate. So the Seminovos margins coming up, but in those two items, they have a different relation. So your depreciation has to be higher, so you can achieve a healthier Seminovos margin.

You don't have both tailwinds at the same time, they're usually inverted. So to understand the magnitude of the adjustment that we should see in the next quarters level that we've seen in this one and the profitability in Seminovos or is inventory already adjusted and those two items will convert to normality? I know it's complicated to talk about that and give us guidance on that, it's very dynamic. It depends on market conditions to know what's going to happen in the next quarter, but just so we understand about the dynamics in the adjustments?

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

Hi Murilo, in fact the depreciation cycle in margin of Seminovos aren't always in sync. As you remember, at Localiza Day last year we were in the opposite cycle, where we had depreciation going up and we didn't have car inflation and margin was low. And then we started to balance that out with margin coming back recovering in the beginning of the year and depreciation a bit higher. Now we have the opposite, so in favor of that depreciation dropping in margin of Seminovos at a high level. And considering the car price dynamics that we see today with that higher margin should remain for some quarters. Obviously, that could change a lot in -- if there is a second wave of the pandemic financing, you never know. But considering the price levels that we have today, the Seminovos margin would be high even lowering depreciation and then if we're considering the same levels of depreciation now and a more normalized margins in the future quarters.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Excellent. Thank you, Mauricio.

Operator

Our next question in English is from Mr. Stephen Trent from Citibank.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you, Mauricio and Nora. And I hope you're well. Thanks for taking my questions. I got cut off from part of the call. So apologize if you already answered this. But just getting back to the margin question, looking at the Fleet Rental side, it looks like the EBIT margin and the EBITDA margin in the third quarter for Fleet Rental were the same and are you essentially saying that depreciation per car was minimal, just wanted to understand that?

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Okay, thank you for your question. That's exactly it. We have a concept of net fleet depreciation. That means that the depreciation that we book throughout the car at minus the EBITDA margin in Seminovos that we generated in the sale. That's the actual depreciation of the car and what we see in the current scenario is that new car prices have been going up with some consistency. So automakers have announced reasonable price increases mainly as a result of the devaluation of the BRL, the Brazilian Real and that impacts the production costs. With the increase of new car prices, Seminovos shows that there is a gap relating to the new, with new car prices go up, Seminovos also goes up for the used cars. At the end of the day and Mauricio mentioned this in the previous question, if we consider an average price of BRL40,000, every one percentage point that we have in the sales price implies in the reduction of BRL400 in depreciation, so depreciation is extremely sensitive to price fluctuation in new car prices and consequently Seminovos or used car price. So to answer your question directly, that means that the depreciation of the cars were practically -- practically zero or very close to zero.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. I appreciate that. And just one more if I may, just to understand, when we look at the (inaudible) exchange ratio for Unidas shares into Localiza, is it the case that the ratio would not change even if the Anti-Trust Regulator comes out with some material remedy?

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

In contractual terms, there is no idea to switch the share swaps. But what may happen is that a part of the deal -- the parties can sit and talk about that again, but that's the exchange ratio is not considered in that.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Let me leave it there. Thanks a lot.

Operator

Our next question is from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, good afternoon and congratulations on your results. I have two questions. The first one, you already addressed partially the daily rental rates that has been back or back to pre-COVID period. I have a question, when we think about the ride hailing product Uber, in the second quarter, you gave more discounts to those drivers, so that they can hold onto the car. So my doubt is, if we consider the difficulties in four quarter -- in the fourth quarter to change the price of those contracts and could you give us some flavor about positive impacts on that in rates that would be already contracted?

And the second question is about the average age of the RAC fleet that we see an increase in the third quarter? As Mauricio mentioned that it should -- get back to normal in new cars, should we see a drop in that average in the beginning of 2021? Thank you.

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

Hi, Victor. Thank you for your question. About average price in ride hailing, we had temporary and conditional discounts during the pandemic, we didn't change the price for our customer for the app drivers. So it was like a promotional offer during that period of the pandemic because they couldn't have -- didn't have any revenues they couldn't drive. And as the mobility restrictions were relieved in cities, we started taking away the discount city by city, and now the price level is normalized. I'll talk about the -- in mid-September, we didn't have any discounts applied, actually almost the entire quarter or mid quarter to the end. And for the fourth quarter, we should have the price levels for app drivers that's completely normal with the no discounts. The discounts were really temporary to help them during the crisis. So fourth quarter, we have normal rates as the drivers are able to drive again and generate revenue and income.

The second question is about average age. The average age of the fleet did increase because we had car purchases stopped and resume that in the middle of the third to fourth quarter. In the fourth quarter, I believe, not yet because we'll still have cars coming in and we're talking to automakers in terms of deliveries, that might be towards the end of the quarter. I think that end of the quarter, beginning of the next quarter like next year, we'll see a reduction in the average age, but not yet.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you.

Operator

Next question is from Bruno Amorim from Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good afternoon. Thank you for taking my question. My question is about demand recovery in RAC. Could you comment the dynamic of the recovery. Is most of the recovery, because the recovery of the industry overall or market share gains are more relevant? I know we don't have precise data on that, but maybe you're closer to the competition and may have some insights in that sense? Thank you.

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Hi. Bruno. Thank you for your question. We have little information from the industry on a quarterly basis. Usually the official data disclosed by the association have to do within the year. What we've seen is a change in habit or at least a change and habit that was expedited because of the pandemic. Such -- there is the subscription car and we launched that for the long term, but we also see a demand for individuals in the monthly rental, as they prefer private transportation now.

And the recovery of economic activity drives or less lockdown ends up bringing the app drivers back to driving, that's also with demand. And lastly mid this quarter, moving forward, we see a consistency in the comeback of the daily rental, that was the one affected the most by the pandemic. Our airport revenues are recovering, it still is recovering. We see that the number of flights still lower than last year, but obviously better than the most critical part of the pandemic. And we also see a demand in rental for shorter travel. So domestic tourism is coming back and even -- because we have a higher exchange rate with the US dollar and the flights. So it's hard -- it's boosting the business, but it's hard to say market share gains. And our objective is to maintain a fast recovery. So the company is ready in terms of leverage and cash flow, and even based on the operational point of view to capture growth from that recovery of the market.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you, Nora. Just a follow-up. Maybe you have already commented, but during the quarter you can see that there was faster -- do you think there was faster growth or not necessarily?

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

There was a recovery -- it's happening gradually consistently, we see an improvement on a monthly basis, not only in utilization rate, but also in the rates.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay, thank you.

Operator

Next question is from Lucas Barbosa from Morgan Stanley.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon Mauricio and Nora. Thank you for taking my question and congratulations on your results. I have a follow-up about the car depreciation and Seminovos results. I understood that in this quarter you mark to market, the price level of new cars that helped Seminovos. The problem is that brand new cars prices went up a lot, because of the real devaluation. So if we see a valuation of the real because of the exchange rate, would that be flat or even dropping? And in that case you'd increased depreciation or is this -- are you conservative in relation to the current figures and depreciation? Thank you.

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

Hi, Lucas. First of all, in terms of price dynamics, we already expected that brand new cars prices would go up this year. That's the movement that we expected in the beginning of the year with the (inaudible), so the automakers were already considering that. And then the pandemic also affected price volume and now the volume came back -- the demand came back, they were able to do that at an exchange rate higher than the 4.2. Now, I'm talking about 5.7, the exchange rate with the US Dollar. So we believe that change in price level is here to stay, even if the exchange rate gets a little better, because even lower than 5, we already expected that price adjustment in the beginning of the year. So we're monitoring that.

Obviously, lower the perspective of sale and in Seminovos the impact should be even higher in the margin than the depreciation, because in depreciation, there is still a lot of cars that have an expected sale price higher. So it lowers a little, it could still be higher than the amount that we have of the old book value for the car. So if there is a lower Seminovos price, the margin won't be as high as it is today and margin will go back to normal.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Perfect Mauricio. So thank you, that's very clear.

Operator

Our next question is from Alexandre Falcao from HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good afternoon, Mauricio and Nora. I'd like to know about the Seminovos, the used cars dynamic for the next year? You can clearly see and as you mentioned that there should be a recovery of new cars rate, new car prices going up, you talk to dealership, they don't have any cars to sale -- to sell and used cars, I think maybe the spread is one of the lowest in history. And have a very positive dynamic everything that happens -- that happens to Localiza, it's very positive for Seminovos or used cars, and there is depreciation and there is a number of tailwinds for you in your favor. So for how long will Brazilian production be able to do that and go back to normal. Not that the prices will come back, but when will that dynamic no longer be positive three months, six months, nine months. so we can understand the timeline of that opportunity? Thank you.

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

Hi Falcao. This is Mauricio speaking. Well, we see the movement. Sometimes we see things in our favor or not and that's the dynamic of the industry. And we have to consider our balance sheet, so we can portray that market reality, but unfortunately we can't guess what's going to happen. We imagine though, as I mentioned before, that we'll still have some adjustments in the first quarter. We had in used cars resale stores, we didn't have that much to sell, and now people are confident in buying again.

So the entire chain is being replenished and there is a repressed demand that people didn't want to go or go out or leave their house to buy a car or invest in buying a car. Now that things or now that we see more clarity than people are starting to buy cars again. So I think that the first quarter will still have a dynamic of adjustment and as of the second quarter that should get back to normal, but that would not imply in price reduction. I believe that it's more of a volume that's slowing and renewing the fleet in our case and selling cars. So as Victor mentioned, our fleet is older and now we have to renew the fleet in the next quarters, buying higher volume and selling the cars that are over 12 months with the high mileage. So until that cycle goes back to normal, that should be second, third quarter next year.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay, great. Thank you. My second question, if you can update, sorry I joined a little late, maybe you already addressed this about subscription cars. Can you share more about that launch, your perspectives, how it's going, anything that we can have more clarity about that product for the next year?

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

That's right Falcao. That's a very recent launch. It was launched on September 22. So there is quoting going on website and the first reaction is good and there was a lot of demand.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay, thank you.

Operator

Next question is from Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hi, everyone. Thank you. Actually I have two quick questions about the one-offs and financial results. There is a BRL9 million swap, is that correct? And what was the gain with the buyback -- debentures buyback in that quarter? And what's the expectation with the gains, if you continue with the payback in the next quarters? Then I have another quick question. Thank you.

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

Hi Rogerio, we had an approximate gain in the quarter for buyback of BRL13 million that we were able to obtain in the buyback of the debentures and in the FX swaps and interest rate swaps of approximately BRL20 million. In the financial result, we were benefited by both aspects, so we had a negative mark because of the drop in interest rate and now it's positive, so the buyback of BRL13 million in debentures.

Yesterday, we approved the program with the Board. We can buyback up to BRL500 million in debentures. We increased that to BRL1.3 billion at Localiza and BRL2 million at Localiza Fleet. So it really depends on the rates that we get and the access to market that's be willing to sell these bonds. We're not in a rush. It will be open for approximately a year. So we should have almost nine months for that program and we'll do that as we did with the buyback program. It will be open and as opportunities come in or buy them back and we don't necessarily have that benefit in the fourth quarter, I hope so and will assess market conditions for that.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay, perfect Mauricio. How much of the BRL500 million that was authorized have you sold, or actually bought back?

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

BRL500 million everything, yesterday we approved that to withstand the program a part of that was in October.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay, perfect. Another question is about cutting costs. We can see that the other line, that's very strong reduction in travel and third-party services. Could you share what that means exactly what's in each one of them and about recurring reduction. Is there anything that's not recurring, if you could share that with us, that would be great? Thank you.

A - Nora Mascarenhas Lanari {BIO 18838335 <GO>}

Rogerio remember that others in the same quarter last year, we were provisioning PIS and COFINS credits to 1 over 60, tight. That's why you see the variation in that math, and we even showed that number with some more flavor. So from now on that will benefit results because we're no longer provisioning. But in general terms, we have a reduction in third-party services. We've been reviewing a lot of things, a part of investment and consulting in IT, that was done in the past year, this year, we don't have it anymore. And within the contingency measures, we still have the ones that we're renegotiating rentals, so we had some adjustment in staff and that impacted the third quarter.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Perfect, very clear. Thank you once again.

Operator

(Operator Instructions) The Q&A session is now over. I'd like to hand back over to Mr. Mauricio to share for his final comments.

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

I would like to thank everyone for their presence and inform that our IR team is available for any further clarification. Thank you very much. Good afternoon.

Operator

The Localiza Rent a Car conference call is now over. Thank you for your attendance and have a good afternoon. Thank you.