Q1 2018 Earnings Call

Company Participants

- Maurício Fernandes Teixeira, Chief Financial Officer and Investor Relations Officer
- Nora Lanari, Director of Investor Relations

Other Participants

- Bruno Amorim, Analyst
- Leandro Fontanesi, Analyst
- Lucas Marquiori, Analyst
- Pedro Bruno, Analyst
- Pedro Pinto, Analyst
- Renato Mimica, Analyst
- Rogério Araújo, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to Localiza Rent A Car Conference Call of the First Quarter of 2018. Hosting the event today are Mr. Mauricio Teixeira, CFO; and Nora Lanari, Investor Relations Director.

We would like to inform that the numbers in this presentation are stated in millions of Brazilian reais and based on IFRS. The presentation will be recorded and all participants will only be able to listen to the conference call during the company's presentation. Immediately afterwards, we will start the Q&A session for analysts and investors when further instructions will be given. The conference call audio and the accompanying slide presentation are being broadcast simultaneously over the Internet at www.localiza.com/ir address. The slide presentation can be downloaded at the same address by clicking on the banner 1Q18 Webcast.

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

To start the first quarter 2018 teleconference, I turn the floor to the CFO, Mauricio Teixeira.

Maurício Fernandes Teixeira

Good afternoon and thank you for your presence. It's a pleasure to present the first quarter 2018 results of Localiza now officially in the position of CFO and Investor Relations Officer of the company. After a whole year of joint management of their financial department with Roberto, we have concluded the succession process and I'm very excited and trust in the company's bright future.

For the first quarter of 2018, Localiza continued its path of growth and value generation trend in 2017, obtaining once again impressive results. But before we talk about the financial and operational highlights, it's worth discussing two interesting issues of this quarter. The first one is a 2018 annual report published by ABLA which contains the 2017 data of the Brazilian car rental sector, as you can see on page 2. It estimated a 12.3% growth of the car rental and fleet rental markets. Considering rent-a-car division gross revenue, Localiza has gained share at the rate of 3 percentage points in 2017 from 29.3% to 32.3%. In the fleet rental division, Localiza maintained a stable market share following the market's overall growth.

Another market that deserves highlight is the company's initiative in sustainability and social responsibility. Localiza has set in course a project to provide its whole network in Brazil with solar energy. In the first phase of the project which has concluded in March, all the rental locations and Seminovos stores in four states accounting for 30% of the company's energy consumption was already being served by solar power. The second phase will be in operation as of June this year, and its goal is to have until 2019 100% of the company's stores on all Brazilian states running on clean and renewable energy. The company has also been working on another sustainability front such as the adoption of UN Global Compact in 2017 which places Localiza among a select group of worldwide companies committed to corporate social responsibility and taking actions for a better world

After this introduction, let's move on to this quarter's highlights. On page 3 we see the operational highlights. In the first quarter of 2018 the company has presented once again solid results consistent with its performance in 2017. The rent-a-car segment once more has brought great growth with a 53% increase in the daily rental volumes when compared to the same quarter of the previous year. Fleet Rental also had a relevant performance in terms of growth with a 22.1% volume increase compared to the first quarter of 2017. Seminovos ended the quarter with over 25,000 cars sold, an increase in the average sale price and showing a better operational efficiency. Our fleet ended the period with approximately 193,000 cars, roughly stable when compared to the end of 2017. The results of all this growth can be seen in our financial results as you see on slide 4. From top to bottom line, the growth reached thresholds of 30% to 40% when compared to the same quarter of 2017. We had once again a net income of BRL 176 million, a record, which accounted for 46.3% growth when compared to the previous year.

To give more details of the first quarter, I hand the floor to Nora Lanari, Investor Relations Officer.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon. To detail a little more the quarter's results, I would like to start with the rent-a-car division. As you can see on page 5, on the first quarter the company capped a growth rate year-on-year and net revenue shoot up by a solid 47.4% due to the increase in volume of 53.3%. On slide 6 we see that the rent-a-car average daily rate dropped by 5.7% when compared to first Q 2017. Even though the first quarter is usually a strong quarter in retail sales, the mix of the first quarter 2018 was impacted by higher growth on lower rates – higher utilization rates. We can also see that this is the third consecutive quarter of stable rates after a period of decreases. The gain in the utilization rate was up 2.9 percentage points in the first quarter of 2018. Keep in mind that ever since last quarter we have changed the calculation methodology for the utilization rate to consider only the period when the car is at the rental location available for rent or excluding timeframe for mobilization decommissioning.

On page 7 we show the corporate network of rental locations which grew by six new locations from which three were previously operated by franchisees that have returned to the company. Moving on to slide 8, the Fleet Rental Division management, the growth rate remained accelerated in the first quarter, a similar rate that we've seen in the fourth quarter of 2017. The average daily rate dropped by 5.6% as a reflection mainly of the prices of new contracts in the context of lower interest rates as well as the absorption of Hertz contracts with a lower average rate. However, the drop in daily rate should not impact the ROIC to cost of debt spread since interest rates have also dropped.

Moving on to slide 9, we show the evolution of the fleet in the period. The first quarter is traditionally a net (00:07:46) seller, which means that that car sale is higher than purchases after the demand peak generated by summer vacation and Carnival. We sold the first quarter 25,000 cars and bought almost 24,000, resulting in a fleet reduction of only 1,441 cars, a low in historical sequence. The net divestment (sic) [net investment] (00:08:10) was of BRL 86.7 million.

On slide 10 we show the number of points of sales from Seminovos network which remains stable. On Slide 11 we show the end of period fleet as highlighted in the beginning of the call. Now moving to page 12, we see an increase in net revenues, consolidated net revenues of 36.1% when compared to the first quarter of 2017. And that can be split on a 38% growth for rental business and 34.5% in the Seminovos revenues. Now moving on to page 13, consolidated EBITDA increased by 33.8% as a result of the growth in company's business unit. The rent-a-car EBITDA margin shows the drop when compared to the 2017 first quarter due to lower pricing, but at the same time a 0.8 percentage point gain in comparison to the margin of the year 2017. In the Fleet Rental segment, margin has dropped by 1.7 percentage points with a decrease in average daily rates. On Seminovos, the EBITDA margin was 5.7% higher than on the first Q 2017 due to the dilution of sales expenses because of higher selling volume and the rise of sold car prices.

In terms of depreciation on slide 14, we see that the rent-a-car and Fleet Rental follow different trends in average values. On RAC segment, the annualized average depreciation was BRL 715.9 per car, 15.1% lower when compared to that of the first Q 2017 due to the rise in sold car prices and the company's better efficiency in selling its assets. SG&A over net revenues reached 6.7% in the period. In Fleet Rental, we see an increase in depreciation to BRL 3,410. This figure reflects our estimate of new car prices and on selling prices in the end of the cycle. Due to lower average depreciation per car in the rent-a-car, there is a 4 percentage point gain on EBIT margin in this division shown on page 15. Fleet Rental's EBIT margin dropped due to the aforementioned factors, lower average daily rate and higher depreciation compensated, by the drop in interest rates.

Net profit in the first quarter on page 16 is for the fifth consecutive quarter a record 46.3% increase when compared to first Q 2017, a result from the company's growth combined with excellence in execution and focus and value generation. On slide 17 and 18 we highlight cash generation of BRL 316.2 million after fleet renewal. First quarter accounts payable was reduced by BRL 294 million especially for payment of cars purchased on the previous quarter. Therefore, cash generation before interest was BRL 9.4 million. Despite a reduction in accounts payable which resulted in a small increase in net debt as seen on page 19, the company reduced its leverage ratio in 2018.

You will see on page 20 that from this quarter on we started to disclose average ratios excluding net debt from the company's credit card receivables which have immediate liquidity and can be transformed in cash quickly. In first Q 2018 the net debt minus credit card receivables to EBITDA ratio dropped to 2.5 times compared to 2.9 times at the end of 2017. We see the current leverage level was comfortable especially when you take into account the interest rates we have been able to secure and the debt profile shown on page 21. So we see that the company's capital structure is very efficient and consistent with our goals of value generation for shareholders.

Finally, I would like to turn the floor back to Maurício to wrap up.

Maurício Fernandes Teixeira

To wrap up, I would like to point out the evolution of ROIC minus cost of debt spread on slide 22. Once again, we've seen this spread enlarging. ROIC dropped by 1.4 percentage points mainly impacted by the lower ROIC of the Fleet Rental segment which, as we discussed, is due to the new contracts priced at lower levels strictly as a reflection of lower interest rates. However, the spread increased by 1 point in the period since the drop in cost of debt was 2.4 percentage points. The increase in the spread reinforces Localiza's commitment to grow with value creation.

We are now available to answer questions.

Q&A

Operator

Ladies and gentlemen, we will now start a Q&A session. First question comes from Renato Mimica from BTG Pactual.

Q - Renato Mimica {BIO 15374054 <GO>}

Good afternoon, Maurício, Nora. Thank you for the call. I have two questions. First about costs. When you look at the breakdown in the first quarter, there has been a substantial increase in other line. Does that include costs of additional adjustments related to Hertz? And if yes, how much are those costs? That's the first question.

A - Nora Lanari {BIO 18838335 <GO>}

Mimica, thank you for the question. In fact, in this first quarter we still have the remaining one-off event from Hertz of BRL 2.8 million but they were placed in costs with third party services. This has an effect of 1.5 percentage points on the margin. In others, we have a personal duplication (00:14:49) of the contract of Hertz but it was offset by higher revenues. On net, this impact is zeroed.

Q - Renato Mimica {BIO 15374054 <GO>}

Okay. Thank you, Nora. The second question is about the dynamic of tariffs on rent-a-car. Obviously, the elasticity of demand price is impressive. Your strategy has proven to be very right. Now talking about the next two quarters, since we have more corporate mix or higher corporate percentage in the mix, does the dynamic in the drop of tariffs or rates will continue or do you think this will continue for the corporate segment as well given the elasticity demand price?

A - Nora Lanari {BIO 18838335 <GO>}

The fact that we see for the 2018 segment-by-segment is that it's we expect more effects due to the mix rather than variation in rates per segment, imagining that we have been growing lately. So that depends a lot on the different rates of growth in each segment rather than elasticity.

A - Operator

Just to add to Nora, it's obvious that it depends considerably on the competitive environment, and this will be monitored throughout the year.

Q - Renato Mimica {BIO 15374054 <GO>}

Okay. Thank you. Good afternoon.

Operator

Thank you. The next question comes from Pedro Bruno from Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Thank you for the question. I have two questions. First is regarding the higher drop in cars. We're talking about rental car and the speed of reduction of new cars for BRL 700 has increased a lot, and I would like to understand whether this is a structure improvement at Seminovos. And it seems to be because the margin of Seminovos is improving when you compare the first quarter to the fourth quarter of last year, although the cost dilution also has an impact. But this is the first question: I would like to know if this improvement is structural and the effect of Seminovos.

A - Maurício Fernandes Teixeira

Pedro, yes. Depreciation, has dropped in the first quarter because of three factors. Some are structure, others circumstantial. We're buying a good amount of cars and selling. We're buying cars at a good price and selling with a corporation cost that's also lower and given the scale and the growth we had throughout last year. And also in terms of value, the cost of operation on Seminovos is different. We have a very good productivity, and that reflected on depreciation. And the third factor which is circumstantial is the inflation prices of new cars which caused an increase in prices of Seminovos or used cars, and the rest has to do with our size and operation.

Q - Pedro Bruno {BIO 19082978 <GO>}

Okay, thank you. My second question is similar to the question of Mimica, making a follow-up about the competitive scenario of rent-a-car. So the continuation of my question will be how do you see the average daily rate evolving from now on with the main impact coming from price, you answered that. So what is your expectation for 2018 in rent-a-car segment?

A - Operator

Pedro, we still see a competitive scenario. There has been no change in terms of dynamic of mergers or new competitors. This market remains competitive and we want to continue to grow and gain market share. So we don't see much change when compared to the end of last year, no change in dynamics in that scenario.

Q - Pedro Bruno {BIO 19082978 <GO>}

Okay. Thank you.

Operator

The next question comes from Pedro Pinto from Credit Suisse.

Q - Pedro Pinto {BIO 3831505 <GO>}

Good morning, Maurício and Nora. Thank you. I would like to understand – just to follow-up on Pedro's question regarding depreciation. We've seen a significant drop given to these structural decisions to buy cars well, at a good price and selling them well. In the depreciation of cars in the Fleet segment, it's counterintuitive to think that the depreciation would have to rise, although to continue that healthy levels. Just a follow-up. Thank you.

A - Maurício Fernandes Teixeira

Thank you, Pedro. Teixeira. (20:21) Yes. The Fleet has a different dynamic because the cycle is longer. Contracts last two years to three years. And the correlation of the cars' prices – so used cars with your (20:34) new cars is not as direct. But we react very quickly and in the Fleet, we anticipated and depreciation has dropped at the – throughout last year, and now it has reached a good level and we understand it's a good level in terms of the dynamic price of the – price dynamics of cars that will be sold within two or three years. We believe that this is the leverage to continue.

A - Nora Lanari {BIO 18838335 <GO>}

Just to complete – this is Nora. At the Fleet, this contract cycle are two to three years when you look at depreciation in the Fleet, in the first quarter 2016, it was 4,900, then 3,300 in the first quarter 2017. So we had to lower it so that the EBITDA margin of Seminovos for the Fleet would reach the normal standard. It reached 11% and now it's close to 6% or a bit lower than that. So as we removed these cars from the base that have been depreciated, the new cars have to come in reflecting our expected price and cost of sales for the future. So we're cleaning this space and we have calibrated depreciation of Fleet upward and added to that the fact that Maurício mentioned which is the dynamic of a car for – that will last three years, is different from one that lasts for one year with us.

Q - Pedro Pinto {BIO 3831505 <GO>}

Okay. Thank you.

Operator

The next question is from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning, Nora and Maurício. I would like to hear your comment about two topics. I'm a bit – I have questions about that. First, the RAC margin has dropped year-on-year. When do you think we'll be – see this reflected on the gain of volume that you have? Will it begin to improve as of the second or third quarter giving – reflecting this operational gain in volume you have in RAC?

And the second question on ROIC. We've seen that the spread is increasing and it's great. On the top part of ROIC, do you see that it will continue to drop or has it reached the standard at 14% from now on? These two points. Thank you.

A - Maurício Fernandes Teixeira

Lucas, thank you for the question. This is Teixeira. (23:12) On the margin of RAC, we see that the EBITDA RAC margin considering a much lower interest rate scenario, we have a different spread. But this quarter, we – there was the effect that Nora mentioned, that was 1.5 percentage point which is the brand of Hertz that we didn't classify as ours but it was absorbed in the results that would helped our margin, but we preferred not to repeat that. We prefer to have a market completely or direct. So, the margin of RAC would be stable, if it wasn't for that. So there was a spread, lower interest rates. We probably will be able to have a lower margin, of course, what we – we wanted the spread, that's what matters.

And the second question, we have seen a drop in ROIC. But this happened also, we saw drop in the EBITDA margin for Fleet, because the new contracts have a lower ROIC, but with the same spread. So – and the last line, at the bottom line, what matters is the spread and we are pricing the new contract with the same levels we had made in the past. At lower figures, we can allow a ROIC that's a bit lower, but maintaining the spread as usual.

A - Nora Lanari {BIO 18838335 <GO>}

Lucas, this is Nora. Just to complement on your question. Well, you're probably wondering, well, if we had a one-off of 1.8 percentage point to 1.5 percentage point in addition to the (24:59) EBITDA margin, can I assume that it will grow from now on? We don't anticipate that Lucas. We – giving back this operational leverage to our customers in the form of price. We're also investing process technology to be made throughout the year. So we're not counting on an EBITDA margin, much higher than that, okay?

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay. Thank you, Nora. Just the follow-up on ROIC, quickly. This replacement of the portfolio, so old contracts from ROIC of Fleet to new contracts, what's the – how – what's the percentage that has been renewed and already in terms of contracts for the Fleet segment?

A - Nora Lanari {BIO 18838335 <GO>}

The average term is two-and-a-half years, so the drop in interest rates has started since second half of last year but we were ready thinking of future interest rates, so we are now at the transition phase. I'd say that in considering two-and-a-half years, we're close to a stable return on ROIC for this segment. Interest rate has started to drop more considerably since the second half of last year, so we had, the second half of last year and this year, there are still some contracts to be renewed. And also, we are growing, and the new contracts come at a lower price levels, but that's for the spread, not necessarily for the ROIC.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay. Thank you.

Operator

Excuse me. The next question comes from Rogério Araújo from UBS.

Q - Rogério Araújo

Okay. Thank you very much for the opportunity. Good morning. I have two questions. First, a follow-up of a previous questions on a different point of view. The spread of ROIC has reached 9%, on your calculations, how much is the drop in contracted ROIC based on these Fleet contracts turnover for the next 12 months? And today in your mind, what is the sustainable level that you want to stay at to – for it to be profitable for the company, and not give much room for our competitors? What is that level? And if it could give discounts on rates on the part of Localiza on purpose to reach that level?

A - Maurício Fernandes Teixeira

Rogério, as for your first question, yes, the dynamic, as Nora mentioned, we do have one year to go to end these (27:58) old contract and renew contracts that used to be higher with lower in – given the interest rates, but we don't give guidance unto how much that will be in the future. That's not part of our policy and – but we are halfway through in advancing in this process. But I cannot say exactly how much.

As for the spread, this level is sustainable. Of course, it depends on other factors such as growth and competition, but the spread levels at the current levels for last year – at the end of last year and beginning of this year, our spread levels that generate lots of value for shareholders and allow for a capital base and grow.

So as long as we remain in this growth rate with this spread, we are pleased. And Nora said, if you ask if it could generate additional discounts on rates, we're going to price growth and margins with profitability so we will calibrate our pricing to provide growth for shareholders and growth in return for shareholders. But, of course, it depends on the economy and the penetration of individual's segment competition. But we have to calibrate all these factors to have sustainable growth for this year.

Q - Rogério Araújo

And for the World Cup – the next question – in 2014, there was some tension as to the drop in the corporate segment. That was more than offset by tourism, but the Cup was in Brazil. What do you expect with – for the World Cup in Russia, win one type (29:40) tourism, but do you expect a drop in corporate sales?

A - Operator

Rosario, we believe that for this year, the impact will not be the same we expected for 2014. Of course, people reschedule their trips maybe because of games, but they will continue to travel. So we don't believe that this will have an impact on our sales. The difference is that the World Cup is not in Brazil and it's so different. And also, not to mention that our customer base is much more diversified now. So this effect of peaks (30:22), one question people ask is about the election. Today, our customer base is too big for the election to play such a significant role and the World Cup would be the same, in terms of effect.

Q - Rogério Araújo

Okay. Thank you.

Operator

The next question is from Bruno Amorim from Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

I have two questions. First, regarding the tax rate reported in the first quarter of around 27%, when compared to 21% in the previous quarter. You mentioned that one of the reasons for this tax rate was the interest on equity? So, is a part of this movement is a one-off event at least in part, because we've seen the net income growing a lot last year and the tax rate did not necessarily increase because of that.

And the second question is about the pricing dynamics on rental car. When you answered the first question, you mentioned that if every – everything else remains, constant you don't see any reason for it to drop forward. And this drop in prices there that was offset by a decrease in cost that you work very hard on, that you have reached the price nowadays that's very hard for the competition to equal. So now, do you plan to add volume to the base even without lowering prices or not? Could you comment a bit on that? Thank you.

A - Maurício Fernandes Teixeira

Bruno, good afternoon. I was – I will answer the first, and the second Nora will answer. In terms of tax rate, there was an increase in the first quarter. That's the result of net income. Because income before taxes has grown, but the PL which is the basis for interest on equity came from the growth of third-party capital, because of the leverage we had. So, in terms of – in percentage terms, it accounts for less of the interest on equity than it used to. Also, there is a drop in interest on equity, when compared to the first quarter. So these two effects combined had a change in the tax rate, but it – of course, with a higher net income or higher income and less of our own capital and more capital coming from third-parties, this percentage of tax rate is more realistic of what to expect for 2018.

A - Nora Lanari {BIO 18838335 <GO>}

And, Bruno, also to answer your second part of the question. It's very hard to know how far will the competition go, because we're talking about 10,000 competitors in a very fragmented market. Of course, we want to continue to gain market share in that market but it's hard to say whether there would be more room to lower prices even further. On our point of view, we see some instability in prices because of mix, but since the economic activity is supposed to grow this year, we believe that it will be more of a base case. It all depends on the competitive environment and it will increase because of a mix. We don't know what – how far the competition will go.

Q - Bruno Amorim {BIO 17243832 <GO>}

So do you think that it means that within the same business lines, you believe that at the margin you would need to lower prices less to bring volume to the base or not necessarily?

A - Nora Lanari {BIO 18838335 <GO>}

Well, as I said, it's pretty much stable. But that's so dynamic, however. So, it's hard to say, because it could change tomorrow.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Thank you, Nora.

Operator

The next question comes from (34:38).

Hello, Nora and Maurício. Thank you for the opportunity. I have one question. I noticed an increase in PDD, provision for doubtful debtors. Is it given the adoption of IFRS or has that been any other impact and what's the size of this impact, if you please?

A - Maurício Fernandes Teixeira

Hello, Marcus (35:08). Well, the adoption of IFRS 9, we did this provision as of the beginning. Since the new standard was launched, this initial load on the balance was launched against TL (35:26) according to their – our understanding and the application of the new standards in our audit team. So the adoption of the standard did not have an impact on itself, because it didn't have an impact on the results, on the net income – the result – the net income impact is the mix between we have grown more in individuals than in legal entities, so it has to do with the right sharing (35:55) and these segments have a higher percentage all of that has been prized and foreseen and that in percentage of revenues as we have grown, it grows as a percentage of revenue. But it didn't impact the results although you see on the balance sheet – but it's much more to do with the niche of the mix of customers. And just to complete, in addition to the mix, there has – there was an impact, because we revisited our processes and criteria for provisioning and we decided to be more conservative, so we raised the bar a bit.

Q - Operator

Okay. But just as a follow-up, so from now – for the future, is this a new level for provisioning for the company or is it just for this quarter?

A - Maurício Fernandes Teixeira

Well, it's not – this is the reality. This is the rate for the quarter, yes.

Q - Operator

Okay.

A - Maurício Fernandes Teixeira

It's not an impact of the new standard. It's the rate for the quarter.

Operator

The next question is from Leandro Fontanesi from Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

I have two questions. The first one, I would like to know if you will continue to grow organically? Because you mention you will observe the reaction of competitors but there are competitor that are growing a lot with purchases. So if you see a more aggressive competitor, do you still – will maintain organic growth?

And the second question is, looking at Seminovos operation, your level of expenses over revenue is low, it used to be at 9% and now it's 6% or 7%. Given that you have increased the Fleet considerably and we may see in the next – can we see some adjustment in that structure in the next quarter that will lead to an increase in SG&A in Seminovos?

A - Maurício Fernandes Teixeira

Thank you for the question, Leandro. I would talk about the organic growth – this is Teixeira (38:16). Well, we see that our focus should be in our business and our core business and the market that we know and the way we know to work. Of course, we always assess new opportunities but it doesn't make much sense, with the exception of Hertz, that was a partnership, was very strategic. But in terms of acquisition, there's a lot of overlap. We don't see gains in synergy in acquisitions so far. Our focus is on organic growth, there's a lot to grow still. Of course, if there is an opportunity, we will look into that.

A - Nora Lanari {BIO 18838335 <GO>}

And may I address your second question – this is Nora. This lower SG&A of 6%, 7% is right. Now we're growing a lot. So we'll continue to increase the structure but we're working to keep this efficiency level. So for 2018, we'll open new stores thinking about the needs of sale for 2019. On the other hand, in 2018, we'll have to sell more cars than we sold in 2017. So, there is no relevant change in that level. We don't anticipate any major change in that level.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. Thank you.

Operator

Excuse me. Ladies and gentlemen The next question is from (39:47) from Citibank.

Good afternoon. I have two questions. The first is about the election cycle. Historically (39:56) that would boost the Car Rental business. What is your expectation for the election, especially the second part of the election, the second run?

A - Maurício Fernandes Teixeira

Well thank, you for your question Natalia (40:13). Well, historically in the past, it did have some effect, but given the reality of the elections and our base, we're able to absorb any special demand. In the election as a macroeconomic scenario, we see the market still growing on the demand side; and the political and economic scenario, we don't see any major threats in the politics. We see that the economic activity is resuming, I mean, and growing and we don't see any threats in the macroeconomic scenario and political scenario.

Q - Operator

Thank you. And my second question is part of a follow-up. I would like to know what do you expect for the depreciation level of vehicles? Will it be stable or reduce for the coming years? And for the second quarter, could you give any indication on the growth of Fleet or daily rate?

A - Maurício Fernandes Teixeira

Well, we don't give guidance – this is Teixeira (41:21). But in terms of depreciation, we believe we are at the right level. We don't expect any drop or increase in depreciation, we expect a stable level. This is very well calculated and programmed. And we see a positive margin at Seminovos. So it's very adapt – well-adapted to the current reality of the market. Of course, in the next two or three months we see stability and we don't know about the future, but we see stability in that level in the short-term.

Q - Operator

Thank you for your answers.

I would like to turn the floor over to Mr. Maurício Teixeira.

A - Maurício Fernandes Teixeira

Thank you very much for attending our call and our team is available to answer any further questions you may have. Thank you and have a good day.

Operator

This concludes Localiza Rent A Car audio conference for today. Thank you very much for attending and have a good day.