Q4 2015 Earnings Call

Company Participants

- Eugênio Pacelli Mattar
- Nora Lanari
- Roberto Antônio Mendes

Other Participants

- Alexandre P. Falcao
- Bernardo Carneiro
- Bruno Amorim
- Kevin M. Kaznica
- Márcio Prado
- Rogerio Araujo
- Sami Karlik

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and welcome to the conference call of Localiza Rent A Car to discuss the results of Q4 and the year 2015. Today with us are Mr. Eugênio Mattar, CEO; Roberto Mendes, CFO; and Nora Lanari, Investor Relations Director.

We inform you that the numbers in this presentation are stated in million of Brazilian reais and are based on U.S. GAAP until 2010 and on IFRS as of 2011. All participants are connected in listen-only mode during the conference call of the presentation of the company, and later we will begin the Q&A session for analysts and investors when further instructions will be given.

The conference call audio and the slide presentation are being broadcast simultaneously over the Internet at www.localiza.com.br/ir. You can also find the respective presentation for download, click on the banner 4Q15 Webcast.

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call concerning the company's business outlook, operating and financial targets are based on opinions and assumptions of the company management, which may or may not occur.

Investors must understand that economic conditions and other operating factors may affect the company's future and lead to results, which differ materially from those expressed in such forward-looking statements.

To open the conference call, I now turn the floor over to the CEO, Mr. Mattar.

Eugênio Pacelli Mattar

Good afternoon to all, and thank you all for attending this conference call. This was yet another year of an adverse scenario, and we demonstrated prudence. We have kept alive and tailored the cash position and debt profile to meet the needs of a potential deterioration of the financial credit market and higher costs.

With discipline and determination, we were able to overcome the effect of a challenging scenario. Despite the negative GDP growth, inflation above target and consumers and businesses confidence decrease, we adjusted our trade policies and pricing strategies and managed to reverse the downward trend in current volumes seen in Q2. And we closed Q4 with a 5.5% growth in number of rental days quarter-on-quarter, thus increasing the utilization rate throughout the year.

The Fleet Rental Division had a good level of growth and profitability and Seminovos managed to capture the increase in new car prices and the sale of decommissioned cars from rental operations. This contributed to lower depreciation and margins above historical levels. The company maintained its long-term vision and its confidence to extend its market leadership. It continues to invest in the building of our future. We are empowering and training our employees, innovating the customers' experience and developing new ways to market our solutions. We are doing all these without losing focus on cost management.

2016 will not be an easy year, but we will seek to optimize our cost structure and business strategies with the same discipline and enthusiasm to overcome the challenges and continue the profit of consolidating in the industry. We have a highly experienced and qualified team, well-motivated to support our superior performance.

I would now like to present some of the highlights of Q4 2015 on slide two. Net revenue from Car and Fleet Rental grew from 1% and 6.1%, respectively, with a growth in profitability coming from the increased EBIT by 0.7% quarter-on-quarter, which reached R$175 million and also net income which was R$105.9 million, 3.6% above the Q4 of 2014, the largest quarterly income of this year.

I also take this opportunity to thank our employees, investors, customers, analysts, suppliers and financial institutions for their support and trust. Our vision is to be a company admired by people, and we will make all necessary efforts to achieve that.

And to present the results of Q4 2015, I now turn the floor over to Ms. Lanari, Director of Investor Relations.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon and thank you all for attending this conference call. On slide three, we present the growth of the Car Rental Division. In Q4 2015, net revenues increased 1% quarter-on-quarter due to a 5.5% growth in the daily volumes, which was partially offset by the drop by 4.8% in the average rental rates. In 2015, net revenues were 2% lower due to a decrease by 3.6% in the average rental rate, partially offset by 1% growth in rental volumes.

On slide four, you see the evolution of rental volumes in the Car Rental Division for 2015 and 2014. Commercial intelligence and our pricing system helped us capture demand in the leisure segment, and this offset the decrease in the corporate segment demand, which is more sensitive to an adverse economic scenario. We also reversed this volume decline in Q2 and we managed to grow 5.5% in terms of volume in Q4 quarter-on-quarter.

On slide five, we present the trend of the average rental rate in the Car Rental Division. Volume growth in Q4 occurred without significant reduction in the average rate as compared with Q3 2015. This reinforces our growth to capture market opportunities through business intelligence.

On slide six, we present the evolution of the Car Rental Division utilization rate. In Q4, the utilization rate in this division was 71.1%, the highest in the last seven quarters. The consistent improvement in the utilization rate throughout the year reflects the success of our pricing intelligence strategy, coupled with the process of buying and selling cars and our commitment in the pursuit of productivity and efficient capital allocation.

On slide seven, you see the evolution of the Car Rental network, 24 new locations were added to local users, wholly owned and franchised network. We now have 564 branches in Brazil and in seven other South American countries. The relative number of branches' growth helps strengthen our presence in Brazil and abroad.

In slide eight, we present the volumes and revenues of the Fleet Rental Division. In Q4 2015, net revenue from the Fleet Rental Division grew 6.1%. This has to do with an increase by 2.2% in daily rental volume and 1.4% in average daily rental rates quarter-on-quarter.

In 2015, Fleet Rental net revenue grew 6.4% as compared to 2014, mainly due to the increase by 5.2% in rental volumes. Restricted credits and high interest rates contributed to greater penetration of Fleet Rental as companies seek to reduce non-operational investments and replace fleet for outsourced ones.

On slide nine, you see the evolution of the contracted revenue in the Fleet Rental Division. The growth of contracted revenue was by 12.8%, which reflects commercial intelligence, synergies in the platform, increase in the contract term, and the tapping of market opportunities. Contracted revenue was R$912 million by the end of 2015.

On slide 10, we present the fleet net investment evolution. In Q4 2015 we bought 21,660 cars and we sold 15,047 cars, a net investment of R$338.5 million. In Q4 2015, we began to offer luxury cars for its car rental customers through Localiza Prime. We also now have

BMW 320i and Volvo S60 in the fleet in order to meet customers' needs and strengthen Localiza's premium position.

The inclusion of these new models, together with the rising price of new cars and the concentration of purchases in the luxury car group, has increased the average price of cars bought by 26% in Q4 2015 quarter-on-quarter. This change in the fleet mix impacted the replacement CapEx of the fleet.

On slide 11, we see the evolution of the fleet through the end of the period. At the end of 2014, Localiza decided to bring forward the purchase of 7,600 cars to avoid higher prices at the restatement of the IPI tax in January 2015. Therefore, corporate fleet of the Car Rental Division has increased by 1.1% as compared with 2014. By the end of September, the total fleet included 124,695 cars or reached 110,703 belongs to the company.

On slide 12, you'll see the consolidated net revenue. In 2015, this revenue declined 0.9%. Rental revenue grew 0.5% as compared with 2014 because of a 6.4% growth in the Fleet Rental Division, which offset the 2% decrease in Car Rental Division revenues. Seminovos' net revenue grew 1.3% this year.

On slide 13, we present the EBITDA. In Q4 2015, the consolidated EBITDA totaled R$228 million, 4% below the same period last year. In Q4 2015, EBITDA margin was 30.2% in the Car Rental Division, 6.9 percentage points lower when compared with Q4 2014.

The lower margin reflects the effect of more competitive rental rates and the cost post (12:44) inflation. The company has been working to improve cost management. And in Q4 2015, we were impacted by R$2.1 million in cost due to labor termination costs.

In the Fleet Rental Division, EBITDA margin was 64% in Q4 2014, an 8.5 percentage point increase quarter-on-quarter.

The margin had been impacted by strategic consultancy expenses, freight and accessories costs and a provision relating to profit sharing.

Seminovos' EBITDA net margin was 5.2%. This has to do with the increase in the price of Seminovos because of the increase in new cars' prices, coupled with the company's expertise in purchasing and selling cars.

For this reason, it was possible to revise the depreciation rates downwards in 2015 to gain competitiveness. Seminovos' margins tend to converge to a more normalized level in 2016. The decrease by R$35 million in 2015 EBITDA was more than offset by the depreciation reduction by R$43.7 million.

On slide 14, we present the average depreciation per car in the Car Rental Division. In 2015, the annualized depreciation per car was R$622 as compared with R$1,270, a 51% decrease as expected by the management. The reduction of depreciation expenses as compared with 2014 was a result of the increase in new car prices due to inflation, the end of the IPI tax exemption, and the increase of industry's costs, which reflects the price of Seminovos.

On slide 15, we present the average depreciation per car in the Fleet Rental Division. In this division, annual deprecation per car was R$3,935, a 6.4% decrease as compared with the depreciation of 2014.

On slide 16, we present the EBIT margin. Even in an adverse scenario, Localiza presented a growth by R$8.7 million in the year's EBIT. EBIT margin in Q4 in the Car Rental Division was 28.7%, 7.3 percentage points below Q3 2015's. This decrease is mainly due to the car depreciation increase in Q4 2015 and reflects our expectation in a more challenging environment in the sale of used cars.

In slide 17, you'll see the net income. It increased by 3.6% in Q4 quarter-on-quarter, and reached R$105.9 million. This had to do with the lower income tax by R$14.4 million due to the increase in TJLP, which was partially offset by an increase by R$11.9 million in financial expenses. This has to do in turn with an increase in the SELIC rates to 14.25%, and increased by R$253.8 million in average net debt, that of R$1.9 million in PIS and COFINS tax on financial results, and the reversal of R$9.9 million in mark-to-market agreements in foreign exchange swap.

Net income dropped by R$8.2 million as compared with 2014. The drop in EBITDA was more than offset by the reduction by R$43.8 million in car depreciation. The increase in financial expense by R$51.5 million (sic) [R$51.6 million] (16:45) was partially offset by the R$34.6 million reduction in expenses with income tax and social contribution.

On slide 18, we present the free cash flow. In 2015, the free cash flow before interest was R$103.2 million. Free cash flow was impacted by the CapEx for replacement of cars, which reached R$242 million due to the higher category car purchase mix, which has not been reflected on sales yet. It was also impacted by the reduction in accounts payable to car suppliers by R$121 million since we did not purchase cars in advance as in 2014.

On slide 19, you see the cash flow variations. In 2015, there was a reduction by 10.2 percentage points in the share of economy cars in the fleet. And this in turn increased the net CapEx for fleet replacement since the cars which are replaced being sold reflect the old mix.

It is expected that the net CapEx for fleet replacement should be reduced as these higher value cars are sold in 2016. Additionally, in Q4 2014, the company brought forward the purchase of 7,600 cars to avoid the price increases due to the restatement of IPI. The purchase was paid in 2015. The accounts payable to automakers dropped R$121 million.

On slide 20, we present the change in debt in the period. Free cash flow before growth supported the payment of the interest and much of the reduction in automakers' accounts payable. The increase in net debt by R$266 million in 2015 has to do with the payment of dividends, share buybacks and investments in the new headquarters.

Slide 21 presents the cash position and the debt amortization profile. The strong cash position and debt profile lead the company in a more profitable provision than most competitors. On January 8, 2016, Localiza launched its 10th debenture issuance for the amount of R$200 million for five years, improving even further its debt profile and avoiding the needs to access the long-term debt market over 2016, which has signaled an upward trend of spreads and channel decrease.

In slide 22, we presented debt ratios, which reflect the company's financial discipline. The company presents profitable debt indicators and is prepared to go through this period of political and economic crisis in Brazil and to capture market opportunities.

On slide 23, we present the spread of ROIC minus cost of debt. Considering the effective income tax and social contribution tax rates in 2015, ROIC would have been 17% and the spread 7.5 percentage points.

Let us now move to the Q&A session.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. Our first question comes from Mr. Falcao from HSBC.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

Good morning to all. My question has to do with Q4 in the beginning of this year. Can you give us a little bit more color about two specific points? What is the relationship like with the car makers? Have you been able to negotiate discounts? Has that become more difficult because of the shrinking capacity?

And the second question has to do with demand. You were very successful in Q4 in terms of leisure, do you still see that going on in Q1? And what about the corporate segment, what is happening to the corporate segment in this (21:16) beginning of 2016?

A - Operator

Good morning. Thank you, Falcao, for your questions. Our relationship with the automakers is a very healthy relationship. The negotiation is a win-win negotiation. We have very good partners. And of course, Localiza doesn't look only at the short term; we look at the long term. So we have a win-win relationship.

So in bad times, we are good purchasers; and in bad times, we are great suppliers. So Localiza has a very good relationship with the automakers. We are very careful in dealing with the automakers. We don't try to take advantage of a bad situation to try to ensure conditions that would be not good for the automakers.

We have been building our plan of purchase and conditions, which are appropriate for the moment and for both parties.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

So let me reframe the question. Has anything changed relative to last year? I know you have a great relationship with the automakers, but have the conditions changed?

A - Operator

Yeah. The conditions are never the same, they change every year. The context changes, and the conditions change. And we adapt to the new context. The conditions are changing, and they change from automaker to automaker. They all have different conditions.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

But what about the trends?

A - Operator

The conditions are very good conditions for purchase. And the makers still consider Localiza as a good buyer.

As regard the demand, in the first two months of 2016, January and February, what we can say is that the numbers were positive. The growth that we saw in Q3 and Q4 continued in the first two months of 2016.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

Good. Thank you.

Operator

Our next question comes from Mr. Karlik from Votorantim Bank.

Q - Sami Karlik {BIO 16221284 <GO>}

As it relates (24:00) to these new models, the more value-add models, what is the level of discount of this type of cars? I don't know if you can say how much you have in terms of discounts relative to the other cars you normally buy? And what about the resale of these vehicles, are they easier to sell, more difficult to sell?

A - Operator

The number of cars is small. So, we are not very concerned about selling them. The sale is going to be dilutive in time. We don't want to have a supply in the market, which is disproportionate relative to the type of the car. And the conditions were good for the makers to offer this type of car in a car rental company like Localiza. So this allows also potential buyers to do a test drive, to get acquainted with the car and allow people to have an experience – those people who are not the usual buyer of these cars. So this is how we develop this business.

Q - Sami Karlik {BIO 16221284 <GO>}

And just one more question relative to the volume of cars purchased in Q4, so they were above the sale of cars by 6,600 cars. Are you preparing for the growth expected for next year, or was there an impact of these more value-added cars? The purchase at the end of the year, we always buy more cars at that period. To meet the requirements of the high season and the demand of the first two months was good. And our utilization rate is in line with our expectation. We don't have a surplus of cars. The fleet is very well adjusted in terms of numbers.

Operator

Our next question is from Mr. Amorim from Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

My question has to do with deprecation; deprecation per car per year in the rent a car business, which was R$810 in Q4, which is an increase relative to previous quarters. So, what about going forward, will depreciation continue to rise, though slowly, or is R$800 the level that we are going to see throughout 2016?

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

This is Roberto speaking, Bruno. Thanks for attending this call and for asking your question.

The depreciation reflects our expectation for 2016. We analyzed the market and our assumption was that the price of new cars is not going to go up in line of inflation. They're going to go up in terms of price below inflation. So, there won't be such an increase for used cars' car prices. And the deprecation of Q4 reflects this base scenario, some (27:25) R$800 in terms of rent a car, and this would be the level expected for 2016.

The EBITDA margin in Seminovos, which was unusually high, will converge to normalized levels in 2016. So just to summarize, depreciation will remain in the same level; can be slightly above that, and the margin should be the same – the margin for Seminovos should go down if the macroeconomic scenario, the automakers increasing prices, this would impact the margin in the Seminovos business.

Q - Bruno Amorim {BIO 17243832 <GO>}

I have another question relative to the rent a car business. The volumes grew 5%. The rates are flat relative to Q3. Is this what we can expect for 2016, a flat rate in nominal terms and growing volumes as compared with the previous year?

And then, looking at cost in the rent a car business, what are the initiatives you have been implementing to mitigate the failure to pass through the inflation to the rate?

A - Operator

As regard the volumes, we've said that in the first two months of the year, the volumes were quite good from – as compared with what we saw in Q4 in terms of volumes and in terms of rates. Q4 is a good reference.

And then, as relates to cost, you're right. We'll see some growth in the business. We will gain scale, but the main costs we have are personnel and the lease of property. We are reviewing our processes. We have laid off some people in December, and we have to continue to review our processes to gain productivity.

And if we see inflation impacting some costs and rates becoming flat, we have to ensure greater productivity to maintain our margins in the rent a car business in line with what we saw in 2015.

Is that what you wanted to know?

Q - Bruno Amorim {BIO 17243832 <GO>}

Yes. Thank you, Roberto.

Operator

Our next question comes from Mr. Carneiro from Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good morning. I have just one question. It had to do with the size of the fleet. One year ago with a drop of the GDP in 2015, we expected that you would maintain the fleet in the same size and just make replacements to increase ROIC and save CapEx. But to try to recover the ROIC, which has been dropping along the years (31:15), but you did buy above the expected number in Q4. And in the newspaper today, you said that you're going to buy more cars than you bought in 2015, although a drop in the GDP is expected.

So, why not maintain a flat number for the fleet to try to recover the ROIC and just replace the cars to reduce the net debt? So what is this strategy, you're going to buy more than you sell and you're going to expand the fleet instead of saving cash and focusing on the net debt?

A - Operator

Well, let's go back to 2014. We are buying cars to rent them, right? We are going to buy cars according to the demand, but let's go back to 2014. We bought 79,000 cars. 7,600 was the purchase that we brought forward.

So in 2015, we bought 64 (32:41), and we didn't buy those 7,600 cars, which we had bought in 2014. If you add 7,600, which were bought in 2014, the number would grow to 71,000. And this is what I told the journalist; the purchase of 2015 would be – was reduced by this 7,600. So this is what I said relative to 2015.

So as compared with 2015, yes, we are going to buy more in 2016 because of those 7,600, which we didn't buy in 2015. We had to replace the fleet.

So what I told the journalist, I said to him, and of course, the analyst can estimate how many cars we are going to sell. You take 80% of the rent a car fleet. You do your own calculations. You do your modeling, and you know how many cars we are going to sell. So we have to buy cars to replace the cars that we are going to sell and this will be above the purchases of 2015. This is what I explained in this interview.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Well, yes, when the GDP is growing, yes, that has been your strategy – to buy more than you sell. So you have a net growth in the fleet, but with two recession years, why not just replace the number of cars that you sell, maintain the fleet stable, and try to drive utilization to 74% or 75%?

A - Operator

This was the case 10 years ago. This would increase the ROIC. The company's cash flow is hurt when EBITDA doesn't grow.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

So, I just wanted to understand, why are you so optimistic about 2016? And you're going to buy more cars than you're going to sell.

A - Operator

Gains of scale mean a lot to dilute the fixed costs. We need to have a certain number of costs to meet the demand. Some just buy cars, and leave them in the yards. No, we buy cars to rent them. And the 29%, which are idle, are cars that are being prepared to be sold and so on.

So, if we deduct all of these cars that are being transported and so on, part of this idleness has to do with the transportation of the cars, and we have to take that into account.

If I deducted these two effects of transportation in preparation for sale, the number would be above 75% of utilization. So, only 25% would be not rented. These are the ones that are being washed, that are being fixed. So, there's no way we can take utilization to a higher level, because then we'll lose business. So, we have to balance that with the need to gain scale.

When the cars are rented that give us the ROIC we need, and we have to buy cars in line with the expected sales. So as I've said before, if we adjust the purchases for those cars that we bought earlier, this year in 2016 we expect about even less than we would have bought last year. Move on (37:05) to optimize utilization, improve ROIC, and try to grow according to the opportunities.

There is a lot of consolidation in our business, and we have to gain scale. This will improve our EBITDA in the rent a car business, but the fixed cost is very significant.

Just to add, you are assuming that we are going to buy more than we are going to sell. No, we are going to focus on the utilization, the efficiency of the fleet, and on capital allocation. So, purchase would be greater than the sales if we saw the growth and the utilization that we saw in the beginning of the year. We have seen this gain in terms of utilization, and we reached 71% at the end of 2015.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

So, there is a likelihood that purchases could be equal to the sales in 2016?

A - Operator

Yes. They should be the same. They should be equal, but they can be higher because of the opportunities for growth.

Our next question comes from Mr. Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning. My question has to do with the rent a car business and its sub-segments. Can you talk about the prospects for 2016? And relative to agencies, airports, how do you see volumes and rates? And what about the replacement of insurance companies? What is the outlook just for us to understand where the growth you have presented is coming from, what are the segments that are affected the most or the least?

A - Operator

Thank you for question, Rogerio. We see growth coming from all the business segments. Corporate is a little bit more squeezed, but we have seen positive volumes in airports and outside airports.

Q - Rogerio Araujo {BIO 17308156 <GO>}

For 2016 what do you expect?

A - Operator

The trend is towards the small losing share. The big rent a car businesses are going to consolidate the businesses.

Our next question in English comes from Mr. Trent from Citigroup.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Hi. Good morning, and thank you for taking our questions. This is actually Kevin Kaznica filling in for Steve.

I guess, my first question is (40:02) trends are you seeing for Movida and Unidas? And can you provide any color on what are you seeing in terms of their retrofit? Are they growing or shrinking? Are they also factoring (40:12) share of the smaller players?

A - Operator

Thank you, Kevin, for your questions. The question has to do with what we see in terms of Movida and Unidas. We haven't seen the results of Unidas. Movida show the trend towards a slower growth in the fleet, but we still see an upward trend in terms of the big rent a car businesses. There is an opportunity for the organic consolidation of the market for 2016.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

I'm sorry, you cut out (40:56) so, there's still opportunity for organic growth in 2016?

A - Operator

(41:04) – yes, exactly. We have seen all segments indicating growth, the corporate segment is a bit more under pressure, but the other segments are performing well. And we believe smaller competitors will be weakened in this macroeconomic condition and will lose market. So, there are opportunities for growth and consolidation in 2016.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

All right, thank you (41:31) – very helpful. And also, if I could just squeeze one more, do you have an ideal long-term leverage target, some kind of multiple? And if you do, (41:41) fixed versus floating (41:45)?

A - Operator

Our debt today is 30% fixed, which has to do with fleet management. With fixed there's debt like that, because these are for long-term projects, which can last for three years, four years and you can pass through the inflation rate. So the debt of fleet management is at a fixed rate, and this amounts to 30% of our debt.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay, great. And do you have any idea long-term (42:22) leverage target?

A - Operator

Can you repeat, please?

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Yeah. Do you have any, I guess, like long term, I guess, net debt-to-EBITDA target (42:37)?

A - Operator

What we see in terms of EBITDA, as Roberto said, especially in the Car Rental Division is to capture this growth in volume, which we expect for 2016, plus strategies to reduce costs and increase our efficiency. So, margin should be in line with the average of 2015.

In the Fleet Division, we have seen a trend towards very close margins, close margins to those (43:14), and then in the other divisions, the margins should go to historic levels. In the Seminovos division, the margins should go to historic levels.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay, great. Very helpful. Thank you.

Operator

Our next question comes from Mr. Prado from Goldman Sachs.

Q - Márcio Prado

Good afternoon. Just to follow on, there was a question, which was discussed in 2015; in the beginning of 2015, Localiza had a low leverage and today it's not high leverage. But there was a lot of talk about the excess cash that the company was carrying. And there was a discussion about the payment of dividend throughout the year. Throughout 2015 the economic situation deteriorated, and their (44:20) discussion was stopped. And the company made it clear that it wanted to keep a more defensive attitude.

If 2016 is a mirror of 2015, that is the first semester that is not good, but then with a more stable economy in the second semester, the discussion about the high cash position of Localiza could come back maybe in 2016.

And in terms of net debt EBITDA, what would be a leverage level that you would consider healthy in a normalized market?

A - Operator

Thank you for your question.

Our covenant is 4 times. We, at the management, we have a certain threshold for debt, which is 2.53 times EBITDA, and that comes from the board. So part of the increase in debt this year has to do with the investments we are making in our headquarters. It's a fairly high amount and part of the capital is being employed in the building of our headquarters, and we are only going to have the return after we move there.

So in terms of keeping a high cash position, our treasury is very conservative. The cost of carrying the cash is relatively low. So it is worth to maintain this cash, and this can allow us to raise money when we need and can allow us to be in a comfortable position in terms of raising money in the markets we are going. We raised R$200 million in five years with relatively attractive interest rates relative to our peers. And our cash position supports the growth that we are expecting going forward. We are not thinking about paying complementary dividends or extraordinary dividends.

The Q&A session has now ended. I would like to turn the floor over to Ms. Lanari for her final remarks.

A - Nora Lanari {BIO 18838335 <GO>}

We would like to thank you all for attending this conference call, and to inform you that our IR department is available to take any questions you might have.

Operator

Localiza's conference call has now ended. Thank you all so much for participating and have a nice day.