Q3 2019 Earnings Call

Company Participants

- Carlos HorÃ¡cio Sarquis, Todos os direitos reservados
- Luis Fernando MemÃ³ria Porto, Todos os direitos reservados
- Marco TÃºlio de Carvalho Oliveira, Todos os direitos reservados
- Unidentified Speaker, Unknown

Other Participants

- Stephen Trent, Director
- Unidentified Participant, Analyst
- Victor Mizusaki, Research Analyst

Presentation

Operator

Good morning. Welcome to Unida's conference call to announce the results of Quarter Three 2019. (Operator Instructions)

This conference is being simultaneously translated into English. (Operator Instructions) This conference call is being recorded. And the audio recording will be available on the company's website within 24 hours. You can also obtain a copy of Unidas' release at ri.unidas.com.br. This conference call has a slide presentation and is being broadcast simultaneously on the Internet.

Before proceeding, please be advised that any forward-looking statements made during this conference call relative to the company's business perspective as well as projections, operational and financial targets relative to its potential growth are based on the management's expectations. These expectations depend on the industry conditions, the economic conditions and general market conditions. And they are, therefore, subject to change.

Today, we have with us Mr. Luis Fernando Porto, CEO; Mr. Marco Tulio Oliveira, CFO and IRO; and Mr. Carlos Sarquis, Head of the Rent a Car division.

Now I would like to turn to Mr. Luis Fernando Porto. Mr. Porto, you may proceed.

Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

Good morning, everyone. Welcome to another conference call to announce the results of Unidas. Today, I have with me Mr. Carlos Sarquis, our Head of Rent a Car; as well as Marco Tulio Oliveira, our CFO, who, as of today, will accumulate the position of Investor Relations Officer. As already announced by the company on October 28, Jose Azevedo left Unidas. And I would like to thank him for all the contributions during the period he worked with us and also wish him success in his professional career.

We will start the presentation on Slide #4, in which I'm proud to announce 2 important steps taken by Unidas regarding our corporate social responsibility program. The first step was the 100% neutralization of greenhouse gas emissions equivalent to our fleet through the Carbon Zero campaign. By 2020, we intend to take this initiative to our entire chain from suppliers to customers.

From the social standpoint, we have now partnered with the B Special Association (sic) (Ser Especial association) for hiring and training of people with disabilities, contributing to make Unidas a reference in workplace inclusion.

Between June and October this year, we hired 49 professionals. We hope that our example will inspire other people and other companies to do the same, giving back to the community through initiatives that will make our country more inclusive, equally fair and ecologically sustainable.

On Slide #5, I would like to highlight the partnership between Unidas and Alphabet to offer mobility services, including fleet outsourcing and TCO solutions, such as fuel cards, tolls, tracking, telemetry and 24-hour assistance to Alphabet's global customers in Brazil. Likewise, all Unidas customers who need these services in any of the 28 countries in which Alphabet is present may benefit from this partnership. This achievement further confirms Unidas as a reference in the Brazilian Fleet Management segment and brings us even more competitive advantages, both in terms of strengthening our promotion of commercial activities and aligning with the best practices in this segment worldwide.

Regarding awards, I would like to highlight how our excellence has been acknowledged. First, we were first place in the Rent a Car segment in the MESC Institute customer service and satisfaction ranking. In the overall ranking, which evaluates a total of 100 companies from various segments, Unidas ranked 13 -- #13, 3 positions above the 2018 edition.

We also earned first place in Miscellaneous Services in the 100+ IT Innovators Award, which lists and evaluates IT projects that have impacted the business of Brazilian company; the RA1000 Certificate, due to our excellent service rates on the Reclame Aqui website; also, Unidas ranked third position in the ranking of best service providers in Brazil of Estadao Empresas Mais Award; Unidas was included in the Exame Maiores & Melhores 2019 ranking, where we had a position of evidence for presenting positive variation in sales investments and value generation; and we improved 246 positions in the Valor 1000 ranking, which lists the 100 -- the 1,000 best companies in the country.

On Slide seven -- on Slide #7, we have the main operating highlights of Quarter Three '19. In Fleet Management, in addition to renewing the record volume of the rentals, we continued to show evolution of the average monthly rate, both when comparing the last 12 months and also in comparison with the previous quarter, even in a scenario of continued reduction of the interest rates in Brazil.

In Rent a Car, the 60.7% annual growth allowed us to reach a level of 3.6 million daily rentals in Quarter Three 2019. In terms of the average daily rate, we continued with the strategy widely communicated by the company to monitor market movement through the efficiency and effectiveness of our use management as well as some impacts of our customer mix, which will be explained by Sarquis in the Rent a Car section of this presentation.

For Used Cars Sales, the company also continues to break record after record. In Quarter Three alone, we sold almost 18,000 cars, which in the year-to-date totaled 47,885 vehicles sold, strictly in line with the management planning for 2019. In addition, our average selling price has also been growing, both in the annual and also in the sequential variation, which reflects the improvement of the car mix as already expected.

As a result, our total fleet ended September with a balance of 153,724 vehicles, of which we are the absolute leader in Fleet Management with 84,259 vehicles and with 69,465 vehicles in Rent a Car, including our franchise fee. Further details on each segment will follow throughout this presentation.

On the next slide, we will talk about the financial highlights of quarter 3. As a result of the aforementioned operational records, we also set historical records in revenue EBITDA, EBIT and net income. In addition, we would like to highlight that all the accumulated amount in the 9 -- first nine months of 2019 exceed the figures for the whole year of 2018 in each of these income statement lines.

The graph on the upper left show the evolution of the consolidated net revenue, which in Quarter Three '19, totaled BRL 1,258.1 million, 51.7% higher than in Quarter Three '18. This performance is the result of the record level reached by all different divisions.

The graph on the upper right show the evolution of the recurring EBITDA, which in this quarter totaled BRL 327.4 million, an increase of 32.4% within 12 months, also benefiting from the annual expansion of margins in both rental segments and the maintenance of the Used Cars Sales margin.

The recurring consolidated EBIT totaled another record of BRL 202.7 million in quarter 3, an increase of 26.3% in 12 months. The graph below shows a 43.8% increase in the recurring net income, which beats the new record for a quarter of BRL 86.5 million. When annualizing this quarter's result on the lower right chart, we are even more confident that we will achieve the company's internal goal for 2019, both in operational and financial growth and also in the commitment to generate value for our shareholders and deliver profitability.

On Slide 10, we briefly comment on the brand new and used cars sales scenario. As we can see in the chart above, the sales of new vehicles in Quarter Three increased 5.2% when compared to the same period last year, reaching around 690,000 units sold. For used cars, the market grew by 4.4% with a total of 2.95 million vehicles sold in Quarter Three 2019.

The graph on the lower left, here, we show information about used cars sales by age. It's important to note that this chart also includes the sale of heavy vehicles and motorcycles. And this is the only disclosure of used vehicles shown -- available in the market. The chart shows that the market of vehicles with up to three years of use, unlike in the past quarter, showed an annual growth of 0.2% in quarter 3, setting stability in sales volume in this age group. Within this scenario, the company achieved a record sales volume of 17,900 vehicles in Quarter Three 2019.

Now with the operating highlights. We show the evolution of our fleet on Page 12. At the end of September 2019, the company's consolidated fleet totaled 153,724 vehicles and a 28.2% increase over September 2018, which is explained by the expansion of both our rental businesses.

The demobilization fleet totaled 15,400 vehicles in quarter 3, corresponding to 10.1% of the total fleet, which -- although it represents a 1.6percentage point growth in 12 months, it is a drop of 0.5percentage points when compared to Quarter Two 2019 due to the evolution of the company in improving the efficiency of its demobilization process and still executing the expansion plan of Used Car Sales throughout the country. The average age of the Fleet Management operating fleet ended Quarter Three at 17.2 months, an increase of 1.9% in 12 months.

In Rent a Car, excluding franchises, there was a drop of 1.8% compared to Quarter Three 2018, closing Quarter Three 2019 at 6.9 months, which is one of the newest fleets in the country as a result of the company's investments in this segment in the past quarter, given our commitment to modernizing the fleet and thereby achieving greater cost savings on maintenance and depreciation. Regarding the average rate -- age of cars sold, the highlight was the average age of Rent a Car, which reached 15.8 months with a reduction of 10.5% in 12 months. In Fleet Management, the age fell 5.7% in the same period to 26.8 months.

On Slide 13, the net CapEx in fleet in the nine months of 2019 totaled BRL 1,207.8 million, an increase of 27.2% over the same period last year. And in Quarter Three 2019, this amount was also positive, totaling BRL 296.2 million. In terms of quantity, there was a net addition of 18,000 cars in the first nine months of '19 and 2,500 cars in Quarter Three 2019.

Moving on to the next slide. Here, we talk about Fleet Management performance. In the upper graph, we see that the Fleet Management net revenue continues to show double-digit growth, totaling a record BRL 316 million in Quarter Three 2019 and BRL 903.6 million in the first nine months of 2019. This result is obtained by the expansion in both daily rental volume and the average monthly rate as we can see in the lower graph.

For another quarter, we renewed the historical record of the number of daily rentals totaling 6.5 million in Quarter Three with an annual growth of 13.6% over Quarter Three 2018. The average monthly rate in Quarter Three increased by 8.7% in 12 months to BRL 1,623. These results was -- were possible. This is the company's ability to: win contracts with customers who are all sorting their fleet for the first time; number two, add customers of all sizes, especially small and medium companies; number three, perform a high rate of contract renewals; and number four, successfully enter new segments. This important commercial work has allowed us to capture the great opportunity for profitable growth that the positive business momentum and the low penetration of the fleet management industry gives us, further enhanced by the great barriers of scale between Unidas and smaller players.

Now Slide #15, to wrap up the section about Fleet Management. The graph on the upper left shows that the opportunity pipeline totaled 45,200 cars and was stable year-over-year. The graph below shows that the overall value of new lease agreements signed in Quarter Three 2019 decreased by 33 -- 36.5% year-on-year to BRL 153.3 million. This performance is explained by the new contracts with shorter duration. The chart below on the left shows a 1.9% annual increase in the average age of our fleet, which ended Quarter Three at 17.2 months.

Lastly, the average occupancy rate ended Quarter Three at 97.9%, which was practically stable in 12 months. Now I turn over to Mr. Carlos Sarquis, Head of the Rent a Car division, to present more details of the company's results in this segment specifically.

Carlos HorÃ¡cio Sarquis {BIO 20060508 <GO>}

Thank you, Luis. Good morning, everyone. We had a technical problem. I apologize.

Now Slide #16. We will start by talking about the new record of Rent a Car daily rental volume in a quarter, which in Quarter Three totaled 3.6 million daily rentals, an annual growth of 67.3%. This impressive growth allowed us to surpass in the accumulated of 2019 the important mark of 10 million daily rentals, setting growth of 70.2% in 12 months and a total of 118% of the daily rentals of the entire year of 2018.

On the other hand, the average daily rate totaled BRL 69.2 in Quarter Three 2019, reflecting the transfer of the interest rates drop to final consumers, a mix of customers with greater exposure to long-term rental for corporate clients and replacement channels as well as the company's high efficiency and effectiveness and the yield management to follow market price movements. As a result, the net revenue of Rent a Car, excluding franchises, totaled BRL 223.9 million in Quarter Three 2019, 54.5% higher than Quarter Three 2018. In the year, the record of BRL 649.9 million were 64.9% higher than the nine months of 2018, an equivalent to 112% of the revenue of the entire previous year.

Now moving on to Slide 17. With a commitment to offer new fleet with low mileage to our customers, thus obtaining greater maintenance and depreciation cost savings, we continue with one of the newest fleets in the country. That is shown in the upper left chart, where we show the drop of the average age of the Rent a Car fleet in 1.8%, reaching 6.9

months in Quarter Three 2019. The occupancy rate stabilized in relation to the previous quarter, reaching 75.7% in Quarter Three '19, absolutely in line with the strategy adopted by the company to guarantee the quality of service to our customers by significantly increasing the supply of the average operating fleet in this segment.

By the end of September 2019, our Rent a Car service network totaled 208 stores, of which 130 are our own stores and 78 franchises, present in all the 26 Brazilian states and the federal district. The growth of 12 owned stores in 12 months reflects the passive absorption of franchises in strategically important regions as a result of the company's strategy to increase scale and generate greater operating leverage in these locations as well as the diligent work to maintain stores with positive results and which justify their maintenance. As a net result, there was a reduction of 11 Rent a Car stores in the same period.

Now I turn over to Mr. Luis.

Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

Thank you, Sarquis. Now on Slide 18, we'll talk about the Used Car Sales division. In Quarter Three '19, the Used Cars Sales net revenue exceeded the mark of BRL 700 million for the first time in a quarter, totaling a record level of BRL 711.8 million, an increase of 69.5% over Quarter Three 2018.

For the nine months of 2019, the revenue totaled BRL 1,866.3 million, an annual expansion of 57.1% in 12 months and equivalent to 132% of the revenue of the entire year 2018. These results are due to the combination of an increase in the volume of cars sold and in the average selling price as we can see in the chart on the bottom.

The initiative to expand the used car operation throughout the country allows us to reach a record sales volume of 17,905 vehicles in 1 quarter and 47,885 vehicles in nine months, demonstrating the company's ability to execute its sales on a sufficient scale to support the growth in rental operation.

The average sales price continues to benefit from the improved car purchase mix in 2018, the increased exposure to Rent a Car cars, which intrinsically have the highest average ticket and a reduction in average sales ages in both Rent a Car and Fleet Management. As a result, the average price in Quarter Three 2019 was BRL 39,800, an annual growth of 20.9%.

Moving on to Slide 19. Now we continue opening new stores as a result of the execution of the national expansion plan of our Used Cars Sales operation. As a result, our network totaled 105 stores in Brazil, a net increase of 30 stores in 12 months, of which 30 were directed to the retail segment and 5 to wholesale, which more than offsets the closing -- the shutdown of 5 franchise stores.

To comment on the financial results of Quarter Three 2019, I now turn it over to Marco, our CFO and now also the company's IRO, whom I would like to welcome in this first conference call with his participation. For those who do not know, Marco has been with the company for eight years and in the last two years as Chief Financial Officer. Marco, please?

Marco TÃºlio de Carvalho Oliveira {BIO 20241330 <GO>}

Good morning, everyone. Thank you for the kind introduction, Luis. I also want to point out that the IR team has a new director. However, the structure itself is the same as before, composed by Rodrigo Faria, as the IR manager. And the rest of the team.

Before proceeding, I would like to reiterate that all information related to Quarter Three 2018 are consistent with the IFRS 16 accounting rule.

Slide 21. The company's consolidated net revenue in Quarter Three was a BRL 1,258.1 million, 51.7% higher than the total of Quarter Three 2018 and equivalent to 122% of the full year revenue in 2018. This performance is a result of the 50.9% growth in Rent a Car, considering franchises, 22.9% growth in Fleet Management and 69.7% growth in Used Cars Sales.

Slide 22 shows the evolution of the EBITDA and margin. The consolidated recurring EBITDA in Quarter Three reached a record level of BRL 327.4 million, reporting an annual growth of 32.4% in 12 months, explained by the strong EBITDA growth of 54.3% in Rent a Car, 23.6% in Fleet Management and 22.8% in Used Cars Sales.

In turn, the recurring consolidated EBITDA margin over the net rental revenue totaled 59.8% in Quarter Three 2019, 0.5percentage points lower than the margin of Quarter Three 2018 due to the higher exposure to the Rent a Car segment. We highlight here the growth of EBITDA margins in both rental segments, which in Rent a Car, had an annual expansion of 1percentage point and in Fleet Management, increased by -- increased 0.4percentage point. These excellent results reflect the strong revenue growth and the strict cost and expense control, which allows us to generate positive operating leverage, even with the company's considerable long-term investments in technology, people, communication and branding.

In respect to Used Cars Sales, the EBITDA margin was 1.5% in Quarter Three 2019, totally in line with the margins presented by this division throughout 2019 so far. This consistent result reflects the significant generation of positive operating leverage through record sales volume and a gradual increase in average prices of vehicles sold, offsetting for all the investments made by the company to increase its Used Cars Sales store chain, in addition to the appropriate depreciation level of our fleet. We emphasize that the management is comfortable maintaining the EBITDA margin in the range of 1% to 3% for the coming quarters.

On Slide 23. The recurring consolidated EBIT totaled BRL 202.7 million in Quarter Three 2019, an increase of 26.3% in 12 months. The recurring EBIT margin reached 37.1%, a decrease of 2percentage points compared to the margin in Quarter Three 2018. This performance reflects the higher growth of the company in the Rent a Car segment compared to the growth in Fleet Management as previously mentioned.

On Slide 24, we see the recurring net financial expense, which totaled $91.5 million in Quarter Three 2019, reducing its representativeness in relation to the net revenue by 17.1% or 3.4percentage points in the last 12 months as a result of the company's diligence work to reduce the weighted average cost of its debt through refinancing and fee payment of more expensive debt with new debt at a cheaper cost, justified by its AAA rate -- rating.

The 10.6% increase over the same period of 2018 is explained by the debt expansion and the higher financial expenses with increase of 4 leases in accordance with IFRS 16, offset by the sharp reduction in the average cost of debt as already mentioned. The graph on the bottom show the evolution of the consolidated recurring net income, which in Quarter Three 2019, reached a record amount of $86.5 million, growing by 43.8% in 12 months. Given that this increase was higher than the growth in net rental revenue, the net margin increased by 1.1percentage points year-on-year, as seen as a result, reaching 15.8% in Quarter Three '19.

Year-to-date, the recurring net income totaled BRL 252.8 million, 53.5% higher than the combined results of the first nine months of 2018 and 124% of the 2018 full year profit and a net margin expansion of 2percentage points, demonstrating the company's focus on profitable growth.

On the next page, we show the evolution of our profitability ratio. In the upper left corner, the annualized ROE reached 16% in Quarter Three 2019, an annual reduction of 6.8percentage points due to the company's higher shareholders' equity given the conclusion of the follow-on of BRL 992 million in December 2018.

It is noteworthy that the annualized ROE is calculated on tangible shareholders' equity, which excludes the effect of the goodwill arising from depreciation between the signing date and the closing date of the share issued for payment of the merger with Unidas.

As already stated, as of this quarter, for the calculation of the cost debt after tax, as we now use the 34% tax rate. So that the entire market may have the same comparable basis between Unidas and its market peers. The same adjustment was made to all the chart here at the bottom of this slide. So this adjustment cost of debt after income tax was 5.1% in the first nine months of 2019, annualized 0.8percentage point lower than in 2018. As a result, the annualized ROIC of 11.6% in the first nine months of 2019 was sufficient to generate an increase of 0.3percentage point of the spread for the after-tax cost of debt, even with a high exposure to the Rent a Car segment.

The last slide, #26, shows the company's consolidated gross debt of BRL 4.4 billion at the end of September 2019, of which 96.9% matures in the long term, which is the highest level ever reached by the company, reflecting the conservative policy of lengthening and improving the debt profile.

Our debt is currently comprised of 91% -- 91.7% in debentures. And the remainder is distributed among some promissory notes, leasing, working capital and foreign loan. Based on consolidated indebtedness and annualized this year, at the end of quarter 3, the net debt-to-recurring EBITDA reached 2.69x, a 0.3x lower level than the same period last year. This performance is due to the strong EBITDA generation in 12 months.

Finally, as a result of the management's average lengthening debt profile and strengthening level of cash, at the end of September, the cash balance was equivalent to 105% of the debt due by the end of 2021.

I now turn over to Mr. Luis Fernando.

Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

Thank you, Marco. I would like to open for questions now.

Questions And Answers

Operator

(Operator Instructions) The first question is from Mr. Lucas Barbosa, Morgan Stanley.

Q - Unidentified Participant

Luis, this is Marcos. I have 2 questions about the Rent a Car dynamics. We saw that the average daily rates dropped 7% year-on-year. I understand there's some seasonality in the quarter comparison. And there's the effect of the mix on the year-on-year. You mentioned that you now have longer-term contracts and replacements in the basis for Quarter Three 2019. But utilization dropped year-on-year and was flat quarter-on-quarter. Is this just to increase the availability of the fleet to the customers? Or was there any other effect on this quarter?

You mentioned -- was this because of the drivers application? This is my first question, then I'll ask my second question.

A - Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

For the average rate, as you said yourself, the year-on-year drop is due to the 2 points that I mentioned. It was due to the drop in the standard interest rate, which differently impacts our different segments. But it's nothing structural. And there's no need for us to be alarmed. And also because of the customer mix. We are advancing strongly in some segments and in some time, stronger than in others. And in these segments, we have a slightly lower daily base. In terms of occupation of our fleet, we are growing strongly in daily rates. We grew 67% this year. And we decided to work with an occupancy rate -- a looser occupancy rate to make sure that we can deliver good service to all our customers in all our segments. And good service means that we should always have cars available to meet the demand. So we should not have any difficulty growing this occupancy rate after this moment passes. So it is a cautioned decision that we made that was previously informed to the market. And we continue to believe this is the right strategy now.

Q - Unidentified Participant

My second question is about the increased replacement. Are you talking about higher volumes in the same customers that you already have or new contracts? And what is the expectation in terms of new customers for replacement next year?

A - Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

Most of the growth comes from our current customers. So the company's working with higher availability and also with more competitive prices. This is a segment that, before the merger, Unidas had difficulty operating with profitability at profitable levels that's why we decided to slow down a little bit in this segment. It is a very promising segment for us. And -- but we are very incipient. We are starting the process now. We see a lot of opportunity, a lot of potential to capture market share. However, we are moving slowly.

Operator

The next question in English is from Stephen Trent, Citibank.

Q - Stephen Trent {BIO 5581382 <GO>}

I was curious about the car rental segment. It looks like you guys had a falloff in franchisees. And could you just explain a little more what happened there? I didn't hear your explanation so clearly.

A - Unidentified Speaker

Stephen from Citibank asked a question to Rent a Car, asking about what happened to the franchise segment and why the drop.

So this drop has been taking place for a while now. As we've heard and we even mentioned here and when we explained the results that Unidas has a passive position in terms of acquisition of franchisees. We're not going after franchisees. We're doing this passively. We're evaluating the franchises that want to return their operations to the corporation.

The Rent a Car business is gaining more and more scale in recent years. The nominal rate has dropped, although we did have a reasonable inflation rate in Brazil during this period.

But the way we found to maintain our profitability by gaining scale. And all franchises do not have this scale. They do not have the capacity to buy cars at the same discount rate that we have and with the same efficiency that we have. And they don't have the same operating leverage. So this is a trend that is now very clear in the industry as a whole, not just for Unidas.

So quarter-after-quarter, we see this clear trend of reduction of franchise networks and the corporation taking on some of these operations. Of course, in some regions, we will continue to have franchises because they're operating well and making money. However, this situation has been taking place for some years now. There's need for gaining scale. And this is what separates those that operate well from those that do not.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. And just one more question, if I may. On the fleet rental side, with one of your competitors trying to make inroads in that segment, have you seen any differences in competition either competitors going after contracts with large companies, going after contracts with small companies? Any change in the competitive environment for fleet rental? And that's it for me.

A - Carlos HorÃ¡cio Sarquis {BIO 20060508 <GO>}

Stephen now asked the question about fleet outsourcing, fleet management. He asked whether we are feeling any effect of excessive competition in terms of price.

So let me answer your question, Stephen. The answer is, no. We have been able to grow our operations. The revenue grew by nearly 23% year-on-year. And we are growing the contracts with great profitability. The market in general is growing in Brazil. There's a huge growth potential for fleet -- corporate fleet Management in Brazil. 10% of corporate fleets are outsourced in Brazil. And we feel that this is gaining up, this gain of consciousness, this awareness by corporations, that it is better to outsource than to buy their own fleet. So we see a good opportunity. And we're making the most of it and growing at very healthy margins.

Operator

The next question is from Mr. Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have 2 questions. My first question is about Rent a Car. When we look at the total number of cars, quarter-on-quarter, we saw a small reduction. So I'd like to understand the reason for the reduction. And the second question is about Used Car sales. Can you talk about the evolution? And what percentage of the cars today are being sold by the (acelero) channel?

A - Unidentified Speaker

The first question is about Rent a Car. And then Luis can answer the second question.

A - Carlos HorÃ¡cio Sarquis {BIO 20060508 <GO>}

Well this is about adjusting the size of the seed preparing for -- during quarter 2, preparing for the month of July. The month of July brings some focal opportunities. So this small reduction has nothing to do with us seeing any slowdown in demand. Demand is still very strong. The market is growing strongly.

A - Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

So this small drop is not a sign of concern. It's just a matter of focal adjustments of the size of our fleet quarter-after-quarter. And about the (acelero) channel, we believe that this year, it should sell 3,000 cars. So it is still small. And we are advancing at a somewhat slow pace. But these are the numbers.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, Luis. And also about used cars. Can you talk a little bit about prices? Can you talk a little bit about demand and prices of used cars?

A - Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

Well demand is at a normal level, I would say, exactly what we were estimating with a market, which is equal or slightly lower than last year, which facilitates our work because we have a great competitive advantage over the rest of the market because we're talking about small, multi-brand stores. These are our competitors in this segment. And this year, we will be present in about 25 net new cities. So this is a very aggressive expansion through the expansion with our new store in a market that is now showing signs that it could even grow before the end of the year. So there's no problem neither with demand or price.

The challenges that we have in these segments are related with execution. We need to sell well at the right numbers. Now that we're getting closer to the end of the year, we are very confident that we will be able to have a great year for Used Car Sales. We will increase our volume with a higher average ticket. And most importantly, with a stable depreciation rate throughout the year. So we're getting to the end of the year with all our objectives being met.

We were right about our market vision. We are selling the right number at the right depreciation rate that the management finds comfortable with a positive EBITDA within the range that we wanted. Of course, we could be doing better in used cars. Of course, I need to be honest with you. We are always very candid in our communication with you. Our new stores are taking longer than expected. But on the other hand are the positive points next year with the maturation of these stores and growth in other markets. This is strategically, very positive, very good for our business. There are some intangible things that are taking place within Unidas. We are strongly investing in our geographic expansion for Used Car sales. And we are also investing in technology and the back office structure to support a growth rate of over 50%. And we are very excited with all the markets where we operate. And we will maintain a strong growth rhythm in the coming months.

So the Used Car business is very good. It's just about our execution capacity. And we are confident that we will be able to expand as expected at the speed and at the numbers that we were expecting.

Operator

(Operator Instructions) We have a question sent on the internet from Lucas Fernandez.

Q - Unidentified Participant

I want to know about the drop in the number of GPS contracts. Was this just a focal event? Or have you been facing more difficulties expanding these contracts? What do you see for the future?

A - Unidentified Speaker

This was a focal drop, a one-off event. Quarter Three 2018 was strongly impacted by some longer-term contracts. We closed a 16-month contract, a 48-month contract. And in Quarter Three 2019, we had a high volume, however, with shorter time frame with an average of 26 months. So this is what I have to say about demand. It's just the opposite. Demand is very strong. We are practically doubling, if you see here, the opportunity -- business opportunities.

Today, we're working very strongly in all segments of the economy. And we see higher potential for contracts in the last month of the year. Sarquis even mentioned this when he answered Stephen's question. Fleet Outsource, the Fleet Management has been gaining proportion. And for the future, this business will continue to grow strongly at 2 digits for a long time to come. We are under the impression that this is just beginning the fleet management movement in Brazil.

Operator

(Operator Instructions) Since we have no further questions, the question-and-answer session with analysts is now closed. Before we start to take questions from the press, I would like to turn over to Mr. Luis for his final remarks.

A - Luis Fernando MemÃ³ria Porto {BIO 17175861 <GO>}

I would like to thank all our 3,052 employees to allow for these very good results. This is the result of their hard work and commitment. As we saw in the results of Quarter Three and for the entire year of 2019, we have been able to deliver strong growth and generate profitability. The powerful combination of the scale acquired, the large number of Brazilian (fleet) is still experiencing Unidas car rental. The increased dissemination of the numerous benefits of fleet outsourcing, our proven expertise and know-how. And there's very good momentum in all our markets where we operate. This all gives us the conviction that we will be able to deliver strong results in the next year.

And now with an even more ecologically and socially sustainable Unidas through our corporate social responsibility policy. For those who need it, I will be available as well as our entire Investor Relations team. We are available to answer any questions you may have. Thank you very much. And have a great afternoon.

Operator

Now we will start the question-and-answer session with the press. (Operator Instructions) The first question is from Mr. (Gustavo Criaso of the Economico).

Q - Unidentified Participant

I have 2 questions actually. For B2B -- as I am going to ask about B2B. And also in Movida's call when talking to Renato. Movida had also talked about this. Can you give us more detail about how you see this area and your expectations for the coming months? And also the high season in the end of the year, what are your thoughts?

A - Unidentified Speaker

I did not understand your first question.

Q - Unidentified Participant

It's about B2B fee management. How is this going for you? Can you give us more detail?

A - Unidentified Speaker

Okay. A little bit about the fleets and then Sarquis can talk about car -- Rent a Car. In Fleet Management, Gustavo, we see a very strong demand, particularly after Quarter Two this year, with a growth in the number of companies that are transitioning from their own fleet to an outsourced fleet. This is very positive for us. It shows that the market is truly growing. It's not just about getting customers from the competition, we are seeing new customers in the market.

So the expectation for the end of the year are very good and also for the coming years. Because only 10% of fleets in Brazil are outsourced today. And small and medium companies are now seeing this as a good opportunity, which was, in the past, a choice only of large corporations. So the entry of small and medium companies in this segment is very good for us because Brazil has a huge number of small and medium companies.

Q - Unidentified Participant

Is -- are your businesses more concentrated in this niche, small and medium or -- are you -- I'm sorry, I apologize. Do you have a specialized sales team for small and medium companies? Are you doing anything targeted at small and medium? Or is this just because small and medium companies are out of money. And they're looking for alternative?

A - Unidentified Speaker

No. We have a strong sales platform, very polarized, very disseminated that can service any size of company. What we are seeing is the extension of the culture of outsourcing fleets. So these companies are managed by people. So if they now can see the advantages, people are outsourcing transportation now as individual and individuals' brand companies. So they're trying to apply the same logic to the company. And small companies took a little longer because perhaps, the costs are not so significant for them. But now they're starting to see the clear financial and operational advantages of outsourcing their fleet in addition to decreasing their costs. There are also many other advantages of not worrying about cars and focusing on your core business. So this is what we see now that people are using fleet management more and more.

Q - Unidentified Participant

What about the high season in the end of the year?

A - Carlos HorÃ¡cio Sarquis {BIO 20060508 <GO>}

This is Carlos Sarquis. Let me answer your question about the high season. We are expecting very high demand for the end of the year. I think that year-after-year, Brazilians are getting more and more used to renting cars when they travel. And renting cars in Brazil today is cheap. It's actually very cheap. If you see a comparison of the past 10 years, the price must have dropped about 10%. And over the same 10-year period, only inflation increased prices in 10%. So in reality, it's much cheaper now to rent a car. And we have very new cars, then this is both Unidas and the other players in the market. The cars are very new. So we will see continuity of this trend. So we trust at the end of year, we will see a lot of car rentals in the high season.

Operator

(Operator Instructions) This conference call is now closed. Thank you, all for participating. And have a great day.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)