# Q1 2020 Earnings Call

## Company Participants

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

## Other Participants

- Alexandre Falcao
- Analyst
- Bruno Amorim
- Gabriel Rezende
- Murilo Freiberger
- Pedro Bruno
- Rogerio Araujo
- Victor Mizusaki

## Presentation

### Operator

Good afternoon, and welcome to Localiza Rent a Car's Conference Call on the first quarter of 2020.

Hosting the event today are Mr.Mauricio Teixeira, CFO; and Ms.Nora Lanari, Investor Relations Officer. 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 provided. (Operator Instructions) The conference call audio and the accompanying page presentation are being broadcasted simultaneously over the internet at www.ri.localiza.com/en/. The page presentation can be downloaded at the same address by clicking on the banner 1Q '20 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 political and economic conditions and other operating factors may affect the company's future and may lead to materially different results from those stated in this call.

To start the first quarter of 2020 teleconference, I'll turn the floor over to the CFO, Mr.Mauricio Teireixa.



## Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Good afternoon, and thank you all for your presence. In the first quarter of 2020, we showed solid results, although we started to feel the effects of the COVID-19 pandemic in the last weeks of March. Growth remained accelerated in the Car Rental and Fleet Rental divisions. However, Seminovos was impacted by the closing of stores in the last weeks of March. Our consolidated net revenues totaled BRL2.8 billion in the quarter, 18% higher than 1Q '19 and net income was BRL231 million in the quarter, with the growth of almost 10% year-over-year. Another highlight is the acquisition of Mobi7 telematic solutions platform company. This acquisition brings several opportunities for Localiza, as we expand intelligent fleet monitoring.

Within the context of the COVID-19 pandemic, we instituted a crisis management committee to take care of our team, our customers, our operations and our liquidity. We added another front of social responsibility with an estimated contribution of around BRL10 million aimed at managing community support initiatives.

Regarding our customers and operations. At first, we reduced the Car Rental operations to just a few branches and closed all the Seminovos stores. Gradually, we were adjusting the opening of branches and stores according to the local and state enactments and the demand. Today, we're operating with 401 open Car Rental branches and 78 Seminovos stores with in-person and online sales.

We're also working on a number of different fronts for reduction in all the lines of costs and expenses in order to preserve the company's results as much as we can. Regarding our liquidity, we ended the quarter with approximately BRL3.9 billion in cash, and had approximately BRL1.9 billion to be paid to OEMs, which leaves us with an adequate cash position to overcome the crisis. The excess of BRL2 billion in the cash position has remained stable in the first half of May.

We reaffirm our financial position, financial strength, the capacity to act fast and execute, so we can face the challenges that have been brought on by COVID-19 to our business. We remain optimistic with the drivers of future growth and we are investing in the competencies that are necessary for the post-pandemic scenario.

Moving on to the webcast. We'd like to present the 1Q '20 results. On Page 2, we can see the operating highlights for the quarter. Growth continues accelerated in the average rented fleet in Car Rental and 20% year-over-year. Seminovos presented a sale of 38,361 cars already reflecting the closing of stores in the last weeks of March. The total fleet increased by 31% in the annual comparison with 325,000 cars in a network of 608 branches in seven countries in South America.

On Page 3, we show the financial highlights of 1Q '20. In comparison with the same period last year, net revenue and EBITDA grew approximately 18%, EBIT grew by approximately 15% and net income increased by almost 10% achieving BRL231 million in the quarter. To present the details of the first quarter results, I would like to hand the floor over to our Investor Relations Director, Nora Lanari.



## Nora Lanari {BIO 18838335 <GO>}

Good afternoon, everyone. Starting with the Car Rental division, as you can see on Page 4. In the first quarter, the average rented fleet grew by 36.4% and revenue grew by 28.8% year-over-year. In the last two weeks of March, we began to feel the impacts of the quarantine on rental volumes with a more pronounced decline in the daily rental segment, which has a higher average ticket.

In addition, we were quick to implement exemption in return rates and discounts for the ride-hailing segment in order to reduce the level of car returns, the effect of the change in the mix and price level can be seen on Page 5. The average daily rate of BRL69.20 in RAC is 6.5% lower than the average daily rate in 1Q '19. The utilization rate was marginally affected reaching 78.2%, which represents a decrease of 1.6 percentage points in comparisons with the same quarter of the previous year.

On Page 6, we show that the number of branches of the company's own network was maintained and the network of franchise branches abroad was expanded by six units compared to the end of 2019.

Moving on to Slide 7. In the Fleet Management division, we see the average rented fleet increasing by 20.2% and net revenue increasing by 17% compared to 1Q '19. In this comparison, the daily rate fell by 3% reflecting also the pricing of new contracts in the context of lower interest rates as already observed in recent periods.

However, this is the first quarter since 1Q '18 which we bring an increase in the average tariff in relation to the previous quarter, which indicates that most of the contracts signed at the time of higher interest have already been renewed and the impact on the average tariff by repricing of contracts should be lower.

Moving on to Page 8, we show the balances of car purchases and sales. In the quarter, we bought 40,879 cars and sold 38,361 cars, an increase of more than 2,500 cars and a net investment of BRL192 million. On March 23, we had closed all the Seminovos stores. As result, sales at the end of the month were significantly reduced impacting the results for the quarter with the reduction in sales. The company also adjusted the pace of purchase of cars as of April having received only the orders already placed. In the week of April 20, following the flexibilization of regulations regarding social distancing and complying with the safety and health protocols, the company reopened part of its used car stores.

On Page 9, we show the Seminovos network. At the end of 1Q '20, we had 124 points of sale and 38,361 cars sold, a volume impacted by the closing of stores at the end of the quarter. The Seminovos network may be further adjusted to reflect the expectation of lower sales volumes this year, given the pandemic.

On Page 10, we show the end of period fleet with Car Rental showing a growth of 36.5% and Fleet Management an increase of 23.5% compared to 1Q '19. During the second quarter, we expect a reduction in the fleet of the Car Rental division due to the drop in volumes as a way to reduce the impact on the RAC utilization rate.

Moving on to Page 11. We see that the consolidated net revenue for the quarter increased 17.7% when compared to 1Q '19. Net rental revenues increased 25.7% while Seminovos increased 12.7% impacted by the closing of stores and measures of social distancing. In the quarter, the volume of cars sold increased by 4.7% and the average sale price increased by 7.7% year-over-year.

Moving on to Page 12. Consolidated EBITDA increased by 17.6% in 1Q '20 year-over-year, as a result of the growth in the company's business divisions. The EBITDA margin of RAC decreased by 1.1 percentage point impacted by the drop in the average tariff already reflecting the pandemic, as mentioned before. Fleet Management margin decreased by 2.2 percentage points due to the drop in the average tariff, reflecting the lower level of interest rates. Seminovos presented a margin of 1.5% even in the context of the pandemic with policies of social distancing impacting sales volumes.

On Page 13, we explain the change in the depreciation method of the Fleet Management division. We reassess the method used to appropriate the depreciation of cars in this division to better reflect the equalization of maintenance and depreciation costs over the useful life of the cars. Accordingly, based on internal studies, the company decided to apply the straight-line method of depreciation to replace the SOYD method which was previously used. I'd like to emphasize that changing the method does not change the amount to be depreciated by per car. But instead, it changes the depreciation curve throughout the contract.

Still on depreciation, on Page 14, we see that in RAC the annualized average depreciation per car was BRL2,202 in the quarter, stable compared to the last quarter. In the Fleet Management division, the average annual depreciation per car was BRL2,397 calculated using the straight-line method. If calculated using the SOYD method, it would be approximately BRL3,646.

On Page 15, we can see that the consolidated EBIT in 1Q '20 reached BRL434.4 million, representing an increase of 14.7% year-over-year. The Car Rental division's EBIT margin was 31.1%, representing a decrease of 6.9 percentage points compared to 1Q '19. In the Fleet Management division, the EBIT margin was 60.7%, an increase of 9 percentage points in relation to Q1 '19.

The net income in the quarter, on Page 16, grew 9.5% compared to 1Q '19. The expansion of net profit is explained by the EBITDA growth in approximately BRL95 million, partially offset by the increase in the depreciation of cars by BRL36 million, financial expenses by approximately BRL22 million and growth of taxes on profit of approximately BRL13 million.

On Page 17, we show the cash generation before the growth of almost BRL700 million in 1Q '20, more than half of the total value of 2019. The addition of 2,500 cars to the fleet and the payment of those acquired at the end of 2019 consumed approximately BRL870 million. Free cash generated before interest totaled BRL95 million in 1Q '20.

As can be seen on Page 18, the investment in fleet growth was partially financed by the generation of cash from rent and receivables advances, but impacted net debt, which ended the quarter at BRL6.9 billion.

Now, I'd like to turn the floor back over to Mauricio, to present our cash position and leverage.

## Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you, Nora. As you can see on Page 19, we've ended the quarter with an extended and adequate debt profile to face the current crisis scenario. We had almost BRL4 billion in cash and virtually no maturity in 2020. Today, we have a net cash from commitments to be paid to OEMs, which totals BRL2 billion. That is an adequate amount to go through the crisis.

On Slide 20. We can see that the net debt divided by EBITDA annualized ratio ended the quarter at 2.7x, which is very distant from our covenants.

On Page 21, we present the evolution of the ROIC spread versus the cost of debt. In 1Q '20, we delivered a nominal spread slightly lower than last year, but at a level that we consider quite healthy, especially considering that the period has been partially affected by the quarantine.

To conclude, I would like to present more up-to-date figures with the impacts of COVID-19 in April as we can see on Page 22. Today, we have 401 operating rental agencies, 355 that are fully operational and 46 with restricted service. At Seminovos, we are back operating 78 stores, 38 of which are fully operational and 40 with restricted service with in-person and virtual sales.

In April, the Car Rental division recorded an average rental fleet of 105,000 cars, a 53% utilization rate and an average daily rate of BRL47. The Fleet Management division as expected was little impact by the pandemic, having maintained constant volumes utilization and price. Seminovos was quite impacted having sold 2,460 cars throughout April with stores closed until April 20. And we've reduced car purchases, and we expect that the number will remain low in the upcoming months.

To end, I would like to reinforce our goal of growth with profitability in the long term. We are aware of the short-term challenges but confident in the long-term drivers for our business. We are being austere and prudent but still investing and preparing ourselves to capture the growth drivers.

We're now available to answer your questions.

# Questions And Answers

## Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question is from Pedro Bruno from Santander.

## Q - Pedro Bruno {BIO 19082978 <GO>}

Good morning, or actually good afternoon, Nora and Mauricio. Thank you for taking my question and thank you for the information on April. That helps a lot. I have two questions about Seminovos during the pandemic period and April that you opened. First of all, it's about strategy in order to validate if my understanding is correct. To think that you decided to sell less cars so an expressive drop in the number of cars. So was it a strategy to wait and sell during a more normal market moment that's why we don't have any indications of the potential depreciation -- additional depreciation? And in that sense, what is the price dynamics that you've seen in the cars that were sold even though less, specifically in April, to consider a period that was entirely impacted by the pandemic? That's my first question.

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

Hi, Pedro, thank you for your question. Thank you for taking part in the conference call. First Seminovos. Well, first of all, we had a very conservative attitude relating to the care towards our customers and our employees. Not to mention that we have to comply with state and local regulations to open stores. Therefore, our stores were pretty much all closed until April 20. And then we started, to open stores analyzing each decree, so we can comply with regulations. Therefore, we had about 10 days in April of more open sales, so to speak.

In addition, we don't see a need considering our strong cash position in burning our cars at inadequate prices. We don't have to do that considering our balance sheet structure, our leverage and our debt profile. And as well as the cost of carrying a car 3% per year, even considering spread and cost of parking, the cost of maintaining that car on our balance sheet is very low. So any 1%, 2%, 3% or 5% on that to sell it faster doesn't make sense. So it's better to price our cars in a correct manner, in an adequate manner as we've been doing. Already answering the second part of your question, we did not lower the car prices. They're still very close to the first quarter. And we're selling what we were able to sell, given the issues of mobility and access to our stores.

So it was the combination of two factors. First of all, being conservative, preserving customers' and employees' health as well as compliance with regulations in terms of store openings and not being aggressive, maintaining car prices so we can sell. And if we have to wait a little long to sell, the cost of carrying these cars is low. So we'll manage that without having to burn or putting pressure on car prices.

## Q - Pedro Bruno {BIO 19082978 <GO>}

Perfect. Thank you, Mauricio. Just one more question in that sense. About any eventual additional depreciation, I know that's a more uncertain theme and you don't give as much visibility on that. So just to understand because we've been talking about at what level these Seminovos sales would become normal, but I'm still about -- in doubt about the prices for purchase. So the $1 million dollar question is the spread. What will it be like in the future? So I'd like to hear from you how you've been working on that internally in your internal conversation so we can think on that better to try to conceive a more normal like period in the future.

## Operator

Pedro, one moment, please. We are waiting for the speaker to reconnect. Speakers, you may begin.

Pedro, can you ask your question again, please?

## Q - Pedro Bruno {BIO 19082978 <GO>}

Of course. My question is still about the same topic but now in relation to additional depreciation. Obviously, it's a very uncertain topic especially on your side, at least I imagine that. So I'd like to understand how you see the dynamics in things getting back to normal when that happens, about the purchase price and sale price spread. A lot is said about where the sale price for Seminovos would stabilize at a more normal aspect. But also I have a doubt about the purchase price. And maybe internally, you've been discussing that or even with the suppliers to assist in that in the price dynamics for buying cars from now on compared to the normal levels of purchases.

## Operator

Pedro, I apologize. Our speaker was disconnected. Again, we are waiting for their connection.

## Q - Pedro Bruno {BIO 19082978 <GO>}

That's okay. I'll hold.

## Operator

Pedro, our speaker is back. Could you kindly repeat your question again?

## Q - Pedro Bruno {BIO 19082978 <GO>}

No worries. Can you hear me, Mauricio?

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

Yes, Pedro. Please go ahead.

## Q - Pedro Bruno {BIO 19082978 <GO>}

Okay, so my question is related to the first one relating to Seminovos, but now relating to additional depreciation. I know that's an uncertain topic, especially on your side. So the idea is that I'd like to know what are your internal conversations that you've been having in terms of a future potential when we have a normal situation in relation to the spread of purchase sale and sale price. We've heard a lot about when the sales price would become normal, if volumes are more normal, but I'd like to understand the purchase side. Have you been talking to your suppliers on that or maybe internally and you can give us some flavor so we can try to think of would be a more normal like scenario in the future?

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

Thank you, Pedro, and I apologize for being disconnected.

In fact, depreciation, we believe that depreciation is pretty stable. We've already upped that since last year, and -- we haven't had any impairments or adjustments to the balance sheet. So it's a very conservative expectation for price -- car prices on the balance sheet. But what will happen to them to the new car prices and Seminovos car prices or used car prices in the future, it's uncertain. So we already see some increases from OEMs about 5%, 8% because the exchange rate pressure is very high. When it was 4.20, they were already talking about price increases. And now at BRL 5.80, the -- in the U.S. Dollar exchange rate, that's a lot of -- more pressure. So if new cars go up, used cars will go up and there would be pressure to reduce that.

On the other hand, we know the challenges that we have with high unemployment, restrictions to credit and how difficult it is to sell for those reasons. So it's hard to understand or tell you about the effects. But what we can say is that the volumes that we sold in April and that we're selling in May, which is much higher than April, given that the stores have been open since the beginning of the month, is that we've been maintaining prices at the same levels as the first quarter. We don't see a need to lower prices. Therefore, we don't have any plans in increasing depreciation in the short term. We have a positive margin from our depreciation. So, so far we don't see a need to increase depreciation, but we will monitor that throughout the quarter to see how it will behave.

There's also the issue about the cost of sale. As you sell less cars with a heavy framework that's created to sell more cars, the SG&A per car is higher and that has to be reflected on depreciation. Otherwise, it will affect the margin. We only had one month that was different. We already see the -- our growth in sales levels, and we will adjust if necessary. So those are the three variables that we will monitor, but it's hard to say where depreciation will go in the midterm. But in the short term, we're keeping that at the current levels.

## Q - Pedro Bruno {BIO 19082978 <GO>}

Okay, great. Thank you, Mauricio.

## Operator

Next question is from Murilo Freiberger from Bank of America.

## Q - Murilo Freiberger {BIO 17385357 <GO>}

Good afternoon, everyone. Thank you for taking my question. So I have two questions actually. Just to confirm what Pedro touched on. So on the side of impairment to the fleet, when we calculate depreciation on car value and the spread on the sales prices, which is more important, and you were adopting a more conservative stance on the competition, which probably led to a lower fleet value in the competition. And -- but now, you have some extra for a more difficult scenario. So do you -- is that correct? Or do you -- will you adjust this further in the future?

My second question is about something else. And I know it's hard to do this math in this scenario, but we see a significant drop in the rates in April. And how much can you tell us about mix and company strategy in dropping the rates.

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

Murilo, thank you for your question. First of all, to stress the impairment, that's performed in two cases. First of all, if the value of the asset isn't according to reality, if it's higher than it should be, so the company adjusts that because it wasn't depreciated correctly throughout time. The other case is if in a perspective manner, you imagine that the asset will be realized for a lower value than it is according to book value today. So neither of these cases apply to Localiza's reality.

We see that our assets are well priced. We depreciated correctly in the past quarters, in the past years and always have. So moving forward, we're not burning cash -- I'm sorry, car prices and we don't believe that the asset will be realized at a lower price than it's marked. So neither of these cases are considered. We talk to auditors to see if there was a need and they also reached the conclusion and gave their opinion that there was no need to do an impairment on our balance sheet.

Relating to the RAC rates, that's true. And first, the rate dropped a lot. We saw that. We reported that. We completely disclosed those figures in April. Most of it was a mix effect, because the ones who suffered the most during in this crisis was the high rate segment. Corporate and daily rates, be it for tourism or corporate, their rates are much higher than the monthly rental. So the drop in those segments was much more relevant. And for that reason alone, the rate -- if the rates remained stable per segment, that was -- would be a drop in the average rate. So there was a moment in rate reduction to encourage demand and maintain use.

And then after it was stable, there's been some weeks that the level of car rental is stable at levels close to what we've seen in April and in May, it remains at the same levels. But the rate has recovered a lot. There comes a time where, if you lower price, a person is not going to rent a car because it's cheaper. They just don't want to leave their home. So it's no use lowering the rates, right? Because someone that's going to rent a car, it's because they need it, so they'll pay a fair price. So we went the -- upped the price back day by day, and we realized that the use didn't drop. So the dynamics in May are much more positive than April, where we had a minimum price and the prices started to go back up. And now in May, they are much better.

## Q - Murilo Freiberger {BIO 17385357 <GO>}

Okay. Thank you, Mauricio and Nora.

## Operator

Our next question is from Andre Rezende from Bradesco BBI.

## Q - Gabriel Rezende {BIO 20589376 <GO>}

Hi, everyone. Good morning. Good afternoon. This is actually Gabriel Rezende speaking. I have a doubt about the depreciation methodology, the change. So the change moving to the straight line instead of SOYD, is there any change in the contract?

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

Gabriel, thank you for your question. No, we don't have that. We tried to make that clear with the curve is that the amount to be depreciated per car will not change throughout the contract regardless of the method. Be it SOYD or straight line, we will depreciate the same amount in the car. What's going to change is the curve about how we accrue that depreciation throughout time to offset other costs such as service maintenance that were more deficient throughout time. So it's -- I'd like to reiterate that we've been studying this taking a relevant sample of the fleet to be able to change the method.

## Q - Gabriel Rezende {BIO 20589376 <GO>}

Okay. Thank you, Nora.

## Operator

Our next question is from Alex Falcao from HSBC.

## Q - Alexandre Falcao {BIO 5515455 <GO>}

Good afternoon. Thank you for taking my question. I'd like to explore the Uber segment. I believe that a relevant part of the non-drop in volume is because Uber drivers held on to their cars. So I'd like to know based on the point of view of accounts receivable from that segment, did you make it more flexible for them? I believe it would make sense for you to do that now. So what do you expect of more people looking into that segment because you will have -- we'll more unemployment and people leaving formal jobs, so do you believe that this segment throughout the year would increase or decrease moving forward?

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

Good afternoon, Falcao. Thank you for your question. In that segment, we do see a movement that the drivers have less income in this period because less activities, less work. Some of them did return the cars. We did lose some fleet in that segment. But the ones that remained, they are -- they do have less income. So we did give them some discounts to encourage the demand and we are very understanding with their financial situation. A large part of our receivables are retained in the platform in Localiza driver platform. But since they're driving less, we don't hold onto most of the rental. So we are being understanding. In some cases, we're considering installments, so that we can maintain those customers and help these drivers during such difficult times.

So yes, that is segment that can grow if we consider two sides: the supply of drivers considering an up in unemployment in the country, more people might want to become drivers; and on the other hand, the side of demand, we do see the people that are leaving quarantines, they do not want to use public transportation, so they're using -- they prefer to use this type of service. We don't see that movement yet. We don't see any recovery yet. But in the new norm, post quarantine, we believe there may be more of a demand than a supply of drivers.

## Q - Alexandre Falcao {BIO 5515455 <GO>}

Great. Just to follow-up on that about Seminovos. Do you imagine that given what's going on, not just the stores but even people getting new cars at this point? I believe we may have a relevant problem. Do you believe that we'll see a very high discount in Brazil from automakers and that would affect the used car segment, Seminovos? Or do you think that would not happen? What do you see -- how do you see the dynamics between the new cars and used cars? Like considering what's going on in the U.S. we've seen discounts and very aggressive financing from the OEMs.Do you think that's going to happen in Brazil as well?

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

Hi, Falcao. What we're seeing is that the automakers also suspended production. They've closed their plants. They've suspended people from work. They're giving -- putting them on vacation or in shutdown. So they're not producing that much. I don't -- I really don't think they have to lower the prices to sell cars when things come back. And like I said before, the U.S. dollar exchange rate pressure on the automakers' balance sheet is huge and they have to transfer that, the cost of their inputs to the car price. Otherwise, they're going to sale -- sell cars at a loss. I don't believe that there's going to be a movement of price drop in new cars. And based on economic theory, there should be a price increase. But there may be one or another automaker that might have a tight cash position and decide to do that. But in our opinion, it's not that they would lower prices, no.

## Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thank you.

## Operator

Our next question is from Victor Mizusaki with Bradesco BBI.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, everyone. Good afternoon. I'd like to follow up on the SOYD question just to make it a little more clear. As Nora mentioned, if we consider the cost of maintaining the contract using the straight-line method or SOYD, that cost in the time line would be the same, if you consider both methodologies, but if we consider depreciation, specifically depreciation, when you think of SOYD year one 31% considering five years and in straight-line 20%. So my question is, if we think of the benefit that you have in income tax on that, the tax shield that you have, in a scenario that you have the lower cost of capital, that could have a high difference in the net present value. Does that make sense what I'm saying?

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

Thank you for your question, Victor. Well, straight-line or SOYD that's accounting depreciation that determines the car's life and the value at purchase and divides that per time. So what changes is the curve of depreciation. So the term is the same.

Depreciation in terms of income tax, according to the tax norm it's 20% per year. Regardless of SOYD or straight line, it's 20% per year, and for the PIS and COFINS taxes. 25% per year. So at the end of the day, we have three depreciations accounting that goes through your earnings: tax -- or fiscal for income tax and one for PIS and COFINS that's 25% per year. So that doesn't change the tax shield if you depreciate through straight-line or SOYD.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

And another big discussion in the sectors that you've always been very vocal about, SOYD, that it represents the economics of the contract better. What changed now? So you've been studying that for a year now. What triggered that? What changed for you to switch depreciation? And also relating to the depreciation rate as you mentioned, Localiza was always very conservative in relation to that. And as you also mentioned about the impairment that it's not necessary considering your conservative policies. So if we consider that change, does it make sense to say that you're taking on more risk moving forward?



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

Victor, we call that indeed, depreciation won't change because when you sell the car, it works and you adjust that up or down. So the margins are at 7% when we sell the car. So depreciation was very strong in the beginning. And after the price -- car price goes up according to inflation, the depreciation was zero and you'd sell at a very high margin at 7%. So that was badly distributed throughout time: high expenses in the first year and then in the second year less depreciation and then when selling the car, when final decommissioning a very high positive margin. That doesn't change how we see risk or aggressiveness. We're still conservative. The difference is that we are informing this in a more straight-line throughout time. And even considering maintenance service and what changed is because the more modern, newer costs that have a maintenance cost, that doesn't increase that much throughout time.

In the past second, third years the cars depreciated a lot. They required a lot of maintenance. Nowadays, we can see that with the technological advance, there's lower maintenance even after two or three years. So it used to be a growing curve and it crossed with the depreciation curve.

Now the magnitude is much lower than depreciation and it doesn't have a high inflection in the second or third year. So when we added depreciation and maintenance the way we were doing, the curve was very strong in the second, third year and -- first and second year and lower in the third. Now, even though it goes up a little in the third year for maintenance, but since it's still much lower compared to depreciation, when you look at the chart, it's linear. And when you study the -- we studied all the different car models and types in the past three years and we see that the maintenance cost has been dropping year after year, not to mention our efficiency in car maintenance as well.

Another trigger, Victor, is that obviously we're talking about a global contract view. So it has to be -- has to do with the average term and how long these cars have been with us the average period and maintenance, not to mention higher efficiency internally in car maintenance as operations is able to scale that and have advantageous negotiations for us, not only in the point of view for purchasing parts, but also labor. So when you add the efficiency of our maintenance with the average term of the agreement of the contracts, we realize that maintenance wasn't growing that much throughout the second and third year. So that made sense for us to switch methods and move to the straight-line method.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

Great. And just one last point on another topic. I think it was in April, you even had issued or published a material fact. Your Seminovos site was off-line for a while in April. Based on the coronavirus, there was a lot of demand through the digital app. So my doubt is at the end of the day, how many days was the website impacted for Seminovos? And does that also explain the level of sale of Seminovos in April?

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

Good point, Victor. That's one of the explanations of our sales in April. Not just the virus, there was the virtual virus as well in our systems. So we were able to work around that situation. In fact, the Seminovos website was down for approximately a week, so and then things get all mixed together, the biologic virus and the digital virus. So it's hard to understand which one or how much the drop was related to one or the other. COVID probably much more. But we could have sold more end of March and beginning of April. We could have lost, yes, some sales while our website was offline. We did publish the material fact to the market. But we could have sold more in April, and now in May, everything is back. In addition to reopening the stores, the system is operating, so we can start selling again at growing levels.

## Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

## Operator

Our next question is from Roberto Reis[ph] from Santander.

## Q - Analyst

Good afternoon, Mauricio and Nora. Congratulations on your results. We've seen that you have taken measures to reduce admin costs. So could you quantify that impact to your cash flow? Or how much of a reduction could you -- will you have with that with those measures?

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

Thank you for your question, Roberto. In fact, what we did was make the size of our operation and framework more suitable according to demand that we expect, not just for today, but for the years. So we see the curve, not so much in V for a comeback, but we see that the sales volumes in Seminovos are coming back to speed. And we had to adjust that because we're not selling them same amount of cars. So we had to consider our SG&A. So we use vacation time, using the hours bank so that we can reduce the cost of operations proportionally to the revenues from car sales and rental that we will have throughout the year. So yes, we had to adjust that and maintain the proportion between revenues and SG&A.

## Q - Analyst

Okay. Thank you.

## Operator

Our next question is from Rogerio Araujo from UBS.

## Q - Rogerio Araujo {BIO 17308156 <GO>}

Good afternoon, Mauricio and Nora. Thank you for taking my question. I have two. The first one is about Car Rental. You signaled that in Brazil 240,000 cars in the fleet. You also mentioned in the press release that the fleet should be adjusted to demand. So my question is about the amount expected of cars sold for upcoming months and if you're going to close and not let any new cars come in. So in that sense, how much would you reduce the fleet in the next month? So 240,000 would go down to how much and when? I know things have been changing very fast, but what would you, say, consider for today?

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

Thank you, Rogerio for your question, Nora speaking. We're not going to quantify that now because we don't have the guidance policy here. So in rough terms, we would reduce the fleet throughout the second and third quarters and then bring it back in the fourth. That's very sensitive to what we're seeing though, because the flexiblization, the measures for social distancing haven't been consistent in the country. They have different intensities depending on the region of the country and number of cases in each region. So it's really hard to say how we will behave.

The point is that we will sell at market price at the speed that the market can handle. We are not going to have relevant price efforts because it doesn't make sense to burn car prices here. So in that point, obviously, we have to adjust the purchasing. We wouldn't be buying for RAC at first in order to decrease the fleet. The fleet is moving. We see new contracts. So for fleet, we're maintaining a certain purchase level as we close these contracts. But the match is reducing the general fleet. We should recover the utilization rate in revenues. As Mauricio mentioned, the average ticket has already been evolving positively, but we also want to be prepared for a comeback. So we're calibrating that as we get inputs on the speed of things coming back to normal.

## Q - Rogerio Araujo {BIO 17308156 <GO>}

Perfect. Thank you, Nora. My second question is about post-COVID. You've probably already thought about that. But what segments do you believe would benefit in the future? For instance, fleet rental, would it speed up market concentration which was already happening? In individuals, in the last call, you mentioned that you were going to launch a product for individuals to rent on a monthly basis or annual basis. So what are your ideas in that segment? In individuals rental, would that speed up post crisis? And which segments would suffer with that? Could you tell us your expectations about the Car Rental segment and fleet rental post crisis? Thank you.

## A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Rogerio, in fact, we haven't suspended any plans for new products or innovations. We're still focusing on that. And digital is going to become increasingly important post COVID. So we are still at full speed in our plans.

Maybe the lack of access to credit to buy a car or financial restrictions or company that require liquidity and don't want to have cars and they want to decide to rent cars, that might encourage the Fleet Rental business. That's a positive driver.

On the airport side, it might take longer for us to have the same volume as before in tourism, in daily rental and corporate, even more than tourism corporate travel. And in tourism, after people feel safe to go out and travel, with the exchange rate at this level, people are more scared to go abroad and don't know what's happening with COVID in other countries. We believe that there would be a potential for domestic tourism in Brazil increasing because considering that going abroad at BRL5.80 -- with an exchange rate of 5.80 is really hard.

So many -- as well as there may be a repressed demand because we had a lot of long holidays that people did not travel during the quarantine. And I believe that people would be traveling more in Brazil than abroad compared to the past. So those are the aspects. There's a new normal coming. We're planning to service that new normal and capture all the opportunities it could offer.

## Q - Rogerio Araujo {BIO 17308156 <GO>}

Perfect. Thank you, Mauricio. Thank you, Nora.

## Operator

Our next question is from Bruno Amorim from Goldman Sachs.

## Q - Bruno Amorim {BIO 17243832 <GO>}

Good afternoon, everyone. I hope that everyone's well and healthy. My question is about the RAC volume. I'd like you to comment on the evolution in the past weeks and throughout April in the volume of monthly rentals and also the shorter-term rentals. Correct me if I'm mistaken, but in the beginning you used a lot of the volume of the shorter rental and the monthly rental holds -- or is stable in the beginning. But as they expire, you're going to lose volume in that niche of monthly rental as well. So I'd like to understand in the past weeks, if we've seen a difference in the sectors and if you're shorter cycle, if you're improving the margin or if the opposite is happening in monthly. As the contracts are maturing, do you see a worsening in that line by line? Or do you see something difference -- different?

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

Thank you, Bruno for your question. This is Nora speaking. We have some subsegments that are even growing, and year-over-year, monthly is one of them. The question is valid because you do have a normal churn in the monthly rentals that may not be 100% filled up or met.

So the challenge brought about by social distancing created other vectors of growth. So people no longer are using public transportation and renting cars to go to work, if you have to. So we have been able to taken those returns with the new demands. So that monthly rental still has maintained its growth levels year-over-year. And you're completely right, it is more resilient compared to the daily rental, which is the first one to suffer. But even with some cars being returned, we've been able to fill up that gap with new customers, new demands and other less obvious fronts, I'd say that at least in the past.

## Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you.

## Operator

Our next question is from the webcast.

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

This is Nora speaking.

Nora and Mauricio, can you impact the impact of COVID in the first half -- quarter of 2020 in the lost EBITDA?

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

Well, it's hard to quantify the EBITDA loss. But what I can say about the top line is that we grew 36% in car rental and we were up to mid-March before COVID focusing on or considering growing 40%. So if not COVID, it would be 40% instead of 36%. When we talk about, so when we apply that and you can do the math about how much that impacts our EBITDA.

In fleets, pretty much no impact. And in Seminovos, we could have sold 10,000 more cars than we sold. So for gross margin of sale, SG&A would be the same. You can estimate how much it would be. It's important to highlight that in RAC not only volume would be 40%, but also revenues because the ticket wouldn't have to -- wouldn't have dropped at the end of March. If we did not have COVID in RAC, volume and revenues would grow 40%. It's even higher impact than the 4 percentage points. There's also an impact to the rate, and Seminovos, 10,000 cars that would be sold and that weren't sold. Those are the figures that we impact because of the -- that we consider because of the crisis.

## Operator

(Operator Instructions) Since there are no further questions, I'd like to hand over to Mr.Mauricio Teixeira for his final remarks.

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

Thank you very much everyone for your presence. And our IR team is available for any further clarification. Have a great day.

## Operator

The Localiza Rent a Car's conference call is now over. Thank you for your participation. And have a great afternoon.