Q3 2019 Earnings Call

Company Participants

- Mauricio Fernandes Teixeira, CFO and IR Officer
- Nora Lanari, Investor Relations Officer
- Unidentified Speaker

Other Participants

- Alberto Valerio, Analyst
- Alexandre Falcao, Analyst
- Bruno Amorim, Analyst
- Lucas Barbosa, Analyst
- Lucas Marquiori, Analyst
- Murilo Freiberger, Analyst
- Pedro Bresser, Analyst
- Rogerio Araujo, Analyst
- Stephen Trent, Analsyt
- Victor Mizusaki, Analyst

Presentation

Unidentified Speaker

Good morning. Welcome to the conference call of Localiza Rent a Car to release their results of the third quarter of 2019. Host the event today are Mr. Mauricio Teixeria, CFO and Ms. Nora Lanari, Investor Relations Officer. We would like to inform that the numbers in this presentation are stated in million BRLs and on IFRS. All participants will be connected in listen-only mode during the company presentation that will recorded. Then, we are going to 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 is simultaneously broadcasted over the Internet at the address www.localiza.com/ri. So you can find the presentation that can be downloaded by clicking on the banner 3Q '19 webcast.

Before proceeding, we would like to clarify that any statements made during the conference call relative to the company's business outlook, forecasts as well as operating and financial targets are opinions and assumptions of the company's management, which may or may not occur. Investors must understand that political and economic conditions and other operating factors may affect the company's future which may lead to results that will be materially different from those expressed in such forward-looking statements. In-order to be comparable, all numbers are presented with and without [ph] the impact of

IFRS 16, so that results can be compared. The summary in each line will be available in our Press Release.

To open our conference call, I turn the conference over to Mr. Mauricio Teixeria, the CFO.

Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

Good afternoon, and thank you all for your presence here today. This quarter we'll continue our strong growth base, reaching the level of 300,000 cars in the fleet. We continue to work and invest in our customer's experience and in the digital transformation process to increase satisfaction, to obtain productivity gains, and to obtain cost savings. Reinforcing our commitment to sustainability, we released an annual report for 2018. In it, we report significant advances in the environmental and social issues. We have been recognized by Interbrand as the 20th most valuable brand in Brazil, with the highest NPS among the Top 25 companies in the ranking. Additionally, we have been recognized as one of the most transparent companies in brazil by the Trofeu Transparencia and were included in the ranking. (inaudible) Broadcast Company's '19-- 2019. The best CEOs from Brazil by Forbes; and most innovative companies in brazil by Valor Economico.

As you can see on Page 2, the average rented fleet in RAC grew by 34.3%, while fleet rental grew by 25.7%. Semi new cars hit record sales totaling 36,804 cars sold, up 22.3% over the same period last year. As I mentioned earlier, the end of period fleet was approximately 300,000 cars, up 35% over the Q3, '18. On Page 3, you can see the financial highlights. Our net revenue grew 28.8% and EBTIDA grew 26.8% over the same period last year. In this quarter, we observed pressure on the prices and conditions practiced for the sale of new cars, which were reflected in the price of used cars, consequently our deprecation resulting in an EBIT growth of 15%. On the other hand, the decrease on basic interest rate and lower effective income tax rate enabled the net income to grow by 28.8%, reaching BRL205.9 million.

Now I'd like to turn the conference over to our Investor Relations Officer, Ms. Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

So giving more granularity on the results of the quarter, we would like to start with the Car Rental Division. As you can see on Page 4, in the third quarter of 2019, the average rent -- rented fleet grew 34.3%, almost 132,000 cars rented on average in the quarter. Net revenue increased 29.7% when compared to the same period in the previous year.

On Page 5, you can see that the average daily rate (inaudible) decreased by 4.2% in Q3 '19 compared to the same period in the year before, mainly explained by the mix of segments, competitive environment and lower interest rates. In the first nine months of 2019, the average tariff fell 1.2%. in the year, utilization rate remained stable in spite of the strong expansion of the fleet.

On Page 6, we'll show the network of our own locations, which extended by 17 branches as compared to the end of 2018. Locally, the system operates 598 locations and we completed the rental of cars for Localiza franchises with operation of six locations in the interior of Sao Paulo and the fleet of 2,715 cars of which around 2,000 in RAC and the remaining in the Fleet Rental.

On Page 7, our Fleet Rental division and we continue to show strong growth base with a 25.7% higher average leased fleet and net revenue increasing 20.5% over Q3, '18. The average daily rate of this division fell by 2.9%, mainly reflecting the pricing of new contracts and the renewal of existing ones in the context of lower interest rates.

Now moving to page 8, we'll show the purchase and sales figures for the period. In the quarter, we bought 59,794 cars and sold 36,804, an increase of almost 23,000 cars, and a net investment of BRL1.2 billion compared to 3Q, '18, the volume of cars purchased grew 34.5%. in the first nine months of 2019, the company bought close to 160,000 cars and sold more than 106,000 cars with a net addition of 52,721 cars, roughly the same as the former of year of 2018 in terms of net fleet addition.

On page 9, we closed the quarter with 113 stores in 73 cities and sales exceeded 12,000 cars per month reaching 36,804 cars in the quarter. In the third quarter of 2019 as compared to Q3 '18 there was an increase of 23.3%, supported by the opening of new stores and sales efficiency. By the end of the year, 10 new stores are going to be opened. On page 10, you can see the end of period fleet reaching approximately 300,000 cars with a growth of 39% in car rental and 31.9% in fleet rental.

Now turning to Page 11, we see an increase in consolidated net revenue of 28.8% when compared to the third quarter of 2018. Net rental revenues increased 27.3% in the quarter, while the semi new cars or used cars grew by 29.9% due to the 22.3% increase in the volume of cars sold in Q3, and an increase of 6.2% in average prices of the cars sold.

Now, moving to page 12; the consolidated EBITDA gained 26.8% over the Q3 '19 over the same period in the year before. The margin increased 1.1 percentage points reaching 36.2%. In Fleet Rental, margin was 61% in the quarter, down 5.7 percentage points as compared to Q3 '18. The reduction in margin of the rental fleet -- of the Fleet Rental division reflects repricing of contract renewals and an increase expenses related to technology and process improvement. Used cars presented a margin of 2.6% this quarter, consolidating the margin recovery, reflecting the increase in the depreciation level observed in recent quarters.

In the first nine months of '19, the consolidated EBITDA was BRL1.5 billion, a result of the growth and continuing work in cost and expense management, investment in process improvement and in productivity with the aim of increasing competitiveness to capture growth opportunities in car rental and fleet rental market. The EBITDA margin of car rental grew by 4.2% -- 4.2 percentage points in the nine months and this represents a drop of 1.7 percentage points, reflecting the lower average rate impacted by lower interest rates.

On page 13, you can see the evolution of depreciation per car in business divisions. In RAC, the annualized average depreciation per car in the first nine months of '19 was BRL1,799, up 77.8% as compared to the average of 2018, impacted by the pressure on prices and conditions practiced in the sale of new cars which reflects used car sales. In Fleet Rental division, the average depreciation per car in the first nine months of the year, what BRL3,921. The increase in depreciation was mainly due to price -- car price dynamics and the use of SOYD methods to account for depreciation in this division.

On Page 9 -- 14, sorry, the consolidated EBITDA [ph] for Q3 '19 reached BRL345.5 million, representing a 15% increase compared to the third quarter of 2018, due to the 26.8% increase in EBITDA, offset by the 63.9% increase in cars and other assets depreciation. The EBITDA margin of the Car Rental division was 26.9% in the third quarter of 2019, representing a reduction of 0.9 percentage points as compared to Q3, '18. In the Fleet Rental division, EBIT margin was 46%, representing a reduction of 4.4 pp Y-o-Y. And the decrease in EBIT margin in the Fleet Rental division reflects lower EBITDA margin and higher car depreciation. The decrease in interest rates allows for lower EBIT margins while maintaining spread in a healthy levels, which on a larger capital basis resulted in an increase in our value generation.

On Page 15; net income for the third quarter was BRL205.9 million, an increase of 28.8% as compared to the third quarter of 2018 due to the increase of more than BRL106 million in EBITDA, partially offset by increase of BRL61.2 million in cars and other assets depreciation, stable financial expenses and lower income tax rate. On Page 16, we show cash generation of BRL898.4 million in the first nine months of this year. In the year, the company consumed BRL1.6 billion of cash, due to the increase of 52,721 cars in the fleet, which demanded a CapEx for growth of about BRL2.5 billion. As seen on Page 17. The capital increase or the follow on completed in February was used to support much of the growth of the fleet in the first nine months of 2018 -- 2019, sorry. The net debt increase of 7.2% in the year.

As you can see on Page 18, at the end of the first quarter, we had a comfortable debt profile with approximately BRL2.1 billion in cash. In Q3 '19, the company completed the raising of BRL300 million with a seven issue of Localiza fleet debentures and also the promissory notes of Localiza worth BRL500 million. The funds raised were used to recompose, the company's cash after a strong or intense purchase of cars. On Page 19, you can see the net debt over EBITDA indicated in this quarter was 2.7 times, a healthy level that allows us to maintain the pace of growth.

Now I would like to turn the floor to Mauricio, to talk about value generation.

Mauricio Fernandes Teixeira {BIO 19758664 <GO>}

In closing, I would like to highlight the evolution of the ROIC spreads versus the cost of debt, which you can see on Page 20. In this quarter, ROIC has reached 12.1%. When compare the cost of debt after tax, which was 4.8%, the spread is 7.3 percentage points. This level of brand combined with strong growth of the capital base, result in a growing value generation of the company. As always, it reaffirms our commitment to growth and value generation for our shareholders.

We are now available to answer your questions.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions) Our first question comes from Victor Mizusaki from the Bradesco BBI . Please Victor?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions about depreciation. The first one, I was wondering if you could give us slightly more detail on how we can compare depreciation of the fleet, a normal RAC fleet and the Uber model. Could you give us details. If you could give us more details as to proportion, depreciation of an Uber car is three or four times greater than a normal car. And in terms of depreciation and so worst [ph] level from now on will remain stable at the level of -- as we had in the third quarter.

A - Unidentified Speaker

Victor, thank you for your question. So, as to your first question, today we rotate the fleet. There is not one fleet for Uber and one dedicated to other segments. So monthly rentals has a level of mileage which is reasonable, in terms of thinking of Uber operations. So we cannot say that depreciation at Uber worse than depreciation of car rental. Of course, if we consider that these cars will stay with a driver all the time, the mileage is about 60,000 kilometers per month.

So this is not what we see. So we have cars with mileage well below that, and because we have this dilution of other segments that have been growing quite strongly. So we cannot justify the higher depreciation because of Uber. As to your second question, your second question about depreciation in -- future depreciation. The depreciation has three variables discount, purchase efficiency in sale, and fixed cost to sell these cars and we have visibility and we can somehow expect and work on that, but then on the other hand, there is a third variable, which is more -- the market price of these cars.

So, the market of used cars is very large and we sell at market prices. We try to get the best price as possible, but there is -- but it is also influenced by other factors. And so, this will depend much more on the behavior of the macroeconomic scenario with regards with income reduction of financing interest rates in the prices of new cars and as a consequence in used cars so that we know exactly how much depreciation will be. So this market is very cyclic, but as I mentioned before, it will pick up at some point in time and we don't know when this is going to be this year or next year. So we always adjust prices to what we have today. So we are very conservative and we have our margins that are at the very stable level. Our EBITDA margin is about 2.5% and showing that we -- our levels are green, in accordance with the markets.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Just following up the question about depreciation related to Uber, if we think and let's try to compare, for example Uber versus your fleet of airport stores, for example. Can we try, do we have any idea of proportions and how much one or the other one is bigger?

A - Unidentified Speaker

Victor, just as a reference, today we've been selling cars with about 32,000 kilometers. Uber cars would be 70 kilometers if they stay with the same driver for the whole year, can we say that depreciation doubles? No, not necessarily, but the expected depreciation and the Uber is priced. Our Uber rental prices already reflect the depreciation that we allocated to Uber considering how they use the assets, both depreciation and maintenance are priced there. I don't know whether it's fair to say that if, as mileage doubles, depreciation also doubles at the same proportion.

Operator

Okay, thank you. Our next question comes from Lucas Marquiori from BTG Pactual. Lucas, you may ask your question.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning, Mauricio. Thank you for the call. There are two questions more relating to RAC, can you talk about the tariff in this quarter, there is an effect of the mix and also conversion. Could you talk a little bit, which one is stronger. How do you see tariffs? What has driven the behavior of the quarter. I think it's nice to clarify.

Now second point, also looking at RAC margin whether the margin has all been explained by variations in tariffs whether there is anything related to technology, processes to justify the RAC margin. Thank you.

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

Lucas, thank you for the question. As to the RAC average rate, most of it was mix. So -- and there is also a lower revenue, but there is a higher aggressiveness, especially in terms of individuals. So there are two factors, but this is an effect of the average rental rate. So as to margins, part of it is related to tariffs or rate with an impact on margin. But there's a lot of investment in IT, process improvement and we are always thinking in the long term and in the future.

Just to help, when we look at maintenance, it's very much in line with the growth of the fleet. So we can see that it's not there. You see third-party services commissions and advertising, third party services, IT is significant. So we are investing a lot internally in process improvements. And obviously, this is for the future. So we usually book these expenses as OpEx and we are going to cease this as we disbursed in advertising, there is also significant increase, so there are more assets in these two lines or items, especially in IT and advertising.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Mauricio.

Operator

Our next question is, in English, comes from Stephen Trent from Citi. Please Mr. Stephen. You may ask your question.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much and thanks for taking my question. Some was -- some were already answered, but I was wondering if you could provide some color on the movement of your after-tax cost of debt as it seems to have lagged what's going on in the broader market as well as the movements that we've seen, and on a historical basis from the Company's debt costs. Thank you.

A - Unidentified Speaker

I'm going to answer your question in Portuguese. So Steve asked about the cost of debt. Of course -- and according to him, it's lagging in terms of the drop of the basic interest rate in Brazil. Well, Steve, one-third of our debt is prefixed. So it's one-third related to fleet management, so we do not take the risk of the fluctuation in interest rates, and we define the spread of the contract with a swap of part of the float that's to prefixed. So that's why you see this lagging effect. So historically our impression is that the cost of debt will drop further, so you can see this effect in our debt and these numbers will get better in the next quarter, hopefully.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Rogerio Araujo from UBS. Thank you.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hello. Good afternoon to everyone. Thank you for allowing me to ask a question. I have two questions to ask. Two follow-ups actually. One regards RAC. So you said that most of the drop in rate is related to the mix. And could you talk about the utilization. So there was a drop of 2 -- 2.5 points year-on-year. So when you have lower rates there is usually a higher utilization.

So when we look at numbers as a whole, both in terms of dropping rates and utilization -- you know utilization too, can we see the industry as a whole, lots of cars were bought this quarter and there was not so much pressure, and how does it relate to the number of cars that were bought or is it related to utilization. This is my first question.

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

Hi Rogerio. Thank you for your question. Your reasoning is perfect. So, we grow slightly more in the mix of longer duration on one hand, average rate should go down, but they could help in utilization rate, but there is a reasonable effect of car purchases, so there are many cars being activating and being prepared for rental and that are many cars being decommissioned and being prepared for sale.

So this overlap has an impact in utilization rate in this quarter, but this is very much in line with the second quarter this year, which was very similar, so it's not necessarily worse. I think that this level is quite reasonable, because if we stretch the utilization rates too much, we lose businesses too, on one end. So I think that this is the effect and we have good outlook in terms of growth.

So we see the utilization rate potentially improving in the fourth quarter, which is usually a better quarter. So you can see our franchisee from (inaudible) incorporated the cars too and we are going to change those cars to renew the fleet of that franchisee. So there is a significantly small impact that we have already bought those cars, and we are in a process of decommissioning the active cars of our franchisees. So this also has an impact in our utilization rates.

So, Rogerio, just complementing. Whenever we buy more than historical averages, and this part that is related to the end in terms of de-commissioning and commissioning. So it's when the car is not available for rental.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hi, Mauricio. I can't hear you. Your line is down. Can you hear me now?

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

Yes. I can hear you now. Well, the call is choppy, so it's on and off. So when we buy more, commissioning and decommissioning gets worse. So if cars are not available for rental so this gets worse. So there is an increase in the level of purchase utilization goes down and gets worse, and then it goes back up again and normalize.

Q - Rogerio Araujo {BIO 17308156 <GO>}

The second question is about used cars. These three pillars or variables that you have mentioned. The third one, our market prices, which apparently it has gotten worse in terms of depreciation that you had in the quarter. So do you think that this worsening is related to the macroeconomic scenario because of Argentina oversupply of cars affecting and used cars or this is related to an excessive offer or excessive supply?

And also, along those lines, the third variable that you can't control which are market prices as all players are growing in one year, these cars are going to be -- are going to go to the markets, do you think the prices are going to go down and are you including it in your forecast for depreciation. Do you think that market prices will go down because of a higher supply in one year's time.

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

Well Rogerio, our vision is related to the macroeconomic scenario. So this has not dropped as compared to the basic interest rate. You can see the problem in Argentina with Brazilian car or -- makers and with bonuses, incentives to buy car reducing the prices again and all of this is compared to used cars and put pressure on used car prices. So interest rates, they have not yet gone down. So the macro economic scenario is not really helpful in terms of recovery of prices.

So this is much more attributed to the macroeconomic scenario than to the car rental because the used car market as a whole and new cars as a whole people deciding what car they want to buy. And this does not play a significant role considering the whole market of second-hand cars.

Operator

Our next question comes from Bruno Amorim from Goldman Sachs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning, everyone. I have a question, which is a follow-up in the line of depreciation. Do you see any concrete signs of deterioration in the prices of new cars. I understand that the interest rates regarding financing for new cars, we don't see it getting any significantly better or worse. So what changed as compared to the second quarter.

So -- with the change in depreciation, so why do you think this happened? Is it related to your mix or another issue? So do you see any concrete signs or is it just because you're being conservative in trying to anticipate what will happen in the market of new cars?

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

Bruno. Thank you for your question. So we are seeing some concrete signs. There is an effect of Argentina. This month was the first month of drop in retail sales year-on-year and there is a certain pressure there. And then, with regards to the inflation rate. Well that is -- that considers the mix and we can compared to ours, but this is a little bit of a suggested price is what we see is that the current dealers are giving bonuses, they have discount and they have a marketing promotion so the prices for new cars are now worse and this reflects in the prices of used cars.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you very much.

Operator

Our next question comes from Murilo Freiberger from Bank of America. Murilo, please you may ask your question. Thank you.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Good afternoon. Thank you for the call. I would like to talk about depreciation and a little bit about the growth. In terms of depreciation and following up what has been asked before, just to understand from you, because obviously you have a fleet stock. So when you see any worsening in the spread this high, is it a high in one quarter to mark a fleet stock that had been marked in the different depreciation.

Now thinking in the future, what level of depreciation should we think for cars. Is it closer to the average of the last 12 months? 1,600 or 1,700 or would it be closer to the levels that you had this quarter? And still in terms of depreciation, just to understand what does the company has in terms of margin for used cars? Is this -- do you prefer to have a wider margin in terms of being more comfortable. Thank you for your question.

A - Unidentified Speaker

Thank you. Murilo. Thank you for your question. So when we think of market conditions in the calculation of depreciation. We apply it to the whole fleet. We average it out. So we have this impact, and then in the future, it depend very much on the macroeconomic scenario. If the macroeconomic scenario stabilizes depreciation will go down. The thing is that there was a deterioration. Now we don't know what will happen, so we prefer to be conservative to be on the safe side and to apply what we see today in the market to the whole fleet.

And then, as to our margin, we are okay with this level of 2% or 3% margin for used cars. And if we look at RAC it's 2%, used cars is 7%. So depreciation of RAC has gone up but depreciation of our fleet has gone down this quarter, because the margin is at a level that is above what it had to be. So we adjust that in order to cover it so that we have consolidated margin between 2% and 3%.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Just to end the theme, I'm looking in terms of invested capital. Today, the average price of new cars, is it slightly below the budget that you had for the year because obviously what we see in the market, we are seeing the earning slowdown with the -- the marketing is down. So you see a stock of cars and invested capital, how much does it change. As to the purchase of cars, is it any better than you had thought it would be.

A - Unidentified Speaker

Murilo car prices are very much in line with our budget projections. It's not better, it's in line.

Q - Murilo Freiberger {BIO 17385357 <GO>}

And last question, just changing subjects. Looking at growth. So there was an acceleration in volumes now and obviously and you know we do not disclose this information for commercial reasons, but I would just like to comment the different segments in the company and the performance of 35%. Obviously it's -- Uber is the main driver, but what's the behavior of retail -- of other segments that we look within RAC. Could you give us an idea of each one of the segments, please?

A - Unidentified Speaker

As to growth. In fact a segment that has grown the most is the sharing, but individuals have grown a lot. And if your number segments, they have all grown more than two digits. So we didn't have any single digit segments. It shows that our growth is consistent for all segments. So when we ride sharing for individuals, they have all grown two digits. Thank you, Mauricio.

Operator

Our next question comes from Pedro Bresser from Bresser Asset. Mr. Bresser, you may ask your question.

Q - Pedro Bresser

Well, along the lines of my first question, if I understand correctly the price that you purchase your cars is not below your forecast. But in my mind, I was thinking that as the price of new cars go down and the invested capital goes down and there is a spread between purchase and sale and the bottom line will be that new car prices will be slightly better and it could offset this drop in prices. Is this still applicable? Does it make sense to you? We thought we talked a lot about prices, but demand for used cars, how do you feel that? How do you see? How easy or difficult is it to put these cars out in the market. Do you see an increase in demand, so how do you see the number of cars that you need to sell.

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

Hi Pedro. Thank you for your question. Well, your logic is perfect in theory. There is pressure now and the prices of new cars will be reflected in our purchases, but we have felt it's more relevantly after August this year. So we might possibly -- we will be buying cars at lower prices too. So this is -- in theory, at least.

And so once everything is more stable. And going back to Murilo question. So there is an effect between the one-off and then you need to adjust the whole operational fleet and depreciation for the entire fleet. So we could accommodate at slightly lower level. But then again, we still depend on the macroeconomic scenario and recovery and that should be more consistent.

We have seen financing rates going down for individuals, but it was about 25% on year, now it's at 22% per year, but it's very small reduction. So your rationale make sense and we think that we will be able to buy at better prices, because the prices of new cars will go down and then capital invested will also go down, it's favorable.

As to used cars, Pedro, we are confident that we will be able to sell the volume that we need to sell. The market is not easy but it's okay. So obviously there is the challenge of sales and we will be hoping to add at least another 10 new stores in the fourth quarter because to reach our target volume, we need to increase capillarity and reach of our network, but we are confident that we will reach that volume with good prices.

Q - Pedro Bresser

Thank you.

Operator

Our next question comes from Alexandre Falcao from HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. I'm going to stick to the theme of used cars. I would like you to comment a little bit on how you are giving incentives to people on the frontline to sell cars. And considering that you have a problem both in the macroeconomic scenario, also in competition, because you've been selling lots of cars over the past two years. How do you think you will be able to increase your volume even further, considering that apparently there is no indication that the macroeconomic scenario is going to improve. Do you think that from now on, depreciation will keep going up? Or are you okay with the current scenario with this level of depreciation for your cars? Thank you.

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

Thank you for your question. Well, this level of depreciation is the historical high. So, we have adjusted depreciation reasonably to reflect what we are seeing today in the market, as I said. So we think that there will be an additional volume of cars to be sold, increasing capillarity as I said. So one example is (inaudible) that we have just incorporated a new franchisee and this will take on some new used car stores.

And this market is thriving really. So with that sense, we have our niche product. It is a one-year old market that have had a depreciation that we think that has an increased capillarity. The volume will be okay. So we don't think that depreciation is structurally higher. We think that it is the effect of the current market condition, rather than a bottleneck.

As to your question in terms of other rental stores putting out one or two-year old cars in the market. But it is true that we have different mixes in different mileage. So, different companies have different products, but it's still small niche. We think that we still lack offer. If there is an offer of one or two-year old cars with good quality, the market will take on so long as to increase capillarity and increase the reach of our own stores.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Any changes in terms of incentives on the front-end. So this is another lever that you could use to increase what you're doing. You're not -- seems like you will be doing it right now. Right.

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

Well, we have implemented a few adjustments in the past, but there is an incentive model that is very much in line. We have a very competent team with very low turnover, but with a few there is the capacity to sell with the current incentives.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thank you very much. And I just have another question, and I would like to talk a little bit about financing and financing alternatives. Are you considering changing slightly. I can see that today, you have your debt. Is it it's very well equated, but if you look at what's going on in a market in terms of domestic that is -- there are many opportunities going on. Do you think you will try to issue and place the slightly more of your corporate debt out in the market to get the market that is emerging in Brazil or how do you see that?

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

Hi. We are always monitoring very closely the market both for Localiza and in our fleet, we have issued quite a few. We have been talking to financial organizations, the market has been changing a lot. We are working with a lower scenario -- a lower price scenario. And we are paying attention at that. And as we widely have disclosed, so we want to capture fixed incomes at the same levels that will involve Localiza with a reduction -- with a cost of our debt, and we'll go on working both at Localiza and Localiza fleet to reduce costs at the profit [ph] levels considering that we are conservative in terms of our debt profile in order to support our growth. So We are looking -- we're paying attention at all those factors.

Operator

Thank you very much. Our next question comes from Mr. Barbosa from Morgan Stanley.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good morning. Mauricio and Nora. Thank you for the opportunity. I have a question about your used car stores. So you will be opening with a 15% growth in the number of stores, if you consider the end of Q4 '19 and '18. On the other hand, the cars of RAC that you need to sell will grow by more than 30% considering the expansion of RAC fleet. So the number of stores that we will be opening in 2020 will follow this needs to sell RAC cars, or will resale be less relevant in a total of cars sold?

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

Thank you, Lucas, for your question. No, we do not expect any changes in the mix. We don't think retail will lose space and I would like to correct the first part of your question. At least 10 new stores, we will be opening 10 new stores this year not to mention, next year and you can be sure that next year we will be opening many stores to support growth without having to change channels in a significant way.

So obviously, with all these channels we think that we can navigate very well in each channels, considering the macroeconomic scenario that we have, but we do not expect any significant variation with a healthy level of sales. Thank you very much.

Operator

Our next question comes from Alberto Valerio from UBS. Mr. Valerio, you may ask your question.

Q - Alberto Valerio {BIO 20716048 <GO>}

Good afternoon. Thank you very much for letting me ask a question. So, could you comment, the competition with RAC, have other competitors lower their prices too and what can we expect over the next few quarters, so will growth stabilize in RAC and in fleet. Thank you.

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

Thank you very much. Albert. We have noted that the main competitors are more aggressive. So, on the whole, we have seen more aggressiveness. Can you please repeat your second question, Alberto?

Q - Alberto Valerio {BIO 20716048 <GO>}

It's about volume? Can we expect it to accelerate over the in the next three months both for RAC and Fleet. So, is it going to go down? How are you going to deal with it?

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

Well, for RAC this increased aggressiveness will translate into higher volumes too. So the volumes are indeed stronger for Q4 and we have the effect of the summer vacation seasonality, which is positive for the company you know on focusing more on the individuals that will potentially help.

In fleet, obviously we have the ambitions to grow and our -- we have significant ambitions. So, but it's smaller in terms of entry barriers and the comparison basis will be slightly tighter in the fourth quarter, because this is when we started to detach growth last year. So we expect growth to keep at a strong pace, but we cannot say whether it will accelerate.

Q - Alberto Valerio {BIO 20716048 <GO>}

Thank you very much.

Operator

Our next question comes from Lucas Barbosa from Morgan Stanley. Mr. Barbosa, you may ask your question.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Thank you. So how do you see the monthly rental market for individuals and so, and we -- are you structuring a product for this niche and how can it deal, and how do you expect it to evolve over the next few years?

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

Thank you, Lucas. Thank you. For the investments, we really believe on that market. We were pioneers in having this sort of rental and we are always assessing and considering how we can improve customer experience to capture opportunities in terms of ownership, then there is a big potential for growth as I said in the beginning for -- to provide to our customers better experience.

A - Unidentified Speaker

Well we have a question asked through the webcast. Asked by Jose Eduardo. along the quarter, has there been any changes in the Director of car purchase

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

Thank you, Eduardo for the question. Yes, there has been a change. There was a transition from Claudio Zattar, our Head of purchasing and there is a sound team to make up for this vacancy and we are in the process of hiring someone else.

Operator

(Operator Instructions) Excuse me. And to wrap up, I would like to give the conference to Mr. Mauricio Teixeira.

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

Thank you all very much for your attendance. Our Investor Relations team will be available to answer any other questions you may have. Have a nice day.