FINAL

Bloomberg Transcript

Y 2021 Earnings Call

Company Participants

- Bruno Sebastian Lasansky, Chief Executive Officer
- Nora Lanari, Director of Investor Relations
- Rodrigo Tavares Goncalves de Sousa, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andre Ferreira, Analyst
- Bruno Amorim, Analyst
- Filipe Nielsen, Analyst
- Isabella Lamas, Analyst
- Josh Milberg, Analyst
- Lucas Barbosa, Analyst
- Lucas Marquiori, Analyst
- Regis Cardoso, Analyst
- Unidentified Participant

Presentation

Operator

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This webinar is being recorded and will be available at ri.localiza.com/en with the complete material for earnings releases available. You can also download the presentation from the chat icon. For the Q&A session for analysts and investors we advise you to signal your interest in participating through the Q&A icon on the bottom button of your screen indicating name, institution and language (Operator Instructions).

We'd like to inform you that the numbers in this presentation ae in millions of BRL and in IFRS. We emphasize that the information contained in this presentation and any statements that may be made during the video conference regarding to Localiza business, prospects operating and financial projections and goals constitute the beliefs and assumptions of company management as well as information currently available.

Forward-looking considerations are not guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, market conditions, and other operating factors may affect the company's future performance and lead to results that differ materially from those expressed in such forward-looking statements.

Now I will hand over to Bruno Lasansky, the company's CEO to begin his presentation.

Bruno Sebastian Lasansky {BIO 20627293 <GO>}

Good afternoon, everyone. Welcome to the Localiza results webinar. In 2021, Localiza achieved significant results, both in its financial performance as well as in the development of skills to build the future of sustainable mobility. Rodrigo and I will provide the results following. But I would like to highlight the recovery of the growth in the Car Rental and Fleet Divisions with net revenue from Car Rentals increasing by almost 40% year-over-year and the record level of new contracts in the Fleet Rental Division, not yet reflected in rented cars due to the new car delivery backlog.

We maintained our NPS at a level of excellence in all divisions which continues to be a great differential for Localiza and we received the ReclameAqui award for the second consecutive time in car rental and fifth consecutive time in the Seminovos or used car sales, which is another example of the high quality of our service.

We delivered a ROIC of 17% with the spread of 13 percentage points over the cost of debt after tax and the record net income above BRL2 billion showing the company's resilience and adaptability.

In 2021 the availability of new cars continued to be affected by the unfolding effects of the pandemic, and the lack of inputs, mainly the semiconductors. In this scenario, we worked on the rental pricing, fleet utilization and we were very diligent in the capital allocation, prioritizing more profitable segments, however, without neglecting the valuable and long-term relationships that we have with customers and partners.

We have evolved our maintenance processes to manage costs and maintain high standards of excellence, even with an older fleet. Car theft and default costs were impacted in the second half of 2021 due to a higher risk environment. To mitigate such effect we incorporated new processes and technology, that at the beginning of 2022 puts us at levels comparable to those of 2019 in terms of theft and default.

The challenges imposed by the pandemic and the lack of vehicles will certainly leave a legacy of new processes and practices at Localiza, that will help us to maintain the high performance and productivity in the coming years. In building the future of sustainable mobility, the execution of our strategy of innovation and growth with value creation advanced consistently. We launched the Zarp Localiza brand, a differentiated rental value proposition for app drivers with the modern and low cost branch concept, in addition to the use of proprietary technology to create competitive advantages in this segment.

We continue to accelerate in our subscription car model, the Localiza Meoo website is already the most viewed in its category with a delightful experience and we also launched a new app, which brings the best experience in the industry. Our digital transformation, led by Localiza Labs, our technology and analytics team had yet another year of substantial results.

We are modernizing our technological stack to gain speed and scalability. The number of deploys per day or code changes in our digital products increased by 130% between 2019 and 2021, bringing much more agility and learning, increasing productivity, which allows us to generate value and test new solutions in the mobility ecosystem.

We have also made progress in the customer experience. As example, the company's main apps have excellent customer ratings in app stores such as Google Play.

We also transformed the management of our operation with digital solutions for supply, washing, fleet movement, traffic, fines management and fleet return among others, which will enable productivity gains and increased customer delight. In the last quarter, we launched new solutions that will allow us to increase additional revenues and reduce the no-show rate in 2022 in the Car Rental division. We surpassed 180,000 connected cars, creating a differential in the management on our fleet and allowing cost reduction through proprietary IoT.

The convenience of Localiza FAST, our 100% digital rental is already present in 45 major agencies and this year have seen triple-digit growth in the number of rental days.

Another major highlight of the year was the approval by the CADE, the Brazilian Antitrust Agency, the approval of the business combination with Unidas, still subjected to conditions and pending final approval. If approved, we believe that the combined company will be in a unique position, allowing us to offer the best mobility solutions for customers, in addition to generating value for shareholders. Following all legal and antitrust protocols we are planning the integration so that this combined company will leverage the best of each of the companies and will manage to capture important synergies to advance and expanding our scale and scope.

We also had important achievements in our ESG agenda, which was accelerated in 2021 with structuring projects aimed at reducing carbon emissions. Our Diversity and Inclusion Program continues to engage our employees and we were honored at the end of the year to be awarded with the National Award from Aberje, the Brazilian Association of Business Communication in the Diversity category.

Sustainability is a fundamental part of the company's strategy, and in 2022. We will continue to work to reduce and neutralize our carbon footprint and promote in an increasingly diverse and inclusive environment. After a robust, multi-year process in April 2021, we took an important step in company history. In April, Eugenio took over as the Executive Chairman of the Board and myself as the Localiza CEO, continue our strategy and following the best corporate governance practices, supported by an active Board with great knowledge of the business.

All these results were only possible thanks to the dedication, commitment and very high engagement of the Localiza team, to which I would like to deeply thank.

Our culture, based on the passion for our customers, people who inspire and transform and extraordinary results continues to be strong and sustained in more than 48 years of achievements. We begin 2022 prepared and capitalized to continue to take advantage of the growth opportunities, which we will face and further expand the Localiza role in the market. We're very confident in our ability to execute with excellence and continue to generate value for shareholders, customers, employees and all our stakeholders.

To present the highlights for the year and quarter, I would like to hand the floor over to Rodrigo Tavares, our CFO.

Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you. Bruno. Good afternoon, everyone. Before moving on to Page 2 of our webcast and reinforcing Bruno's words, we would like to remind you that we've made important decisions last year regarding capital allocation. We were disciplined in the purchase of cars to achieve good levels of profitability, replacing the cost of cars, which was affected by the increase in inputs, the devaluation of the BRL against the dollar and the scarcity of supplies.

This reflects into lower levels of depreciation, compared to the historical. We accessed the capital market to seek an extended debt profile at competitive cost. We revisited internal processes which will resulted in lower cost of bad debt [ph] opening space in the rentals margins. We increased the recognition of tax credits and accelerated the pace of investments from the team processes and technology, which will support the company in the next growth cycle, and in the expansion of its mobility activities.

We received the approval of the CADE for the merger with Unidas still conditioned to the divestment of the remedy and we ended the year with the leverage of 1.9 times net debt over EBITDA which gives us room to accelerate the volume growth in 2022. As a result, as you can see on Page 2, we ended the year at 39.8% of growth in car rental revenue. As a result of the 6.6% increase in the number of daily rentals and 30.9% increase in the average daily rate in the Fleet Rental division we had a 13.7% growth in net revenue for the year with the volume increase in 7.2% and average ticket, increasing 6.8%.

I would like to highlight that the numbers of this division still do not fully capture the increase in the number of contracts closed due to the delay in the delivery of cars, resulting in a backlog of orders of more than 20,000 cars. In the fourth quarter, we adjusted the purchase and decommissioning and ended 4Q with an addition of 18,510 Cars to the fleet bearing in mind that a relevant of these purchases was received at the end of the quarter and is not yet fully reflected in the RAC and fleet rental, operating fleet numbers.

On Page 3, we show the financial highlights for the quarter and the year. Compared to the same period last year. EBITDA grew 48% due to higher operating income from car and fleet rentals as well as from Seminovos. And net income increased 95% in the year, reaching an all-time high of BRL2 billion. We ended the year with the ROE of 29.6% and ROIC of 17% with the spread of 13.3 percentage points in relation to the after-tax cost of debt.

The year of 2022 has already started with challenges in the automobile chain including absenteeism in production lines due to the Omicron variant. But we do believe that from May onwards we will have increasing volumes, increasing, especially in the second half. In this context, we expect to speed up the volume growth in the business, Car Rental and Fleet divisions, especially as of the second half of the year and we believe that we are well-positioned from a competitive point of view with a lower replacement CapEx in addition to lower leverage and cost of debt.

To present more details of our results, I will hand the floor over to our Director of Investor Relations, Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

Thank you. Rodrigo. Good afternoon, everyone. Starting off the Car Rental division as you can see on Page 4, in 4Q, the number of daily rentals stood at 14.1 million, an increase of 1% year-over-year with net revenue increasing 30.5%. It's important to highlight that we already see the average operating fleet increasing 1.8% compared to last year, even without reflecting the addition of the fleet in the quarter. We'll talk more about purchases and sales later but this quarter we received 22,937 cars and sold 12,319 cars to this division, resulting in 10,618 cars added.

We also continue to adjust our rates to include the new car price increases and higher interest rate. We have seen resilient demand and consistent growth, which reinforces our confidence in the growth avenues for rentals in the coming years.

On Page 5, we show the result of the efficient management of prices and mix of the segments. In the context of a lack of cars and consistent demand the Car Rental Division maintained utilization rate at a high level above 81% and presented an average daily rate of BRL102.7 with the prioritization of more profitable segments. However, without failing to care for valuable long-term relationships with customers and partners.

Considering the cost of replacing cars and higher interest rates, we still see a need for price adjustments, but we continue to work to mitigate the impacts through productivity gains and cost management.

On Page 6, we show the network of own branches that was increased by 11% throughout 2021 from 442 to 453 with 10 new Zarp branches. Including franchised branches the company ended 2021 with a distribution network comprising 620 branches in Brazil and four other countries in South America.

Moving on to page 7 and the Fleet Rental division, we see the number of daily rentals increasing by 7.9% in the quarter and net revenue growing 17.2% compared to 4Q '20. In this comparison, the average rate has increased by 10.4% and the new car delivery backlog is still above 20,000 cars. In this quarter, we received 11,123 cars in this division and sold 3,231 resulting in 7,892 added cars.

Moving on to Page 8, we show the car purchase and sale balance. In 4Q '21 the balance between cars bought and sold totaled 18,510. 34,060 cars were purchased and 15,550 cars were demobilized with a net investment of BRL1.7 billion. Our average purchase price with accessories was approximately BRL79,000 compared to a sales price of BRL64,000, resulting in a replacement effort of BRL15,000 per car in the quarter and BRL11,500 in the year showing the importance of maintaining discipline when buying cars. In the year, the fleet addition added up to 18,665 cars and the net CapEx of BRL2.3 billion.

On Page 9, we show the used car network. At the end of 4Q '21, we had one tranche of 27 points of sale, a reduction of five points compared to the peak of 132 stores in 3Q. Still in the context of restricted production and supply of cars we lowered the number of decommissioning and demobilization resulting in the sale of 15,550 cars a reduction of 51.2% in volume sold year-over-year.

The average price was 28.2% higher than prices in the same period of the previous year and reflects the increase in new car prices captured in our cars sold. With a long-term view, we will keep our structure prepared to speed up the pace of fleet renewal, which would be gradually increased as purchase volumes increased, which should occur progressively throughout the year.

On Page 10 we show the fleet at the end of the year compared to the end of 2020. In Car Rental, we ended the quarter with stable fleet at 216,000 cars. In Fleet Rental the fleet at the end of the period was increased by 19.2% totaling 73,500 cars. Both are still impacted by the reduction in the level of car production. In the consolidated the fleet increase is 4.2%.

Moving on to Page 11, we can see the consolidated net revenues for the quarter dropped 8.3% year-over-year impacted by the slower pace of fleet deactivation. Net revenues from rentals increased by 27.6% with the 30.5% increase in Car Rental division and 17.2% in fleet rental. While used car revenues were impacted by the company's decision to reduce the pace of the activation and lengthening the useful life of the fleet, in the context of a shortage of car supplies, seeking volume growth in Rental divisions.

On page 12, we can see that EBITDA increased by 24.3% in 4Q '21 compared to the same period of the previous year, reaching BRL935.4 million of the strong contribution from Car Rental and Seminovos or used cars.

In the quarter, the Car Rental EBITDA margin increased 4% points compared to 4Q '20 while in Fleet Rental Division, the margin decreased by 6.9% points. Seminovos presented 3.5% percentage points higher margin mainly due to the higher average car sale price, partially offset by the lower fixed cards dilution due to the reduction in car decommissioning.

We had some additional costs and expenses that affected margins, among which we highlight 4Q '21 costs and expenses of approximately BRL12 million in the quarter associated with the merger process at Unidas. This increase in maintenance costs due to lengthening of fleet useful life, which affected the average each of cars sold by eight months in car rental and five months and fleet rental.

Increase in the cost of debt and RAC when compared to historical levels, that with a greater use of telemetry and data science for fraud prevention and car recovery is already lowering and with the tenancy to levels comparable to 2019. Increase in fleet rental marketing, advertising expense especially associated with Localiza Meoo. Increase in profit sharing provisioning due to the higher ROIC in the year in addition to the increase in cost and expenses for advances in technology and new initiatives in the mobility ecosystem.

In this quarter, we obtained a new report reviewing the useful life of our cars in Rent a Car with a positive impact of BRL51 million on the Car Rental EBITDA. The company will seek to maintain greater frequency in obtaining these reports as a wait a minute mitigate the volatility in recognizing the credit.

On Page 13, we see that in RAC the annualized average depreciation per car continues to advance sequentially at 1,604 -- BRL1,684 Bureau in 2021, the company depreciates the car sales to extend the useful life. Lower sales volumes have a direct impact on depreciation since the cost of sales estimate is one of the variables that make up the calculation.

We expect sales volume to remain low throughout one half 2022 to accelerate the resumption of growth. On the other hand in 4Q '21 we saw an increase in the number of cars purchased around 23,000, which in RAC which already have depreciation levels that are closer to normal and impact the average depreciation for the quarter and the year.

In Fleet Rental Division, we see the same trend. But as the pace of fleet renewal in this division is lower the progression is slower. We ended the quarter within an annualized average depreciation of BRL1,259.

On Page 14 we can see that consolidated EBIT for 4Q '21 achieved BRL773.6 million, representing growth of 19.9% year-over-year. In 4Q '21 the EBIT margin of the Car Rental Division was 43.9% representing a reduction of 2.8 percentage points compared to 4Q '20 and reflecting the higher average depreciation per car in Fleet Rental division, the EBIT margin achieved 60.7%, a reduction of 2.7 percentage points year-over-year, mainly reflecting the lower EBITDA margin as explained above, partially offset by the lower depreciation per car.

As the fleet renewal cycle returns to normalized levels, we expect that the increase in depreciation and the reduction in Seminovos EBITDA margin will be offset by the growth in rental revenues and normalization of maintenance cost, as well as by the increase in efficiency and dilution of platform fixed costs.

Net income for the quarter, on Page 15 grew 10% year-over-year, achieving BRL442.1 million in addition to the EBIT Variation described above, financial expenses increased by 140% mainly resulting from the increase in the CDI rate CDI rate and in average debt balance.

On Page 16, we show a cash burn of BRL342.6 million after growth mainly explained by the change in working capital and the increased renewal CapEx per car resulting from the higher new car prices and from the more premium mix of car purchase compared to the mix sold in a context of lower car production and imbalances between demand and supply.

As can be seen on Page 17. Net debt increased by BRL899.4 million ending the year at BRL7 billion impacted by the increase in CapEx for fleet renewal and growth.

On Page 18 we can see that we ended the year with a strong debt profile in cash position including January net funding, the company's pro forma position brings BRL4.9 billion in cash, efficient management of the cost of debt profile maintaining protection for long-term contracts in Fleet Rental and prioritizing CD1, CDI plus instead of CDI percentage leaves Localiza relatively well-positioned for a higher interest rate scenario. On Slide 19, we can see that the net debt over EBITDA ratio in 2021 ended at 1.9 times.

In 2021, we had an improvement in all ratios leaving us room in the balance sheet to finance the next growth cycle.

I would like to hand back over to Rodrigo to present our ROIC spread.

Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Nora. On Page 20, we present the evolution of the ROIC spread versus cost of debt. In 2021, we've seen increase in our spread, which achieved 13.3 percentage points with the ROIC of 17%. We would like to reinforce that despite the high level of short-term returns, the current context emphasizes the importance of decision making considering this cycle of the full cycle rental as well as vehicle replacement cost. That's why we maintain our austerity in the allocation of capital, certain that we are making decisions with the long-term view and seeking growth with value creation. We ended the year with an ROE of 29.6%.

Finally to conclude we continue to advance in the sustainability journey with the goal to bring even more positive impacts. In this quarter we selected projects to lower greenhouse gas emissions, and increase forest carbon inventory. We made progress in emission reduction strategies and continued to advance in the solar energy generation project at our branches.

In the social pillar the Localiza Institute finalized the selection process for its public note, bid notice for the project, Juventude em Movimento, and selected projects that have the potential to impact 8,000 young people with technical and professional training activities. In governance, we highlight the definition of KPIs related to sustainability and their inclusion in employee and C level performance contract and monitored by the Board of Directors of the actions and initiatives related to that thing.

We are now open for Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question live is from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hi, everyone. Can you hear me, Rodrigo and Nora?

A - Nora Lanari {BIO 18838335 <GO>}

Yes we can.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay, thank you for the opportunity. Thank you for taking my questions. So Rodrigo maybe the more controversial topics in the results this quarter was the margin, so meaning the margin of all businesses, margin in RAC, which was much lower than your competitor, that will report next week. And that dropped on a quarterly basis and Seminovos had a sudden drop. So Rodrigo, I'd like to hear from you, does that concern you? Do you believe that this recurring margin levels are similar to your levels right now in the competition, your peers? And if you have any measures, things that you're considering to improve your margins? I'll start off with that one.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Okay, thank you. Regis. So when we look at the results of margins, first of all you've seen increase quarter-over-quarter of five percentage points already disregarding any effects of the depreciation reports, in Rent a Car. And more specifically when looking forward, there are relevant changes. So the first thing that we consider are the integration costs related to consulting firms and analysis and the approval of the deal affected the margin of Rent a Car by one percentage point this quarter.

In fact, as we had mentioned, we changed the criteria. We started to launch in the results, in the maximum of 30 days. So we did have an increase in theft as of the second half and we felt that impact. When you look at December and the beginning of this year, we have substantially lower levels than the average presented. If we go back to the normal levels that would be four margin points of difference in Rent a Car. So that's a very relevant difference.

And as mentioned in the beginning, as this was a record year, not only in terms of ROIC and profit, we have profit sharing greater than normal. So when we created the provision that affected us another point. So those are things that we don't expect to occur, moving forward. We're at different levels already. So we're talking about an impact of almost six percentage points to the Rent a Car margin.

Now switching over to Fleet Management, we have similar impacts but of a different kind. So in integration, almost 1.5 points to the margin, in marketing. Once again we're consolidating our brand of Localiza Meoo. So since in fleet, the revenue base is lower than Rent a Car, those investments have a higher impact in the short term.

So in marketing is already higher than normal, almost three points of margin and another point associated to profit sharing. So that totals five points to the margin, that we expect that in the next quarters will not have this effect. In Seminovos, the volume issue, which was a company decision, we decided to decrease decommissioning and that affects the Seminovo acquisition costs.

So if you think of the long term, you may have higher decommissioning of the structure. But if you think of a scenario that you're going to increase the sales even more in the future. And considering potential integration, it makes a lot of sense to carry that cost and that has a relatively high effect. And the almost 6,000 cars that we decided to not decommission, if you look at contribution margin, that's almost BRL100 million to the quarter, So BRL17 million impact to profit, but we decided that we prefer to take up more market share and grow and carry the structure that we will require in the second half when we integrate the businesses.

A - Nora Lanari {BIO 18838335 <GO>}

Regis, this is Nora speaking. I'd like to add that the first point is margin comparability. So we have important accounting differences and relevant to capitalization levels. So not only for RAC, but also Fleet margin, I'd add higher maintenance costs as we had to increase the shelf life of the fleet we added maintenance costs. But on the other hand depreciation is more controlled. That's very important.

The second point is the investment in technology. So the company, when you think of the short-term -- we're not thinking of the short-term. We're thinking of the long-term. We're preparing the company for the next cycle. So those expenditures have obviously affected the margin in Seminovos, rent, RAC and fleet and we'll give you more disclosures about that throughout the year.

And another thing about Seminovos, as Rodrigo said, we deliberately stopped selling. So we can increase the volume and now we've seen increase in the volume of 19% fleet management in RAC. So the effect of a lower dilution of fixed costs cannot be disregarded as you well know, and as we speed up purchases, we have the offset in SG&A.

So, it's important to mention that our strategy has an impact on maintenance. But on the other hand, we have an effect in depreciation. So in this period, where we have this to get back to normal in the balance of purchase and sales. So, as you mentioned BRL70 million because we sold 6,000 cars less. And that will change as we decommission these cars slowly. So we can deliver growth to our business divisions. And another important aspect is that Rodrigo mentioned beginning of the call, as of May, we believe that we will gain traction in purchases and that will speed up in the second half of the year.

That's why it's important to slow down sales so we can continue to deliver growth in both business divisions as from the first quarter.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay. Thank you, Nora and Rodrigo. If you allow me a second question, on a positive note. So your leverage is still much lower than average and historical was three times and now it's close to 1.9. So my question is that gives you room to growth moving -- going forward? So would you know off the bat, or would it be easy for you to breakdown, how much of that leverage would be consumed in a process to renew the current fleet?

And if that renewal and additional EBITDA, can you translate that into less maintenance and higher rates or not? And how much is left? In addition to renewal, what's left in fleet expansion if we consider the increase in leverage that can be close to three times. I'm not even sure if that's the correct reference?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Regis for your questions. This is Rodrigo speaking. I'll speak -- answer that in terms of a concept. We do have a robust balance sheet ready to grow. To just really new the fleet we do not have to increase indebtedness. I'm not even going to talk about the ratio. Our cash generation for fleet renewal is sufficient, so operating cash generation. If we only renewed the fleet, you would see the indebtedness level dropping and dropping even more.

We can grow a considerable volume of cars and still maintain our leverage way under three times. In a very rough estimate, I can go over 100,000 cars this year, if I could, obviously without getting close to the three times leverage rate, because I can clearly increase my EBITDA. Of course leverage will increase, but with the increase in net debt, I wouldn't achieve the three times. So the room for growth based on the balance sheet point of view is very robust.

Q - Regis Cardoso {BIO 20098524 <GO>}

Rodrigo, can you add something about fleet renewal given higher car prices?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Yeah. Already in considering renewal rate, so historically for instance in 4Q, the cost was BRL15,000, increased substantially, lower than the market. When we forecast that moving -- going forward, we expect the higher renewal cost, but our cash would still be enough with that indebtedness to renew that through.

So cash generation is sufficient and the balance sheet allows us to grow with the high volume of cars without getting close to three times of EBITDA. And don't forget that our covenant is four times the EBITDA. So we do not have any financial restrictions to continue to grow substantial volumes, not only in RAC but also Fleet Management.

And Regis, I'd like to stress that the space that we have in margin in theft and bad debt and operating efficiencies, it's important to note that the CapEx difference in replenish which is very important. And in that CapEx replenishment for the company, BRL15,000 as we mentioned, we have a mismatch of what's being purchased and sold, which should still be the tone for this year because given the restrictions and production, we know that automakers are putting the semiconductors in higher added-value cars.

So that is not normalized yet. When production is normalized we believe that the purchase mix will be closer to normal and the sales mix could move a little. Obviously there are a lot of moving parts. We still don't know when that would get back to normal, meaning that mismatch between the supply and demand. So we believe that in the second half we will have a significant improvement in as of 2023, we should be close to normal.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you, Rodrigo and Nora. Thank you.

Operator

Next question is from Lucas Marquiori, BTG. Go ahead. Lucas.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Hi, everyone. Can you hear me?

A - Nora Lanari {BIO 18838335 <GO>}

Yes, we can hear you, Lucas.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay. Good morning. Thank you for taking my question. I have two quick questions. I'm also trying to understand that what Regis touched on, evolution of cost and margins. So two things that I would like to hear more specifically about. First one is level of theft. Bruno mentioned that in his introduction that, that should be -- a point that should improve this year. So what's the path?

So not only tracking the vehicles and increasing the bar of credit levels, maybe working with the different customer portfolio, more premium portfolio. I'd like to know if that's possible because of your products. And if that impact is that heavy this year and if it's going to improve as of next year, that's relevant.

And the second one is maintenance. I believe that everybody understood the effect of working with an older fleet, with the longer cycle because of the moment, we're going through in the market. But maybe, we're in that inflection point right now in depreciation and expecting production to get back to normal. So that maintenance curve might get heavy now and maybe it's not worth it anymore based on your point of view.

So how can you mitigate that? Do you have any internal initiatives in relation to maintenance and so I'd like to understand your dynamics internally and for 2022, Rodrigo and Nora.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Lucas. This is Rodrigo. First of all, about debt. Let me be more encompassing. First of all, we changed the criteria of realizing debt. So we used to take longer, so a customer gets a car and doesn't return it. We gave him more time to try and try to recover that car without judging them. Now we've been very strict in that process. So in addition, we have a number of different customer brackets. Some of them we believe they're high risk, very high risk and we can enter that in one week, which is a possibility, but we don't wait for more than 30 days to enter that information about the car when it's at risk. So that's the first thing.

In fact, in the second half, there was an increase and it's been significantly decreasing, in December was very low. And in January now we're much lower than historical levels. So it's already converged. You said next year but you mean 2022. So the levels that we are at are already at historical levels. So we do not expect to have any other impacts or relevant impacts in that. The actions are many not just a Connected Fleet and analyzed credit and analytics. So our technology team is being used, so that we can price that risk in real-time when a customer leaves based on how they're going to use the time they're getting the car. We're starting to do that and that's working.

In selecting our customers, you're absolutely right. We not only have a credit score, but we also have a fraud score. So we're starting to deny reservations for customers that we believe are high risk and that high-risk is measured with dozens of factors, based on the year type of payment, their credit score, the type of car they're renting, if it's the first rental or not.

So there are a number of different factors that we're already using. There is huge talk that we're using end processes that is changed the type of level of theft and fraud that we've seen, especially in the second and third quarter and also in October and November of the fourth quarter.

In terms of maintenance, as Nora mentioned, there is the trade-off between maintenance and depreciation, which is still very positive. So, when you look at the differences in depreciation of some of the cars, it could go up to BRL300 to BRL400 in one month. In maintenance, you're talking about trade-off a BRL50, BRL60, BRL70 per month. Obviously, that depends on the perspective of supplies and market demand to see how much we're going to grow or not and commercial conditions of certain car models.

So that's the math that we do all the time to understand if it makes sense to extend that shelf life of the car or the capital base or increased depreciation because we talk about depreciation but there is a capital base that grows a lot. So when I have an order book of

55,000, a new car is 85,000. So with that, that's a 60% increase. So not only depreciation, but also the capital base and you can see the benefit that you would have in relation to maintenance. So we do that on a recurring basis. In the beginning with the restriction of cars in the first months, we are extending the shelf life as of May. In second half we should decrease that shelf life for the car again.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Perfect, Rodrigo. Thank you. Just a follow-up question, maybe the comparison of the maintenance cost of the car is unfair because you're extending the shelf life. So do you have any subsidies to tell us based on the part, or component, have you been gaining productivity in that, in maintenance of specific parts given the company's scale that's bigger today? Can you give us this mitigation effect in that?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Yes. Obviously part prices went up, because car prices went up. So we see those effects as well. But we've definitely gained excellent efficiency levels not only in parts, but also in logistics, distribution and also by performing some services at the branch not only improves the cost but also the speed to get the car ready again for rental.

So we increased availability. So that's an area where we evolved a lot and we have significant advantages in that.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Great, thank you. Rodrigo.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

So thank you.

Operator

Next question is from Lucas Barbosa from Santander. Lucas, go ahead.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon. Can you hear me?

A - Nora Lanari {BIO 18838335 <GO>}

Yes, we can. Go ahead.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon, Bruno, Rodrigo and Nora. Thank you for this opportunity. I have two questions on my side. First of all, can you comment on what caused the increase in third-party services in the fourth quarter? It's BRL160 million versus an average of BRL130 million in the other quarters. Would that basically be the cost of the merger with Unidas? I know you mentioned BRL2 million. Is there anything else that is affecting that line?

A - Nora Lanari {BIO 18838335 <GO>}

Thank you, Lucas for your question. Yes, we do have costs in there because of the merger, and BRL12 million in the quarter, but we also have the consulting firm costs in that line. So there are some advances in those new initiatives that are all locked up and affecting those costs.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

And more specifically, Rodrigo speaking. With the CADE approval, that was a trigger to renew the costs of partners. So that also happened in the fourth quarter for a good reason of course the approval of the deal was December 15 and that was one of the triggers for some of the payments.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Perfect. Can we imagine that the line will get back to normal or even lower in the next quarters, not completely, but at least lower, just confirm?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Yes.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Okay.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Lucas, I'd like to stress that we are going through an integration process and process -- integration process planning. So that line would be would be an outlier. But at some point, we will have some gains in that this year.

Q - Lucas Barbosa {BIO 20835372 <GO>}

I have a second question, if you allow me. I'd like to understand the dynamics of purchase and sale of cars now in the beginning of 2022. Are you getting new cars at the same rate that you received in the fourth quarter and are your expectation to sell what you sold in the fourth quarter in the first and second quarter now?

A - Bruno Sebastian Lasansky {BIO 20627293 <GO>}

Well, the first quarter should be worse than the first quarter of 2021. January was extremely affected by Omicron variant especially because of labor. So, in sales, that was the worst month in the past 17 years. January was a really tough year, and we believe that the first quarter is a quarter that we have less receipts and improving in February and March. So the volume should improve gradually. And fourth quarter will be higher than the first quarter. Definitely.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Thank you for your answers and have a great afternoon.

A - Nora Lanari {BIO 18838335 <GO>}

Next question is from Pedro from Levanchi, it's in writing. So as the semiconductor production is taking too long to get back to normal, do you believe that was a good decision to let the fleet age and delay purchase of cars?

A - Bruno Sebastian Lasansky {BIO 20627293 <GO>}

Well, thank you for your question. Only time will tell, but our strategy is a bit late in margins as Rodrigo mentioned because we have higher cost and maintenance. On the other hand, depreciation is lower. You see the depreciation number this year was substantially lower than 2020. And in addition, we believe that considering the fact that we are in atypical moment of the market, and then on balance a high imbalance of the supply and demand, we have the new car prices are very connected to what they suggest in Seminovos is also connected towards practice and the dynamics should get back to normal at some point and reflecting depreciation.

So, we truly believe that our depreciation stood he'll go slower and less intensely compared to the competition at the margin of Seminovos is still not at levels higher than normal at least throughout this year. So, we are confident about the strategy in capital discipline. We have strong results in the past two years and record net income to prepare the company and advance technology for the next growth cycle and we'll start to see the reversal in business margins in Rental in the next quarter.

So, we are very confident about that.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

This is Rodrigo. I'd like to add to that. One thing that's always difficult to analyze is that we present the highest ROIC spread in history, but what we're seeing is that we have the highest difference in ROIC spread in the legacy that I have in the balance sheet and replenishment. So the difficulty to assess and add, Nora mentioned as well. There are many moments in 2021 and no it's not a huge volume of cars, but in many different times that return the ROIC spread in replenishment already considering certain normalization wouldn't make sense. So we're still in a moment of transition where return on the depreciated base of assets is very high.

The depreciation is very low and interest rates in the past were very low. So when you consider those three effects of an increase of the capital base, increase of interest, an increase of depreciation replenishment will see different scenarios. So only time will tell. And that transition will take place from these three effects and in some moments. We believe didn't make sense to use our capital. We didn't and we decided to extend the shelf life.

A - Nora Lanari {BIO 18838335 <GO>}

We have a question from Ankur, HSBC. I'm going to translate into Portuguese. So can you give us some highlight have the supply of car situation is evolving in that context, has the mix of your -- across multiple automobile brands changed.

A - Bruno Sebastian Lasansky {BIO 20627293 <GO>}

Well, thank you for your question. So this year the contracts that we have signed enable us to have very high volumes year-over-year. So in 2022 in terms of receipt. If we don't in fact, have the new cars and things that would change that dynamic significantly is that we expect to receive much more cars than we did in 2021.

And the first quarter will still be difficult January difficult, February better and so on. And as of May, but especially in the second half of the year we will see an improvement in car receipt. In relation to the car mix we have also been very selective. So you can see that our purchase price increase is less because we have a mix of more popular range mainstream cars compared to the premium SUV's and less focused on high added value vehicles.

So in our opinion that decision is very positive. We already see pressures especially in more volatile segments such as the daily segment. The daily rates in the premium SUV segments are suffering the pressure. So since we have a lower percentage of that mix and a higher distribution among the segments that enables us to settle better with that situation.

A - Nora Lanari {BIO 18838335 <GO>}

Nora speaking. In addition to that we already see new cars heating up in retail and some automakers making promotions for those types of cars that will potentially affect depreciation.

There is a follow-up from Ankur. I'll continue and then I'll pass on to go onto whoever wants to say. Can you confirm the extent of divestment of assets required to proceed with the (inaudible) acquisition and how do you intend to leverage that two different brands, or will you retain a common umbrella brand?

So I'll begin answering. This is Nora. So the remedy isn't public. But there are some insights in the votes of the Board members that determine a limit, close to 50,000 cars. It's not public. But that reference makes sense. And in addition to the cars, we're talking about branches, the system, people and the brand. So, the brand is part of the divestment plan. I'd like to remind you that the combined company still has an agreement with bankers that on the Enterprise National and Alamo brands and are still going to use the three brands.

Operator

Next question is from Filipe Nielsen from Citi. Go ahead, Filipe.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Hi, everyone. Good afternoon. Can you hear me?

A - Nora Lanari {BIO 18838335 <GO>}

Yes, we can.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Thank you for taking my question. I'll try to be brief, because we're running out of time. So, I know that my colleagues have covered some of the questions that I had. And now I'd like to understand in Fleet Renewal still, what would be a limit fleet age? And what would be a target fleet age going for now? As you mentioned, is about this process of extending the fleet age in the short-term and then decrease that as you buy cars? That's my first question.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Felipe. This is Rodrigo speaking. It's a big complex but my, let me explain, what does it make sense to renew faster. When you have good sales conditions and a discount you renew faster and you can actually make that move faster and decrease your depreciation.

So, depreciation is higher in the second year than the first year. Last year we had the opposite. So, you have a perspective, a price increase and depreciation in the second year was lower than the first year. In that sense. In economic terms, it's valid to extend the life and now we're working on maintenance procedures to guarantee customer experience. So the limit, it's not about technical, the technical side but we want our customers to have a good experience.

In the economic point of view, it makes sense to maintain the fleet and not kilometers, I mean it's not 50,000, 60,000, that's the issue. What we have to maintain is our customer experience with the Localiza standards, with the cars that are older, but we do not have a specific number for that.

A - Nora Lanari {BIO 18838335 <GO>}

And Felipe Nora speaking. To add there is an importance to operate many different segments in rental cars. So we can allocate those cars in different segments, depending on how much mileage they have on them, so that we have some room to work there.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Okay, perfect. I have a last question about the merger. I don't know how much you can talk about that, but I'd like to understand how the negotiations are moving to sell the Unidas assets. If there is someone that you are more interested in, if you can give us some more color on that. so that we don't depend on the news and speculation.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you. Rodrigo speaking. There is -- we've been seeing a lot of news and I know that some news you can't really trust especially in relation to deadlines, the size of the remedy and people interested, but what I can say is that we have an excellent number of companies interested. We've been evaluating many of them, and all of them are very creditable. Based on the antitrust agency point of view this is moving fast and we've seen interest coming from many different types of players, local players, international players, various players that you can't even imagine.

In fact, I cannot go into the details, but the fact -- the process is moving well fast with many people interested.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Okay, perfect. Thank you for the answers.

Operator

The next question is from Bruno Amorim from Goldman Sachs. Go ahead. Bruno.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good afternoon. Can you hear me?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Yes, we can go ahead.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay, thank you. I have a quick question. The others were answered. In the scenario of the price increase in rental is a segment where there is more interest. There may be a worse outlook. So offering a lower opportunity for growth. So can you comment on the growth perspectives for each segment in RAC for this year and for the next year? Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Hi. Bruno. Thank you for your question. Nora speaking. Obviously -- you're right, obviously there are short term segments like leisure, that are discretionary. It's worth noting that within context of the pandemic, what we've seen in 2021 is a disposable income used in Brazil saw domestic tourism recovered pretty fast with short term travel and rentals. But obviously there is -- it's discretionary. And it requires care with price.

So an increase in new car prices and an increase in interest rates have turned that replacements at a disadvantage in the relative point of view. So more long-term segments will benefit from that. We have important backlog in Meoo that's also in seat management and in monthly as well because the logic is very similar.

But even in the app segment we have a waiting line and we are analyzing the quality of the drivers in that line especially there credit scores. So we can allocate there. Obviously the economics of an app driver is tighter when they have to pay more in financing or in rental. So the price of an older used car is even higher than the Seminovos and higher than the new cars.

So that's very important. And in 2021 we continue to invest in that product not only lowering the cost to serve with dedicated agencies and technology. So we're lowering our cost to serve drivers. We're increasing telemetry to decrease theft fraud and losses. So we've been absorbing some of that transfer and we believe that the segment would be the leisure segment.

Operator

Next question is from Josh Milberg from Morgan Stanley. Josh. Go ahead.

Q - Josh Milberg {BIO 19336060 <GO>}

Good afternoon, everyone. Can you hear me?

A - Nora Lanari {BIO 18838335 <GO>}

Yes, we can. Josh.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay, perfect. Nora. Thank you very much for the event. I'd like to take this opportunity to ask about the mobility ecosystem opportunities and about other initiatives that go beyond that score. And as part of that could you revisit some of the specific opportunities that you see or that you are already developing and also discuss the timing and relevant as possible?

As part of that question, there was recent news about Karvy [ph] expanding and any perspective in relation to that would be great.

A - Bruno Sebastian Lasansky {BIO 20627293 <GO>}

Thank you very much, Josh for your question. This is Bruno speaking when we talk about the mobility ecosystem. In fact, where we see that Localiza has the scale technology and knowledge in many different length of our value chain. So we have pilots in different segments and huge addressable markets where there is a potential to generate value in the long term because there is a very interesting economics dynamic and Localiza has a competitive advantage that really reinforces our main business.

We're looking at the different links of that chain. So, in the second half, we will communicate -- we will inform to the market in an organized manner. We'd like to remind you that we're going through the merger with Unidas. And then second half we could give me more visibility and specificity about those path. So, we are doing that in a very disciplined manner. In our main business, we have to fund that transformation. Therefore, we're being very selective and very active doing those pilots and picking the ones where we increase the investments and the ones that based on customer feedback we find out that they don't make that much sense.

In addition to that discipline, technology is fundamental to see those segments. In relation to the specific points like you mentioned the purchase and sale of used cars. That segment is very close to our main business and we believe that we could eventually get important competitive edge. But we won't give a disclosure of anything specific. We'll do that in a structured manner to the market in the upcoming months.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay. Perfect. Thank you very much for your answer. I imagine that it wouldn't be possible for you to elaborate on that question at this time.

A - Bruno Sebastian Lasansky {BIO 20627293 <GO>}

Yes. Thank you, Josh.

Operator

Next question is from Andre Ferreira from Bradesco BBI. Andre, go ahead.

Q - Andre Ferreira {BIO 22332067 <GO>}

Okay. Good afternoon, everyone. First of all, thank you for taking my question. I have couple of questions going back to the PIS and COFINS tax credits. First of all, I'd like to know if that could be a recurring level looking -- going forward? And second, if that was positively impacted by the purchase of new cars in December but then by using the tax credits for 12 months.

And lastly, how are you going to book that in 2022?

A - Nora Lanari {BIO 18838335 <GO>}

Thank you, Andre for the question. Nora speaking. The first report for the company had an impact of BRL300 million of EBITDA, had a cut-off date of February. So, the second report will include cars bought from February to now. I can say it's recurring but we may be simplified math to do is considering the 2019 base, or even 2020, and double the speed of the credits given which the reduction of the useful shelf went from 18 to 24 months. The problem is, they look in the rearview mirror.

So, the car prices now BRL70,000 you'd have to create consider that adjustment. So, there is space and margin for the company. It should be four or five points to the margin and we have to look for initiatives to increase the revenues to absorb some of those credits going forward. So I'd say that the challenge here in saying that it's recurring is that we are going back to the fleet of end of February, which was the cut-off for the first report.

Company objective will have to get these will be to get these reports in a more intense manner so, that we don't have so much volatility to our margins and issues with the market.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

I would like to add. Rodrigo speaking. There are two effects. When you spend more time from February to now, you have higher one-off component, but the cars that were in the report now they depreciate faster going forward. So you'll have just a greater component of speeding up for the cars that have already been reported, but a lower effect.

And when you consider the global effect considering the past and the cars that you buy, as Nora said you double the amount of PIS and COFINS credits that you have during the year. So, it's a very relevant benefit.

Q - Andre Ferreira {BIO 22332067 <GO>}

Thank you.

Operator

Next question is from Pedro from Grow [ph] Capital.

Q - Unidentified Participant

Actually I have two questions, Could you give us an idea of the expectation to approve the merger? And what do you expect in the average dynamic rate of RAC going forward? Could we expect a drop in the rate when you can increase the volume?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, Pedro. Rodrigo speaking. Let's go back to the process of the merger. So we do have a deadline. It's not public. We have to present our proposal that is -- about the buyer to the antitrust agency when we offer that the antitrust agency has 30 days to approve that. When they approve it, our merger will in fact be approved and then there is a process to carve out that, to sell that part of Unidas to the buyer. So it's hard to precise a date but we do have to follow all those processes and rituals so that we complete our merger with Unidas and then complete that sale to the potential buyer.

A - Nora Lanari {BIO 18838335 <GO>}

To answer your second question, Pedro, Nora speaking about the RAC dynamic, RAC rate dynamics, is that, obviously in the fourth quarter, we had lower supply and it was the peak in summer vacation. So prices go up a lot. What we should see in the second half of 1st of January is the prices should settle. We stood still -- do you have (inaudible) but that should settle.

And we still have a transfer in the long-term monthly segment and even apps as they are longer-term contracts. So as they come due or as they mature they are affected by new prices and we will have that effect, and for individuals, and that means. And when we consider an increase especially in the second half, we would obviously have an impact of the mix.

So strong heavier in monthly and in app that pulled down the average monthly rate but the car prices are at a different level. So we don't imagine that the average daily rate would drop for this year because of increase in car prices.

Operator

Next question is from is Isabella Lamas from UBS. Go ahead. Isabella.

Q - Isabella Lamas

Good afternoon. Can you hear me?

A - Nora Lanari {BIO 18838335 <GO>}

Yes, we can. Go ahead.

Q - Isabella Lamas

Thank you, Nora. Thank you, Rodrigo for taking my question. My question is about the PIS and COFINS credit. So what about GTF, what do you expect, for the segments and also about Localiza Meoo. We see an increase in interest rate plus a hike in new car prices and according to our math, we see that that's even more positive for the rental service. It's more appealing because you suffer less with the increase. The end users is going to have a cost that's much higher with those two combined effects.

So I'd like to know if you see any impact in that and the demand -- and an increase in customer perception about that product. And also if you can give us some color on how it's been evolving in terms of customer profile, type of car, product mix, what can you tell us about how that product evolves? You mentioned a lot of expenses in marketing in that. So what strategy can you use to increase the perception of that type of car rental? Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Thank you. Isabella. Nora speaking. I'll start off with the report. So at the end of the year, we were working on the Rent a Car report for the cars, end of February until now. And now we're discussing with the agency the methodology for fleet management, but we still don't have any deadlines for that. And we're looking to have one for that as well. But in fleet management, we expect a lower impact given the fact that these cars have a contract on average of two or three years. So the reduction of 48 to 36 months may be an average in aging.

About car prices, about -- I'm sorry, Meoo and interest rates and car prices, we see a lot of people trying to enter that segment, traditional players and fleet management, even automakers and car rental companies. So the knowledge about the product is more spread out. So our challenge was to increase the relevance of our brand.

That's why we expedited marketing investments that affected the margins in the third and especially fourth quarter. So we do see a resilient demand. The new car prices will take people to consider the subscription. It's a cultural generational change, but we do see an adoption curve, but speeding up significantly in most diverse profiles. But in general we see an initial demand that with more added value.

Q - Isabella Lamas

Perfect, thank you very much.

Operator

Next question is from Antonio from Terua [ph] Capital. He has a follow-up about Rodrigo concern you need asset sales, what's the impact of the (inaudible) giving up on their joint venture.

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you for your question. Yeah, that would be a candidate for the purchase but given the interest in the process, we believe that the impact of them leaving would be limited.

A - Nora Lanari {BIO 18838335 <GO>}

Next question is from Rodrigo Ferida [ph] from America. He would like some color about reservations in Carnival. How is that behaving because some Carnival events have been canceled? Has no show increased? And are you charging a fine for no show? Thank you, Rodrigo. Nora speaking. We see a good level for Carnival rentals. We know that the pandemic effect has affected some of the festivities. We still expect a good event though. We haven't seen an increase in no-show, quite on the contrary, we have implemented some new things and we are able to lower no show rates.

Operator

We have one last question here from Ivan. And given the time, it's the last one that we can answer, but I'd like to stress that Investor Relations could answer your questions later.

Q - Unidentified Participant

So, good morning. Could you give us some idea of what we could expect in Seminovos margins of 2022, and connecting that to the sales speed in the first and second half?

A - Nora Lanari {BIO 18838335 <GO>}

Okay. I'll begin. Rodrigo, add if I forget anything. So we've been slowing down sales in fourth quarter. We lowered the number of cars sold and that affects more dilution of the cost in sales. So SG&A is heavier, but we have a long-term vision, we believe that as of the second half we have a more robust recovery in purchase levels. We will speed up sales. So we're maintaining our structure prepared to speed that up. It's worth noting Ivan that retail has shown some increase for new cars.

So we'd like to demobilize -- decommission our fleet at fair prices during this year. And within the context of slowing down the sales we have an effect of gross profit that's strong with the sales prices going up. So we are selling cars that have low book value. But on the other side, SG&A affects the margins. So you've seen Seminovos margins that are tighter.

During the year as we speed up renewal my gross profit should go back to normal levels because the book value of sold cars will go up. The used car prices will follow new car prices. The book value will be tighter and on the other hand, sales rate will increase and SG&A will maintain. We shouldn't change much of that level, but with different margin components.

Operator

Now to conclude, I'd like to hand over to Rodrigo Tavares?

A - Rodrigo Tavares Goncalves de Sousa {BIO 21760011 <GO>}

Thank you, everyone for your presence. Our IR team will be available for any further clarification. Have a great day.