Q1 2016 Earnings Call

Company Participants

- Nora Lanari
- Roberto Antônio Mendes

Other Participants

- Alexandre P. Falcao
- Bernardo Carneiro
- Bruno Amorim
- Leandro Fontanesi
- Mário Bernardes Junior
- Renato Salomone
- Rogério Araújo
- Stephen Trent
- Victor Mizusaki

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Welcome to the First Quarter 2016 Conference Call of Localiza Rent A Car. Hosting the event today are Mr. Roberto Mendes, CFO; and Mrs. Nora Lanari, Investor Relations Director.

We would like to inform that the numbers in this presentation are stated in million of Brazilian real and based on U.S. GAAP until 2010 and based on IFRS from 2011 on. The presentation will be recorded and all participants will be able to listen to the conference call during the company's presentation. Afterwards, we'll start the Q&A session for analysts and investors when further instructions will be given.

This conference call audio and the accompanying slide presentation are being broadcast simultaneously over the Internet at the address www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking on the banner 1Q16 Webcast.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the company as well as operating and financial targets, forecast represent the opinions and assumptions of the company's management, which may or may not occur.

Investors must comprehend that economic conditions and other operating factors may affect the company's future and may lead to materially different results from those stated in this call.

I would like to invite the company's CFO, Mr. Roberto Mendes to start the teleconference of the first quarter of 2016.

Roberto Antônio Mendes {BIO 7289124 <GO>}

Good afternoon everyone, and thank you for attending our conference call. In the first quarter of 2016 we are reaping the benefits of planning and disciplined execution. In a recessive environment, the company presented growth in all the main lines of business.

On slide number two, we present some of the highlights. In the Car Rental Division, net revenues grew 9.5% with a total of 47,139 rented cars versus 43,025 in the previous year. The utilization rate totaled 73.4%. Our customer satisfaction index measured internally by MTS (02:39) was 80.2%, reinforcing our commitment with the quality of customer services and car rental operation. Fleet rental revenues also grew by 6.4%.

The result was a consolidated EBIT growth of 8.7% in the quarter when compared to the same period of the last year and the net income growth of 2.7% totaling R$103 million, despite the increase of the basic interest rate in the period. We are extremely happy with the performance of the first month of the year, but we are aware of the challenges that we will face throughout 2016.

The economic and political environment is still very adverse. The country's investment levels are still low and unemployment continues to increase. Inflation begins to cool down, but still remains distant from the Central Bank target. Therefore, we continue to work on improving our commercial capacity, process efficiency and cost management without losing sight of the consumer experience.

To present the results of the first quarter of 2016, I turn the floor to the Director of Investor Relations Department, Nora Lanari.

Nora Lanari {BIO 18838335 <GO>}

Good afternoon, and thank you for attending our call. On slide number three, we present the growth evolution of the Car Rental Division. In the 1Q 2016, daily volumes grew by 11.3% when compared to the same period of last year. The average rental rate dropped by 1.9% due to business mix, which resulted in the increase of 9.5% in net revenues of this division.

On slide number four, we present the evolution of the average rental rate and utilization rate in the Car Rental Division. With the competitive and commercial intelligence, we captured market opportunities. The short-term corporate rental is the only segment that is not growing due to the drop in business travels.

Our pricing aims at maximizing the utilization rate. The better utilization rate reflects the success of our demand stimulation strategies coupled with the process of buying and selling cars and our commitment in the pursuit of productivity and efficient capital allocation.

On next slide number five, we present the evolution of Car Rental network. Premier locations were added to Localiza's owned network in the first quarter of 2016, totaling 323 corporate branches, Localiza's system including our franchisees is comprised of 565 locations in Brazil and in other seven South American countries.

In next slide number six, we present the volumes and revenues of the Fleet Rental Division. In the first quarter of this year, net revenues of the Fleet Rental Division grew 6.4% due to an increase of 5% in daily rental rates plus extraordinary additional revenues in a quarter of flattish volume.

In the slide number seven, we present the fleet's net investment evolution. In the first quarter, 6,989 cars were bought and 16,348 cars were sold. The fleet reduction after summer vacation peak up demand led to a net divestment of R$289.4 million.

Car sales prices were stable compared to the first - the fourth quarter of 2015 and 6.8% higher when compared to the third quarter of 2015.

In the next slide number eight, we present the evolution of the end of period fleet. By the end of March, the consolidated fleet was comprised of 115,166 cars, 2.5% lower than 1Q 2015. The Car Rental Division fleet was reduced by 3.4% when compared - in comparison to the 1Q 2015. Meanwhile the number of rented cars increased 9.6% as a result of improving productivity measured by higher utilization rate, which went from 66.3% to 73.4%.

Slide number nine presents consolidative net revenue evolution. In the first quarter of 2016, the company's net revenues increased by 4% being 8.5% in Car and Fleet Rental revenues. The Seminovos revenue remained stable. The 6.3% drop in car sales volumes year-over-year was offset by 6.8% higher average car sales price.

Slide number 10 presents the EBITDA evolution. The revenue growth with lower average rental rate did not sacrifice EBITDA, which grew 5.5% in the first quarter of this year, totaling R$258.4 million. EBITDA margin was 34.5% in the Car Rental Division stable when compared to the margins of the first quarter of 2015, and 2.7 percentage points higher than the accumulated margin of 2015.

In the Fleet Rental Division, EBITDA margin was 64.5% in the first quarter of this year, an increase of 5.2 percentage points when compared to the first quarter of 2015, due to the increase of the average rental rate and cost efficiency.

Seminovos EBITDA margin was 6.8% in the 1Q 2016. This margin as a result of the price increase of car sold due to the net - to the recent increase in new car price by automakers that reflected in Seminovos price coupled with a complete expertise in buying and selling cars.

Slide 11 presents the average depreciation per car in Car and Fleet Rental Divisions. In the first quarter, the annualized depreciation per car was R$836 compared to R$622 in 2015. The 34.4% increase is due to the expectation of lower new car price increases and an adverse macro environment expected in the following months. In the Fleet Rental Division, annualized depreciation per car in the 1Q 2016 was R$4,175, an increase of 6.1% compared to the depreciation of 2015.

On slide number 12, we present the evolution of EBIT margin. Consolidated EBIT margin grew a little bit grew 8.7% in the 1Q 2016 versus 1Q 2015 in total R$202.5 million. The EBIT margin of Car Rental Division was 35.6% and the Fleet Rental Division it was 50.3%.

On slide 13, we present the net income evolution. Net income in the first quarter increased 2.7% compared to the first period of the previous year and reached R$103 million, mainly due to an increase of R$13.4 million in EBITDA. Net financial expenses increased by R$19.7 million, due to higher basic interest rate, higher average net debt by R$278.8 million, PIS/COFINS debit and mark-to-market debit after swap.

In addition, there was a R$6.2 million decrease of income tax, due to the increase in TJLP, long-term interest rate and the increase in the equity base used in the calculation of interest and capital, which impacted the amount of interest on capital paid deductible from income tax.

On slide 14, we present the free cash flow. In the first quarter of 2016, the company's free cash flow before interest was R$178.7 million. The fleet reduction of 9,359 cars after the summer vacation peak of demand was more than enough to cover the R$255.6 million payment to OEMs during the period.

Net investment in the construction of the new headquarters were R$3.6 million in the first quarter. This amount is net of market-to-market credit in the amount of R$12.3 million of swap related to the funding made for construction of headquarters.

On slide 15, we present cash flow variations. Net debt was reduced by R$77.8 million from December 2015 to March 2016. Cash generation and operation net of fleet renewal CapEx and interest was R$58.4 million. The cash generation by the reduction of fleet net of debt reduction with OEMs was R$56.2 million.

On slide 16, we show the cash position and debt amortization profile. Earlier this year, the company completed its 10th issuance of debentures totaling R$200 million for cash flows. Localiza ended the first quarter of 2016 with R$1.6 billion in cash. The strong cash position and debt profile puts the company in a more comfortable position than its main competitors.

On slide 17, we present the debt ratios, which reflect company's financial disciplines. The company remains presenting comfortable debt ratios and is prepared to go through this period of political and economic crisis in Brazil and capture market opportunities.

On slide number 18, we present the spread of ROIC minus cost of debt. Despite increase in the SELIC rate last year, the company maintained the ROIC spread on cost of debt of 5.7 percentage points.

Let us go now to the Q&A session.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. First question is from Mario Bernardes Junior, from Banco do Brasil.

Q - Mário Bernardes Junior {BIO 18104578 <GO>}

Good afternoon. Thank you for the opportunity. I would like to understand a bit more about this, Rent A Car volume. I know that you come from a higher volume since last year – the fourth quarter of last year, but what's the main factor that maintained this increase when compared to the last quarter? Is seasonality the answer, because the price of daily rental dropped very little, so I was – I am interested in this.?

A - Operator

Thank you, Mário for your question. Beside (14:45) the first quarter of the year has a relevant number of individuals renting cars due to carnivals and summer vacations, we saw an increase in volume in all rent a car segments except for short-term corporate travels, which decreased. The growth in volume, the first quarter reinforces Localiza's goal to capture this market opportunities to commercial efficiency. So, all lines of business have grown in this quarter, except for short-term corporate travels.

Q - Mário Bernardes Junior {BIO 18104578 <GO>}

This is because the competitors were not able to meet the demand, could you think about at this way?

A - Operator

Yeah. There are several factors, but we are investing in a higher efficiency in sales, pricing and now we're reaping the fruit of this investment.

Q - Mário Bernardes Junior {BIO 18104578 <GO>}

Second question is about the EBITDA margin, you had a considerable increase, I know there is an increase in efficiency, where did this efficiency come from? Is there a level for Fleet Rental?

A - Operator

Well, the margin first quarter of last year was impacted by third-party services. So, we were traditionally lower than our average. So, when we look at the average margin of last year, it amounted to 72.2%. So, we are able to capture an increase in average rental daily rate. And the contract there updated according inflation, and we are decreasing cost but this margin of this first quarter is indeed quite robust.

Q - Mário Bernardes Junior {BIO 18104578 <GO>}

Okay. Thank you.

Operator

First question – the next question is from Bernardo Carneiro of Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good afternoon, everyone, Nora and Roberto. The average revenue on RAC has fell year-on-year, because you have consumers that are sensitive to price in the leisure areas. How should we – what kind of variation in tariffs should we expect for the next quarter in 2016? A nominal decrease in the daily rates or a change in mix, because the corporate customer should come back in the second half of the year and probably they pay a lower rate. So, what could you say in terms of variation of rental rates year-on-year on the Rent A Car segment.

A - Operator

Yes. Thank you for your question. The average rental rates are part of our commercial strategy. We know that in the first quarter, individuals played an important role. But as mentioned in Mário's question, we have grown significantly in other business segments as well. So this mix could have an impact on average daily rates without having impact on profitability.

Of course, average rental rates are calculated according to the utilization rates and the cost of each business segment. In this quarter, we had a significant or a reasonable growth in lower rate segments. Of course, it's (18:07) our strategy are concerned and we increase our business in the corporate segment that could impact this area.

Bernardo, I would like to add something, we don't see in the next coming – in the coming months an increase in corporate demand. There is no macroeconomic scenario improvement to justify an increase in business travel in the coming months. We believe that such business travels will continue to be low.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Traditionally corporate travels are quite low in the first quarter and there is this summer vacation which increases individual, so this should change in the second quarter or third quarter right?

A - Operator

Yes. Actually, the leisure travel increased a lot more, but now (19:12) that they are reduced. The corporate travel center remains stable, but what would improve this is if Brazil makes new investments and the GDP increases, this would actually cause business travels to increase because then people would travel for sales purposes and another commercial activities for -- what you said is true, in the first quarter, people are on vacation, so they're not travelling on business, that's basically on January.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

The second question is about the volume of at Localiza fleet. The company has won new contracts at the end of last year, but it seems that it wasn't yet reflective in the change in volume and growth in volume since the volume is flat in the Fleet Division. I would like to understand what is damaging the performance in volume of rental rates in the Fleet Division?

A - Operator

Thank you Bernardo. We're still talking about macroeconomic scenario it is very poor. So we win some contracts, but on the other hand, customers tend to reduce their demand due to this macroeconomic scenarios of recession.

So it's a win and lose game. We try to capture in some growth and the basis of last year is stronger which makes it harder to have a significant growth this year. Bernardo said Roberto (20:38). Now going back to the macroeconomic scenarios, many companies do have a reduction in their fleet because they have a reduction in their activities. So we have some losses and we have to offset these losses with growth. So we have new contracts, but we lose some volume in existing contracts.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Okay, thank you. I understood.

Operator

Our next question from Renato Salomone, Itaú BBA.

Q - Renato Salomone {BIO 17292431 <GO>}

Good afternoon, Roberto and Nora. Throughout the first quarter, we saw a significant slowdown and increase in brand new car prices. This was stronger at the end of the quarter with almost no transfer of prices. Is this reflective on depreciation already or the estimated depreciation reflects something like 40% or 60% of transfer in inflation throughout the year?

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

As Nora said, Renato we are working with the expectation of lower increase in new car prices. This is why depreciation since the fourth quarter of last year until now in the RAC remains at around R$500 per car.

So we think that new cars – new car prices won't go up so much as last year because last year there was the IPI effect and inflation. They were two significant impacts that increased the prices of new cars. This year, OEM, we are trying to transfer inflation rates, but we are working on a more conservative basis. So if rentals (22:39) continue to increase at the rate of 1% or 2% as the average of February and March, that is reflected on depreciation already.

A - Nora Lanari {BIO 18838335 <GO>}

Yes, if car prices go up by 1% or 2% that would be a significant increase until the end of the year. We are working with an inflation rate of 7.5%. So if new cars increase at that rate, I mean they have to increase the prices at the car dealers as well because currently the price is increased at the car manufacturer level, but the people are not able to sell with such an increase.

So we look at the prices practiced by car dealers meaning that they are able to transfer the prices to consumers. In a macroeconomic scenario like this, we experience today, we notice that the OEMs are adjusting their offer to the demand, the supply for the demand.

So, with an increase in consumption that would lead to a reduction in prices. So, prices tend to keep up with inflation maybe a bit lower, and that gives us the basic figures to calculate depreciation.

And now to just to add a comment, at the price of new cars plus how much we can reflect on used car prices. And we are saying that selling new car is sensitive. So, we have a conservative view, and we're not betting on the transfer of these prices to our sales prices.

Q - Renato Salomone {BIO 17292431 <GO>}

Second question, how significant was the rainfall level in the first quarter, especially with the low rainfall we had in the first quarter of 2015, for the demand of replacements? And could you give us an idea of the impact on the Easter calendar on the first quarter or the second quarter of Rent A Car segment?

A - Operator

Well, rainfall, it rained a lot more this year than last year, which creates more accidents and therefore increases the number of cars by insurance companies that is true. What was the other question? I am sorry.

Q - Renato Salomone {BIO 17292431 <GO>}

It was about the calendar.

A - Operator

Just to add a comment Renato to your first question, on the other hand the vacation period reduces a better demand for replacement. When we look at insurance company reports, we see a decrease in loss ratios in the first quarter and that changed due to fast accidents.

So, this improvement in the replacement doesn't necessarily reflect the rainfall volumes but the increase in efficiency. People are on vacation and they don't send their cars to be repaired during vacation, they're travelling.

As for the second question, we come from a strong basis if you continue, the individuals last year has grown a lot, and the calendar did not have a significant impact, because there was an anticipation a few weeks for carnival. We had carnival in February, Easter in March, and now April with its first holiday but it's not in the first quarter calculation. So, every 29 days this year, but the calendar does not explain the most of our growth.

Q - Renato Salomone {BIO 17292431 <GO>}

Okay. Thank you.

Operator

Next question comes from Alexandre Falcao from HSBC.

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

Good afternoon. My question is about the utilization rate. Based on your history, it was one of the largest so far. So, what I would like to understand if this is the new norm, is this what you're seeking for the rest of the year? And expected interest rates are rather income tax rate?

And then, other question is, I would like to understand that this funding is R$200 million, there was then another 113% of CDI. Is this the cost of the debt you should migrate to or you intend to wait for the curve to change a bit in the market?

A - Operator

Thank you Falcao for your question. As for the utilization rate, in this first quarter we had lower volume of purchases. We calculated utilization since the OEM sell the car to us and issues the invoice but we work with utilization rate as they grow above 70% that's the minimum we wish to have.

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

But you couldn't think that 73% is an effect on cars, you don't think that this rate will remain?

A - Operator

Well, we've had utilization rates above 70% because we're trying to maximize the use of the fleet and changing prices accordingly. So our internal growth is actually a bit higher than the guidance that we gave to the markets.

As for the income tax rate, these rates we expect for this year and is effective, it was 23.5%, if I am not mistaken, since we have in placed interest on capital over higher equity basis and long-term interest rate TJLP has increased, we're paying more interest on capital, which reduces the amount on which we pay income tax and that comes to 23% to 24%. This is what we should expect for this year.

As for your third question, R$200 million funding at a 113% was a very good transaction considering the macroeconomic scenario. I see competitors getting funds at a 130% of the CDI and we – this was for that moment of January. We do not plan to get other funds this year, unless we plan to increase – unless we intend to increase the debt maturity profile, but we have enough cash, and sufficient cash to provide for growth in other investments during this year.

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

So unless the rates go down a lot, then you don't plan on making new loans?

A - Operator

I mean, well unless if it goes down very much, well, that would be interesting, because any free and good – any clean good cheap money is something we're interested.

And next question comes from Leandro Fontanesi from Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good afternoon. I have two questions. The first is about cash. Roberto said you have R$6 million (sic) [R$1.6 million] (30:56) in cash and you intend to maintain this cash, given the macroeconomic scenario, but your results in this quarter was positive. So given that this cash is at R$30 million when compared to the fourth quarter of 2015. So we would have R$500 million of free cash. Has anything changed in your mind in terms of maintaining this cash?

A - Operator

Well, this cash of R$1.6 million had an impact on the reduction of the fleet. On the other hand, we paid the car manufacturers, when we start increasing purchases as of the second quarter, the cash will be used for these purchases and the debt with – so there is a benefit of negative working capital. The cash is quite robust and it's important for the current economic scenario, because we must be ready for any opportunities that may appear. This is why we plan to maintain a robust cash position.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

You're working at R$1.5 million today in terms of leveraging, what's the ideal level of leveraging?

A - Operator

In terms of ROIC, it would be – the idea will be to be more leveraged, but there are risks involved. We want to maintain a leverage ratio that gives a good profitability for shareholders. But we don't – we want to maintain the good rating with credit rating agencies.

We are above sovereign rating. And we – so we're able to obtain funds at lower rates and higher maturity, longer maturity periods. So this is an advantage in the current economic scenario. So we are adopting a more conservative leveraging, although, we are working with four times EBITDA, we don't – we are much lower than that and we don't even plan to get close to 4%, which is our guidance. We are in Brazil, and right now it's good to be conservative.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

My last question. So the utilization had a significant increase when compared to 2015. And looking at ROIC, it was slightly better than 2015 but not as strong as the operational improvement. What is lacking in the next quarters for the – going back to the historical ROIC level and was there anything in this quarter that may have gotten in the way of this, because apparently you see – we see a trend of decrease in ROIC?

A - Operator

Well, cars are more expensive, so invested capital has increased, we are now working with good margins. The capital is high, because cars have increased by 10% so we changed a bit the mix of our cars.

However, we significantly improved the utilization rates thus reducing invested capital. So, actually this is the managing several plates running at the same time, we have to balance everything at the same time, and everything spinning at the same time, so we have to work throughout this year to maintain a healthy ROIC and this interest rate of 10% is a bit out of the curve, the expectation for the market is of a decrease.

Real interest rate is very high, so the whole market expects interest rates to go down which would help to increase our spread. But the ROIC is healthy, high utilization rate, this is what we've been doing to maintain the ROIC at this healthy level which is quite interesting for the moment we are going through in Brazil currently.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good afternoon. Now going back to the utilization rate, could you quantify how much of this improvement comes from the better use of the fleet on weekends?

A - Operator

We have been talking about this new strategy we have to keep the fleet rented throughout the week. I mean, not only on weekdays but also on weekends. So we are now having promotional rental rates to maximize the use of our assets and therefore utilization rate. But I can't give you the exact figure how much came from this utilization because of weekends but it did contribute to that.

And it's worth remembering that our management in purchase of cars, reducing the number of days where cars take to come to our (37:02). So our management thought since the first day that the invoice is issued, how long it takes for the cars to come to us, then there is a hope here that's it's available at our branches for rental.

We're now renting on weekends, and then there is a period in which those cars are being discontinued and we have to quickly transfer it to the Seminovos area. So this is a complex process, and this is an average rate at the whole country level. So our cars are all over the country.

So this average rate means that, at some places it's 80%, somewhere else it's 65%, at some weekdays the rate varies. So there is several sides that we have to keep spinning all at the same time. And I would like to congratulate the area of operations and car purchases and logistics because they are doing a wonderful job.

Q - Victor Mizusaki {BIO 4087162 <GO>}

And the next question, in terms of growth of volumes, when we look at the market as a whole, probably Localiza has won market share in the first quarter. How do you think the market would respond to that? Is there a concern that other players may reduce prices or given the scenario, you're talking about a consolidation and maybe lower companies or smaller companies will not be feasible anymore?

A - Operator

We don't have all the information about that. We know that, that's a very polarized (38:45) market. I mean it's many small companies. I don't know if other brands have reported that their figures and whether they are growing at similar rates. It's important to remember that each company has a different mix, but – so don't think that the market is not growing, someone must be losing market share, maybe it's a small company that are losing market share to the big networks, to the big car rental chain.

Next question from Rogério Araújo from UBS.

Q - Rogério Araújo

Thank you. Good afternoon. I have two questions, that are follow-up questions actually some other questions already asked. First is, normalization of Seminovos' used cars, since the depreciation is lower than the historical rate for Car Rental and the Seminovos' margin is higher than the normalized level. So, my question is, when do you expect this normalization that you would expect to happen, actually happen? Should we see deprecations of Car Rental normalizing even more in the next quarter and Seminovos' margins dropping and to what level? This is the first question.

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

Thank you, Rogério for your question. That's Roberto. Well, let me separate things. When I sell a car today at a big margin, it means that the depreciation left some space, it was higher than it was in the past. But when I say depreciation, but margin of Seminovos of used cars is about the past and depreciation is about the future. How much do I expect to sell the cars I am buying now for in the future?

So, one is about the past and the other one is about the future. We're working with expectation that car prices won't go up as much as they did last year. And therefore, the depreciation is a bit higher than the average rate for last year.

R$800 is in line with the fourth quarter. And we said that in the scenario cars increases the margin for used cars would be reduced throughout the years. And it seems that this is the scenario that we should think it's possible in such as an adverse macroeconomic scenario, as we have today, with the decrease in the revenue of the income of consumers, et cetera.

Things may change, if OEMs are able to transfer and increase new car prices. And then we would review our budgets, but the assumption for this depreciation must be a bit conservative. We can't work on the assumption that things will always be better than we expected. It's important to have a very down-to-earth scenario and mode of thinking nowadays and probably into December it will reduce a bit.

Q - Rogério Araújo

Okay, thank you. And the second question is about car rental growth. I am sorry to insist on this topic. But it's hard for us to understand, where this growth of 11% comes from? And we think about retail, we're talking about domestic air traffic going down by 7%, economic activity is poor with a reduction of the actual GDP, which probably effects the corporate travelers, the number of insurance policies, signs competition is attacking other segments of replacement of insurance companies (42:49). So my question is, where do you think this is coming from?

We talked about possibility of fleet rental cars because in Car Rental or Fleet Rental contracts becoming Car Rental contracts, then how much of this growth would be due to that? You also mentioned gain in market share of small – coming from small companies.

It's hard to see small players in airport with many losing contracts with large corporations. So it's hard for us to understand where this growth comes from. We know that you're doing a very good job in terms of growth of yield, but if you could elaborate a bit more on that, how much of this growth is coming from the change from fleet to car rental, and what segment is Localiza gaining market share, that would be great? Thank you.

A - Operator

Thank you for your question Rogério. Let me start by, from the end. How much from fleet were coming from rental. This is not giving the growth of the monthly fleet. We are working with a good pricing, and there are smaller players that are suffering from this more severe macroeconomic scenario at higher leverage rates, and a more restricted credit market. But as we told you, growth is present in all car rental business except for travel – business travel.

Being very transparent, we cannot give you very detailed information, because I hope that our competitors are also having the same difficulties that we are. So I am not going to give you all the details of our strategy of course.

Q - Rogério Araújo

Okay. I understand. Thank you.

Operator

Our next question comes from Bruno Amorim, Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good afternoon. I have two questions. First, could you give us an idea of the evolution of the RAC margin in the quarter. There was a substantial increase would you say that March was better than January and February better than January, March better than February et cetera? And the second question is, going back to the mix from now on, if there is a bit least of leisure in the mix of the second quarter and looking at mix side, do you think that the ROIC should go down in the next quarter?

A - Operator

Thank you for your question. The RAC margin was good. In January, there is an important (46:00) individuals, but the levels are quite high we're talking about 74%. With regard to the mix, we see obviously the seasonality of the demand peak end and then we have a trend in which corporate segments become more significant.

Of course, they bring the average rental rates down, but they have different costs and different uses, so we don't necessarily see an effect in the margin just because of a change in the mix. But the first quarter was slightly above our expectations including end margin terms and so we do expect a bit lower level for the next quarter. We're looking at the average margin of 2015 around that level or maybe a bit better. Then, let's see what we can capture in terms of purchase management operation margin and cost efficiency.

Thank you. Next question comes from Steve Trent.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi good afternoon and thanks for taking my questions. Most of my questions have been answered, at this point. Just one quick follow-up on and not just question from earlier. Any color or indication with respect to what might be occurring in new car pricing in rent in recent weeks, are you seeing any potential trends here?

A - Nora Lanari {BIO 18838335 <GO>}

Yes. We can give some color on the price of new cars in the last weeks and throughout the year. We've seen that indeed in the beginning of the year, some OEM companies were trying to force the price increase in cars, but the market is very slow. And we don't see this increase in prices reaching the end consumer.

We believe that this is the trend for the year. Of course, car manufacturers have a price, they have a pressure of cost, and they want to transfer to prices, but the market is quite receptive, and it's very hard to predict if they will be able to transfer an increased prices. So, as Roberto said, we are assuming a more conservative scenario in the sale of used cars, and we don't expect any important reflex in prices of used cars in 2016.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful. And just one other follow-up question with respect to your robust interest on capital declarations, kind of a dumb question from me, but basically we are assuming there is not going to be any change in the tax regime around interest on capital declarations and certainly it's not fair to ask you guys to predict what will happen politically, but just wanted to get your thoughts on that?

A - Operator

Yes, Stephen. You're right. We don't expect any regulatory change in terms of rates on interest on capital. So, the rates are 23% to 24% last year and we believe that this rate will be maintained for 2016 at least.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. That's very helpful. I appreciate the color. Thank you.

Operator

The next question comes from from HSBC.

Good afternoon, Nora and Roberto. Just a follow-up on the depreciation of used cars. The fleet has increased in the quarter, so what is your ideal target for the fleet? And do you consider the depreciation will increase by cars?

Hello, Augusto (50:36). Thank you. Welcome back. We haven't talked for a while.

Thank you.

A - Nora Lanari {BIO 18838335 <GO>}

Yes. In fact, our depreciation, as Roberto said, is perspective, so we look at expected price at which we will sell cars in the future and the average price we paid. So, for the current scenario, we understand that depreciation is adjusted for this scenario and throughout the years the margin of Seminovos would converge to a more normalized level.

But of course any adjustment in depreciation will be done if we see a deterioration in the market of used cars or a more robust increase in the price of new cars. To the current scenario, it is gauged. But we are monitoring the market every day, all the time and just to see if we need to correct the route of depreciation.

Okay. So the age of the fleet is not inconsiderate in this calculation. The fleet age was 16.6 months at which cars are sold. The average age increased a bit, but since this volume of the first quarter was significant in terms of growth, we postponed a bit the discontinuance of the fleet to use the cars in the core business of Localiza, which is Car Rental.

Now, we will buy new cars, and therefore discontinued cars to adjust this average age, but this average age is not enough to justify an increase in the average depreciation because it is finely adjusted, finely tuned to the current economic scenario.

Q - Operator

Okay, thank you.

. Our next question comes from Renato Salomone, Itaú BBA.

Q - Renato Salomone {BIO 17292431 <GO>}

Thank you for the follow-up question. My question is about this agreement you have for sponsoring the Olympics. I would like to know whether in this agreement, there is any cause in which you have to make available certain number of cars, and whether that will affect the utilization for – positively or negatively in the next quarter?

A - Operator

Well, this is a trade agreement with the Olympics Committee. Yes, we will make our fleet available. But in terms of utilization, we don't plan a significant impact because it is concentrated only in the city of Rio de Janeiro. And as leisure activities increase, corporate travels decrease, so we don't expect a relevant increase in the utilization rate during that period.

This concludes today's question-and-answer session. I would like to invite Ms. Nora Lanari to proceed with her closing statements.

A - Nora Lanari {BIO 18838335 <GO>}

We would like to thank you all for participating in our conference call, and to inform you that our IR team is available for any further queries or questions you may have. Thank you.

Operator

This concludes Localiza Rent A Car audio conference for today. Thank you very much for attending. And have a good day.