Nora Lanari:

Before we begin, for those who need translation, it's available on the platform. Please click on the 'interpretation' button using the globe icon at the bottom of the screen and choose your language of preference. You may also mute or unmute the original audio by clicking the 'unmute original audio' button.

Good afternoon, and welcome to Localiza & Co's webinar regarding the results of the 3Q24. We have with us Mr. Rodrigo Tavares, CFO; and Ms. Nora Lanari, Investor Relations Director of the Company.

We would like to inform you that this webinar is being recorded and will be available at ri.localiza.com where the complete earnings release material is available. The presentation is also available for download on the IR website.

For the Q&A session for analysts and investors, we advise you to inform your interest in participating via the Q&A icon at the bottom of your screen typing your name, company and language. When called upon, a request to unmute will appear on the screen. To send questions in writing, use the Q&A icon at the bottom of your screen and fill out your name and company before the question.

We would like to inform you that the amounts in this presentation are in millions of BRL and IFRS. We would like to emphasize that the information contained in this presentation and any statements that may be made during the video conference regarding Localiza's business prospects, projections and operational and financial goals are the beliefs and assumptions of the Company's management, as well as information currently available. Future considerations are not performance of guarantee. They involve risks, uncertainties and assumptions as they relate to future events and therefore, depend on circumstances that may or may not occur.

Now I will hand it over to Rodrigo Tavares, the Company's CFO, to begin his presentation.

Rodrigo Tavares:

Good afternoon, everyone. This quarter, we have once again presented solid results, a consequence of the strong revenue growth in Rent-a-Car fleet, rental and Seminovos, operational improvements, fleet renewal and the discipline in capital allocation.

In line with our priorities for the year and committed to value creation, we continue to advance in, first of all, adjusting the rental pricing to restore return levels; two, optimizing the portfolio and discipline in capital allocation; three, efficient cost management and increase in fleet productivity; four, expanding the capacity to sell the Seminovos to rejuvenate the fleet; and five, innovate to further enhance our customer delight differentiation.

In 3Q24, we have taken important steps towards our goal of restoring the ROIC spread. On page 2, we present the highlights for the quarter. The Car Rental division showed strong net revenue growth totaling R$2.4 billion, increasing 18.7% year-over-year.

In Fleet Rental, volumes and average daily rate continued to rise. We continue to optimize the portfolio and the ROIC spread. Net revenue totaled R$2.1 billion, a growth of 23.9% year-over-year.

In Seminovos, net revenue from car sales totaled R$5.1 billion, a growth of 43.7% compared to 3Q23, with the sales volume totaling 73,816 cars, which already puts us at the run rate close to 300,000 cars per year.

In this quarter, we prioritized the sale of higher mileage cars. Therefore, the average yield of cars sold remained stable compared to the last quarter in RAC. The gradual rejuvenation of the fleet will continue to contribute to the sales channel mix improvement, with a positive impact on the average price of cars sold over the next year.

Consolidated net revenue grew 32.3% to R$9.7 billion. The EBITDA advanced 24.1% to R$3.3 billion, and net income has reached R$812 million this quarter.

This quarter, the main highlights are strong operational margins increase given the Company's commercial ability to transfer prices and lower costs with the fleet renewal process and gaining productivity. The process will continue positively contributing to the gradual increase of operating margins.

The Seminovo car prices were back to pre-pandemic trends this quarter, showing an average devaluation of 40 bps per month adjusted to our mix, where the midpoint is 30 to 50 bps range. With the growing Seminovo sales and an increased capacity in channels of the sale in the next quarter, the Seminovos margins gradually converge to the low single digits. 65% of the Localiza net debt is with fixed interest, accounting to up to 90% of the current fleet rental contracts, ensuring high resilience in the scenario of rising interest rates.

The greater cash generation with growing operating margins and lower replenishment CAPEX will continue to contribute to a trend of better debt ratios. We continue to advance in our priorities, and we remain confident in our ability to restore value generation.

Now to present the quarterly results, I would like to hand it over to our IR Director, Nora.

Nora Lanari:

Thank you, Rodrigo, and good afternoon, everyone. Now going into the details of our results on page 3, we will start with the Car Rental division in Brazil. In 3Q24, the net revenue of this division reached R$2.4 billion, a growth of 18.7% year-over-year, explained by the strong increase in the average daily rate with stable volumes, demonstrating our commercial excellence.

On page 4, we present the average daily rate of 142 for the quarter, an increase of 19% year-over-year. The utilization rate improved by 0.4 p.p. year-over-year, reaching 79.9%, reflecting efficient price and mix management. Moving on to page 5. We can see the evolution of the car rental network. We ended 3Q24 with 705 rental locations, 611 in Brazil, 19 in Mexico and 75 in five other South American countries.

On page 6, in the Fleet Rental division, volumes and prices continue to rise in 3Q24, resulting in net revenue of R$2.1 billion, an increase of 23.9% year-over-year.

On page 7, we present the average daily rate of 95.9%, an increase of 13.8% year-over-year. We continue to renew the contract base and reduce exposure to heavy use segments to restore return levels in this division. Due to the higher number of cars being decommissioned as a result of the portfolio optimization process, the fleet utilization rate showed a slight reduction of 0.5 p.p. compared to 3Q23.

On page 8, we present Seminovos used car network. In 3Q24, we resumed expanding the number of stores, ending the quarter with 219 points of sale distributed across 118 Brazilian cities. We maintain our agenda of expanding sales capacity, which includes opening 15 to 20 stores throughout the 2H24. In addition to opening new stores, we are working on increasing productivity in existing stores, accelerating wholesale sales and exploring new sales channels.

On page 9, we show the balances of car purchases and sales. In 3Q24, we purchased 81,564 cars, 51,600 in Car Rental division and 29,900 in the Fleet Rental division, and sold 73,916 cars, 48,700 in RAC and 25,100 in fleet rental. As a result, we presented a fleet growth of 7,748 cars and a net investment of R$2.3 billion.

Continuing on page 10, we present the average purchase and decommissioning price. In the Car Rental division, the average purchase price was R$84,300 and the sale price reached R$66,200 in 3Q24, resulting in a renewing investment of R$18,100 per car, a reduction of R$4,700 compared to the same period last year. This quarter, the sale price reflects the higher concentration in entry-level models with higher mileage.

In Fleet Rental, the average purchase price was R$94,100 and the average sale price was R$73,500, resulting in a renewing investment of R$20,600, a reduction of R$14,800 per car compared to 3Q23.

On page 11, we show the end of the period fleet. We ended 3Q24 with 638,283 cars, an increase of 7.3% in the Fleet Rental division and 3% in the Car Rental division in Brazil compared to the same period last year. The Mexico operation ended the quarter with 1,694 cars.

On page 12, this quarter's consolidated net revenue increased 32.3% compared to the same quarter last year, totaling R$9.7 billion. Rental revenue grew by 21.6%. We are 18.7% in Car Rental division and 23.9% in the Fleet Rental division. Seminovos' revenues totaled R$5.1 billion in the quarter, an increase of 43.7% compared to the same period last year, which is resulting from higher sales volume and price.

On page 13, we present the consolidated EBITDA of R$3.3 billion in 3Q24, an increase of 24.1% year-over-year. The EBITDA margin for the Car Rental division was 64.2% for the quarter, practically stable year-over-year despite the effect of car preparation costs that began to be accounted for in the business from 4Q23. The strong margin for the quarter mainly reflects rental pricing and the progress in fleet renewal, resulting in lower maintenance and preparation costs per car.

In Fleet Rental, the margin was 69.9%, a reduction of 3.8 p.p. compared to 3Q23 margin explained by the effect of accounting for preparation costs in the business from 4Q23. The solid margin this quarter reflects the gradual increase in the average daily rate with the contract renewal process, partially offset by increased preparation costs due to the higher volume of prepared cars, including severely used vehicles.

Telematics and other initiatives brought in revenues of R$47 million and a positive EBIT of R$2 million. Excluding the other initiatives effect, fleet rental margin would be 71.4%. In Seminovos, the margin was 5.3% for the quarter, positively impacted by the smaller price drop of cars compared to the residual value assumptions used by the Company and the effects of the recoverable value adjustment and impairment on cars available for sale in 2Q24.

On page 14, we can see the evolution of annualized average depreciation per car. In RAC depreciation for the quarter was R$7,373, within the range expected by the Company. In Fleet Rental, the average depreciation per car was R$8,759 in 3Q24, including heavy vehicles. The depreciation of light vehicles was R$8,247, also within the expected range disclosed by the Company.

Moving on to page 15, in 3Q, we observed the price accommodation of used cars in line with the Company's expectations, with gradual improvement of affordability and greater availability of credit for car purchases. Thus, the depreciation guidance for the coming quarters remains unchanged.

Moving on to page 16, we see that the consolidated EBIT for 3Q24 reached R$2 billion, an increase of 24.6% year-over-year. In 3Q24, the EBIT margin for Car Rental was 44.8%, 7.1 p.p. higher than the adjusted margin for the same period last year. In the Fleet Rental division, the EBIT margin achieved 45.3%. The consolidated margin was 44.1%, a reduction of 0.5 p.p. compared to 3Q23.

On page 17, we present the strong profit of R$812 million, a growth of 22.2% year-over-year, reflecting the increase of R$645 million in EBITDA, partially offset by increases of R$243 million in car depreciation and others, R$162 million in net financial expenses due to the increase in the average debt balance and R$-92 million impact on income tax and social contribution due to higher taxable income and an increase in the effective IR rate.

On page 18, we present free cash flow. In 9M24, the Company generated R$3 billion in cash before interest resulting from the R$7.1 billion from the rental operation, partially consumed by the fleet renewal process and reduction of accounts payable to automakers.

On page 19, we present the evolution of debt for the year. We ended the quarter with net debt of R$29.5 billion.

Moving on to page 20, we present the Company's debt profile and cash position, including the issuance and settlements announced up to November 11, 2024, cash totals approximately R$11.8 billion, sufficient to cover principal debt amortizations until 2026. The Company has been taking advantage of the debt market opportunities throughout the year to reduce cost and extend debt duration.

On slide 21, we present solid debt ratios. This quarter, cash generation contributed positively to the annual sequential improvement of debt indicators, even with the buyback of 500 million shares of the Company in August. Debt ratios continue to improve.

On page 22, we present the annualized ROIC spread of 5.5 p.p.. We continue on the process for the price recomposition, cost optimization, productivity improvement and disciplined allocation of marginal capital to return to the target ROIC spread level.

We are now available to answer your questions.

Filipe Nielsen, Citi:

Good afternoon. Thank you for taking my question. Congratulations on your results. Actually, I have two questions. I am going to start with the first one. So looking at Seminovos sales, you mentioned that the prices have been evolving in a similar way to the pre-pandemic level. So I would like to know what you have been seeing at the end in terms of the price, which is being used and the FIPE price list and the demand, and the price of the sales that you have been seeing. And talk about the mix, retail, wholesale, how has that been impacting the price of car sales? And then I will ask my second question. Thank you.

Rodrigo Tavares:

Thank you, Filipe. We have seen positive trends, not only in the used car market, but also in new car market. So the FIPE drop is 40 bps, and it was 40, 50 in pre-pandemic levels. And about financing, even with growing interest rates, we see a strong appetite in that sense. We have seen the financing rates beating records. And in the 3Q, it was no different.

In the new car market, we are starting to see that the prices are also going up. In October, it's already there, especially given the pressure regarding the foreign exchange rates. And from now on, we should see cost pressure on automakers, and that's being transferred. So in October, we see growing prices.

In terms of our sales, they have been growing in a mix from 40% retail, 60% wholesale. Specifically in this quarter, we had higher decommissioning of 1,000 cylinder cars with higher mileage, so we can lower the average mileage of the fleet. So we had a mix effect that was slightly negative, making the price grow less than what we would have in a normalized mix. But the trends have been positive when we look at the quarter and what's been happening in October.

Filipe Nielsen:

Great. Thank you. Second question is to your point, first about the Seminovos margin and depreciation. I would like to understand, given the level of depreciation that you mentioned and maintained guidance ranges, what is the conservatism level that you have been considering in the assumptions given the evolution of the price trends of new and used cars compared to what you told us in the 2Q? If you are still conservative in that, embedded in that, in the Seminovo margin greater than the single digit before it dropped. How have you seen that?

Rodrigo Tavares:

We have seen what we have expected. So we reiterate that we expect depreciation within guidance in the Seminovos margin. We should see gradual convergence of that because that's what we expect to be the normal low single digits. So everything as expected and gradual convergence.

The trends have been shown to be relatively positive. In October, we see strong sales and price behavior, that's also within expected.

Fernanda Recchia, BTG Pactual:

Good morning. Two points here on our side. First of all, I would like to explore the rates going up in RAC and fleet. Could you mention what you have been seeing, the elasticity in demand at the end? If there are any segments that are responding in a worse way than what expected. And looking at next year, should we see the rates growing at the 2-digit level? That's the first point.

The second point is about the rental margin. Another highlight for the quarter for RAC and fleet, and the justification in addition to tariff, it's fleet rejuvenation. So can we still expect that margin improving? Would the level be normalized? Does it still have room to increase a little more? Those two things. Thank you.

Rodrigo Tavares:

Thank you, Fernanda. About the rates, we show that commercial excellence is for the Company, and we can transfer that. That's been taking place in all segments. And when you look at the elasticity, we should look at a sequential perspective.

So when you look at the 3Q versus the 2Q, even though the rates went up, it’s a quarter we are growing in a sequential volume, not only in Rent-a-Car, but also in fleet. And when we look forward, the trend to renew the fleet and the trend to increase the rate still take place. The 4Q, based on what we see with the industry fleet that's more adjusted, and we also see a demand for airline tickets that's high, so we expect that the fourth season will be very strong. Therefore, the margin trend is in gradual increase following that trend, especially in RAC. In fleet, you also see that.

As you renew the fleet, you are increasing the rate. So 3 years ago, the cars were priced at a different condition. That renewal gives you an increase in the rate, and when you renew the mix, especially when you take away the severe used cars, increasing the share of Meoo, the rate is not necessarily positive, but it has a positive impact to ROIC as lower use brings on costs and especially in depreciation, which is much lower. So moving forward, we do not see any elements here to change that trend.

Guilherme Mendes, JPMorgan:

Thank you for taking my question. Just a follow-up question in levers and value generation, something we have not been talking about is the Company's growth level. So I would like to hear from you, how do you see the growth level in the two main segments in medium and long-term?

And the second point is in the heavy duty market. How do you see the demand and pricing for that segment?

Rodrigo Tavares:

Thank you, Guilherme. About growth, the fundamentals of growth remain very solid. We see competitiveness and that's still growing. And that does not change, even in a condition where the interest rates increase.

That said, our efforts and priority in the short term is to replenish our margins. We still have prices to be transferred. And in the short term, especially speaking about next year, it’s more moderate growth. And as we recover our return, you will see a growth of volume.

And when you see growth in revenues and value generation, it's very robust. We showed in this quarter that the RAC revenues are growing 20%, in fleet almost 25%. So the growth of the revenues in double digits continues in the short term. Volume growth is a bit more moderate, but the fundamentals for growth in the midterm do not change.

About the heavy vehicle segment, we have been focusing on niches of higher value generation. There's more challenges, such as default in the ones that have to do with the transportation of water. We are managing that, and we are focusing in customers with other uses. There's also moderate growth here, but very positive regarding the contribution of ROIC spread.

Victor Mizusaki, Bradesco BBI:

Good morning. Congratulations on your results. First of all, given the car price scenario, like you mentioned in the call, and the guidance that we see for the 4Q and 1Q, what can we expect in fleet renewal? Maybe a better scenario will allow you to expedite fleet renewal and sell used cars at 15 months in the end of the 1Q? Does it make sense to consider that the process moves on to the end of 2025?

And the second question, going back to the spread, average price of purchase and sale in GTF, if we exclude purchase price in the heavy-duty, what would the spread be like looking at quarter-over-quarter? Would we see a sequential improvement? Thank you.

Rodrigo Tavares:

Thank you, Victor. About renewal, yes, we just see an increase in sales for Seminovos and that positively contributes for fleet renewal. So, that said, that's a process that takes a while to happen. We do not have any expectations that that would take place in 1Q or 2Q25. That would be gradual, and it would take all of 2025, even with the increase of Seminovos sales. Like I said, it's a very gradual process, and we have to do that. But the trend is positive concerning the volume of cars sold.

About the purchase and sale spread of GTF, or fleet, I do not see that it indicates that much compared to Rent-A-Car. One of them is the contract term. When you change the contract term, the spread could change.

The other one is the mix. With the increase in participation in subscription cars with Meoo, you have a positive trend with the spread, as well as the decrease in severe used cars. So yes, there's a positive trend.

But once again, it's not that much of an indication in fleet management as Rent-A-Car, which has a more standard cycle and a standard use mix. And you will see that positive in terms of the CAPEX of renewal and the spread in fleet management as well.

Gabriel Rezende, Itaú BBA:

Good afternoon. I have a follow-up in margin settlement. Just to understand, Rodrigo, the margin for Seminovos in that 5% level for a low double digit, should we see that in 2025? Will it last all of 2025? That's the first point.

And also, to understand what Nora mentioned about fleet rejuvenation helping out in the rental margin, even though we have not seen that in the average age number when we look at RAC and fleet management, it seems like we have room for the margin to grow even more in fleet rejuvenation. Thank you.

Rodrigo Tavares:

Thank you, Gabriel. Let me start off with your second question, because even though we have not seen rejuvenation in months, we have seen that in kilometers, and that's relevant. When you look at the average kilometer of the car, be it in retail but especially in wholesale, the trend is very clear. And this quarter was a quarter where we had very significant decommissioning of 1,000 cylinder cars that had a high mileage.

When we compare, just to give you some of the general figures about kilometers, kilometers per car sold in RAC goes from 62,700 kilometers to 53,100 kilometers. So, a very significant rejuvenation when we are talking about the mileage.

So the rejuvenation really helps operating margin in two ways. First of all, you are saving money on maintenance and car availability, as well as you spend less to prepare the car for sale. That has a positive contribution, and that's something that will happen during next year until we get to the standardized cycle of 15 months.

About selling that Seminovos margin, it's something that's gradual, and it will happen once again in a gradual way to the low single digits, because we believe that that's going to be the point of balance.

Alberto Valerio, UBS:

Thank you for taking my question. My question is about margins. Most questions that I got from investors yesterday and today were if there was any recurrent in RAC margin or fleet margin. In addition, do you have any depreciation reports for this quarter? I remember in the past quarter, you did not have any one just 48-month depreciation. So I would like to know if you had any this quarter. Thank you. Congratulations on your results.

Nora Lanari:

Thank you for the question, Alberto. So the main effect of the margin in the annual comparison is the preparation costs, and it started to impact the business as of 4Q23. In ITR notes, we have a reversal regarding Rio Grande do Sul, which is R$19 million, R$13 million in fleet management, R$2 million in rentals, and R$4 million in Seminovos sales. So we will still have the exposure of severe use that have higher preparation costs and car maintenance.

Rodrigo Tavares:

To add to what Nora mentioned, the reversal is that in the 2Q, we had an estimate of the cars that would be lost in Rio Grande do Sul. In parallel to the operation, we created a track with the objective to recover a part of those cars. Some of those cars will naturally be recovered.

When it's recovered and goes back to fleet operation, you will have a reversal in fleet margin. In this quarter, R$13 million is equal to 0.5 p.p. to the margin, not really relevant. In RAC, just R$2 million. So absolutely disregardable in terms of the margin. So cars that would go to auction or Seminovos and sold in wholesale, you will have a small reversal, which in the case of Seminovos was R$4 million.

So natural movements after an event as big as we had in Rio Grande do Sul and could continue to happen, but not something that would have a relevant impact to our margin moving forward. That also goes to show the operational excellence. We are always trying to take utmost advantage of all these assets so that we have the best return possible.

Alberto Valerio:

Perfect. Thank you. And about the PIS/COFINS credits?

Rodrigo Tavares:

Nothing different, no different reports on that for the 2Q. I would like to remind you that we have these reports that are more recurrent. We do not have so much volatility anymore. Since we are getting ready for the inclusion next year, we do not see any issues with the companies coming from Locamerica. So we have made that decision that will only take place next year. Nothing too different than what was already happening.

Nora Lanari:

Alberto, just to add, we had a report in 3Q23 for fleet, 29 million. So the base for comparison is tougher because of that report last year.

Jens Spiess, Morgan Stanley:

Thank you for taking my question. Congrats on the great results. I have basically two questions. One, also along the lines about Seminovos, I know you already touched upon this, and obviously, there are a few items that might be considered extraordinary. But at the end of the day, the improvement in the Seminovos margin, if I understand it correctly, is basically because things turned out to be better than what you have embedded in your expectations. So I would just like to ask, if monthly depreciation remains like 0.4%, should we expect this trend to continue, where reality beats your embedded assumption/expectations? Or do you have slightly less conservative assumption going forward?

And secondly, I want to ask regarding your pricing of the marginal contract. Obviously, you price your contracts using the current spot yield curve. But I wanted to know, just given the recent yield curve movement, how much we should expect prices to increase to offset that impact? So how much, on a consolidated basis, do you now see prices for GTF and RAC increasing, for example, next year? Those are my questions. Thank you.

Rodrigo Tavares:

Thank you very much, Jens. If you allow me, I will translate to Portuguese first, and I will answer this in English and then I will answer again in Portuguese because we do not have a simultaneous translation from English to Portuguese.

So, Jens had two questions. The first one, an improvement of Seminovos, and his understanding is, given that the assumptions were better than the original, and obviously, there could have been an effect regarding the impairment. And the question was about if these assumptions continue positive, what should we expect moving forward? And in pricing, his understanding is the pricing for the yield curve and the marginal interest rate that we have for fleet and Rent-a-Car. And with the prices going up, what should we have in terms of price perspectives.

Let me start with the second question about the marginal pricing here. For fleet, we actually use the future yield curve. So we match exactly the pricing with the yield curve with the duration of the contract. So if I am pricing a contract with 36 months, I will use that yield for the next 3 years.

This is updated weekly, meaning that every single contract that has been priced today already incorporates all this increase in the future yield curve. Of course, that if this yield curve goes up or down, that pricing is adjusted, as I said, on a weekly basis.

That being said, of course, the marginal pricing is much higher than the average price that we have today. So as we replace the contracts here, you should see the price of the fleet continuing to go up. So this is a natural thing that's happening when the interest rates are going up.

On top of that, the capital base is always going up. We priced the contract that we bought 3 years ago, and now we are buying a car that's much more expensive than it was 3 years ago. So that's another factor that contributes for a higher marginal price in the fleet.

Having said that, there are two things that reduce a little bit in terms of the mix on the average pricing. The increase of the subscription and the reduction of the high-usage cars, this contributes for a lower price in terms of mix. But if you combine everything together, the trend in pricing is very positive.

For the Rent-A-Car, we are also using the pricing in the 18 months. Here, we do not hedge the price because we have the ability to adjust our tariffs in the short term. But both pricing in Rent-a-Car and fleet management already includes the future yield curve.

Relative to Seminovos, indeed, we saw a behavior of the Seminovos pricing that was in line with what is expected. So we are keeping our guidance for depreciation here. We still want to be conservative in terms of the depreciation. We want to see a much longer-term trend in order to change our depreciation pattern here. So you should expect the depreciation in line with our guidance here, and the Seminovos margin gradually converging to the low single digits that once again, we believe, is the equilibrium in which we are aiming.

Rogério Araújo, Bank of America:

Thank you for taking my question. I have two actually. The first one, I am going to insist on depreciation and something that you mentioned in the press release. You are saying that considering the process of accommodating the Seminovo prices, we expect going into low single digit. In that scenario, do you consider stability in car prices with no increases or incremental reduction? Are you considering any type of change in trends?

And the other thing I would like to explore is that in a scenario where car prices are dropping a little, does that mean you would have to review depreciation upwards? So let me try to understand all these points because there's a lot of interpretation, different ways that we can interpret that sentence, but there's a lot in the assumptions. I would like to understand that better, even though you mentioned it here during the call, so we can answer our customers that are very anxious to understand if the depreciation levels are conservative or not.

Nora Lanari:

Thank you for your question, Rogerio. And also, a follow-up to Jens question, just to remind you, when we review the car sales assumptions last quarter, we took on the gap of the new car and Seminovos and we took on the replenishment of the margin for low single digit, as mentioned in the release.

In this specific quarter, there's an effect that the cars that were affected by the impairment, the margin that would be negative was corrected, and that helps the average margin to go up, and that will be seen in the upcoming quarters. That's why we believe that it's going into normal convergence.

If the drop is less than the Company margin, it would be higher for a while. If it's in line with Company's expectations, it should gradually convert to low single digit. We are not going into the exact assumption, but it's about a gap opening between new and Seminovos. New cars are continuing to grow and Seminovos are not following that, and they are going back to the normal levels of 40 bps per month.

Rodrigo Tavares:

Perfect, Nora. I would just like to remind you that what we see in new cars and what happened in October is an increase, and we are not expecting car price drops in new cars. And our assumption is opening up that gap. Anything that comes in better would translate into margin, and we want to wait for that before we have different depreciation, because that would be a review downwards instead of what we are showing in guidance.

Rogério Araújo:

Very clear. A second question is about the growth level of GTF. I would like to explore the timing for when you expect to get those severe used cars. It's been almost 2 years since you have included Unidas. When should we expect for that concentration to end? I believe that the rate of renewal of the contracts that are maturing would increase. Should we expect recovery of volume for GTF at that time? And when would that happen, if that's the case?

Rodrigo Tavares:

Thank you. That's a great question, Rogerio, because we have to qualify growth correctly. When we talk about lightweight vehicles and subscription cars, we are still growing. We continue to grow and we have healthy sequential growth.

We have not generated many contracts that we qualify as severe use, especially special vehicles. We have not generated that type of contract. That said, contracts are long term, and that's a process that will last.

Next year, we should reduce that fleet by 2/3, but it is something that's happening during the period. So you still have a reduction of the cars that negatively contribute towards growth, but it's more than offset by the lightweight fleet and subscription car fleet. So if we do not include those cars, we have a reasonable growth of fleet that we expect not only sequentially, but also for the upcoming year.

Bruno Amorim, Goldman Sachs:

Good morning. Congratulations on the results, and thank you for taking my questions. I have two questions. The first one is about the short-term dynamics. In the past months, we have seen the direct sales of new cars are increasing a lot, and that would initially suggest that rental companies are buying more cars than what we saw in the 1H24, which could suggest expediting that in 3Q and beginning of 4Q. So companies are replenishing the Seminovos with the new cars. Does that make sense based on the data that we see? Or is it better than average and 4Q would be supporting that?

And a second structural question. So you are running at ROIC spread at 5 p.p. already. So you are getting close to the historical target. And as was widely discussed, there are many different levers for improvement of margins in ROIC moving forward, such as the sales channel that would improve as the fleet gets younger. We can talk about maintenance costs that should drop and car preparation costs that should go down.

So you already have a reasonable ROIC spread without the benefits. The objective question is if you are at the price level that you believe is adequate to deliver the ROIC spread that you want, given that, naturally, there would be a ROIC improvement or not, if you are going to continue to raise prices higher than inflation and maintain your strategy to grow a little less to grow your prices and improve ROIC.

Rodrigo Tavares:

Thank you, Bruno. I will start off with new car sales dynamics. That was very positive, not just direct sales, but also retail, almost 250,000 cars in the past month. So that's a very positive cycle for the industry. And even more than that, the prices are growing. That shows the resilience of the economy in car purchases. So strong financing, those are positive trends that help in Seminovos.

The 2H is usually stronger in terms of purchases. You have the high season, so you buy them in advance. And as in the 1Q of the year, usually, it's lower. That's natural.

In addition, by increasing Seminovos sales, you have to buy more cars to replenish fleet. Sales have been growing. October were the highest sales that we have seen this year. It's a trend that continues, and with the high season, those purchases will grow because there are some opportunities at the end of the year, and we believe this are convenient to take advantage of that in the 1Q.

About ROIC spread, we have to separate ROIC from spread. The trend is very positive in ROIC when we see that. It's the growth in the rates and also the benefits coming from renewal. But for the spread, we need to look at where this is coming from.

So next year's curve, without judging that, it's almost 13% per year. So you have an increase in the cost of debt, and you have to offset that with an increase of ROIC to maintain the spread along. In that sense, transfer of the rates is still necessary, and we will continue to do that so that we can consistently not only be able to increase ROIC, but also to advance in ROIC spread even in a growing interest rate environment.

Lucas Barbosa, Santander:

Good afternoon. Congratulations on your results. I have a question on my side. Can you talk about the supplier dynamics? I think it's little bit over R$2 billion quarter-over-quarter. Can you mention what you expect for the supplier account for the upcoming quarters? And also talking about leverage. What's the expectation that you have for the upcoming quarters? That's my question.

Rodrigo Tavares:

By increasing the purchases, it's normal to see an increase in accounts payable for suppliers. The deadline dynamic has not changed. There was an improvement in receiving and that positively contributed to generate cash in that quarter, but what increased in payment was more about increases in purchases than the terms actually. When you compare it to the 4Q23 to 1Q24, you will see that cycle. That does not really change.

Deleverage is positive for two factors. The operating margin continues to grow and the renewal CAPEX continues to grow. So you need less. With moderate growth in the volume of the capital base, that will continue to grow. You will naturally have a better profile for cash generation. So the debt indicators trend, be it net debt over fleet value in the convergence to lower 50s, and net debt over EBITDA for 2025, we should see low 2x regarding that movement.

And net debt over EBITDA, which is not the metric that we look at, should be more favorable just for the fact that the interest rate goes down and depreciation remains higher. So you need a higher EBITDA. So net debt over EBITDA should converge. That said, the trend of the two indicators is positive with a better profile for cash generation.

Lucas Barbosa:

Very clear, thank you, Rodrigo. And if you allow me a second question about the competitive dynamic, how do you see the positioning of the competition, especially the bigger ones in RAC and GTF with the scenario of higher interest rates? Do you see any changes in that?

Rodrigo Tavares:

What we see is a rational competitive environment. So that's why we are in a common environment of an increase in interest rates and higher depreciation for cars. We have seen the competitive dynamic that's very rational between the same players. No big changes.

Ygor Araújo, Genial:

Thank you for taking my questions. I have two questions. I would like to explore what we were talking about, margin allocation. You made heavy investments in preparation. I would like to explore what you have already learned with preparation and how much you have seen in cost reduction, and how much of the margin you see in allocation.

And I would like to explore the logistics challenges, because I believe that when you centralize operations to prepare cars, given the size of your fleet, you have a lot of cars moving around Brazil. So I would like to understand how you have been addressing that, and if you have been offsetting that, and how much?

And lastly, I would like to explore something about the expectations for 2025 regarding pressure on discounts from automakers offering bonuses. Is that another problem for you? And do you see any possibilities in the competition to put pressure via bonuses on the new cars? The increasing prices, it seems like they are higher, but they offer subsidies through interest rates, or they give higher appreciation in the used cars, and that's how they offset it. So can you talk about that?

Rodrigo Tavares:

Let me start off with the second part. When we talk about the actual prices, they include the bonuses and incentives. We have not seen any changes in the levels of incentives. So that means that the actual prices after the incentives are high even in the past 2 months. That's been happening.

Even though sales were strong, almost 250,000 cars were sold with the actual prices. So the automakers have a base cost that do have a significant component in USD, so the bonuses is not something that automakers want to give more. They have been maintaining that. I do not see any increase in that.

So the preparation, the Company has been doing that within its strategy, centralization of some places and others that we believe that makes sense. We always try to decommission very much in line with the rental activities to mitigate logistics costs.

So that impact does not really influence much. And once again, we already see a reduction per prepared car that comes from that strategy, and it is mainly coming from the impact of rejuvenating the fleet.

So the logistics part does not really have major implications. It was already happening. And once again, we are trying to decommission the car as close to the center of consumption as possible.

Nora Lanari:

Sorry, I would like to add to that. I know this is not very clear, but when a car is going to be prepared, it goes to many different suppliers. So there's a logistics cost that's intense in preparing the car.

When we centralize that, we believe we can rationalize it. But even more than that, we can guarantee that we are buying parts in a centralized manner, faster maintenance and quality of maintenance is better. So we are very confident that the preparation centers are decisive to lower the preparation costs and increase the margins in the next cycle.

Ygor Araújo:

Excellent. I would like to do a follow-up on your answer, Rodrigo. Do you think that the end of the pressure for discounts to the automaker means that the market has been improved, or even lowering the competition after the rates have increased for imported vehicles? Because we know that some of the customers we talked to, they were concerned about a potential second wave of pressure. Given that you have the U.S. elections, healthy for the Chinese cars in general, BYD inventory is huge at the Port of Vitória, so there's that concern. Do you think that this pressure is related to less competition?

Rodrigo Tavares:

I believe there are many factors. We have positive credit in the market. There are cost pressures based on a dollarized cost base and headquarters are no longer willing to send checks locally, the import tariffs, as you mentioned. So it's a natural process as the affordability improves. So it's a gradual process, and we expected that that would happen at some point.

So I do not think it's just one or two factors, but instead of that number of factors that have contributed at least in the past months that we have seen for that dynamic.

Operator:

To conclude, I would like to hand it over to Rodrigo Tavares.

Rodrigo Tavares:

Before we end, I would like to thank our almost 22,000 employees at L&Co for their commitment and high capability to deliver the results in this 3Q.

Thank you all for attending, and our IR team are available for any additional clarification. Have a great day.