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CREDIT OPINION

19 December 2023

Update

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RATINGS

Localiza Rent a Car S.A.

Domicile	Belo Horizonte, Minas Gerais, Brazil
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Erick Rodrigues +55.11.3043.7345
VP-Senior Analyst
erick.rodrigues@moodys.com

Marcos Schmidt +55.11.3043.7310
Associate Managing Director
marcos.schmidt@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
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Localiza Rent a Car S.A.

Update to credit analysis

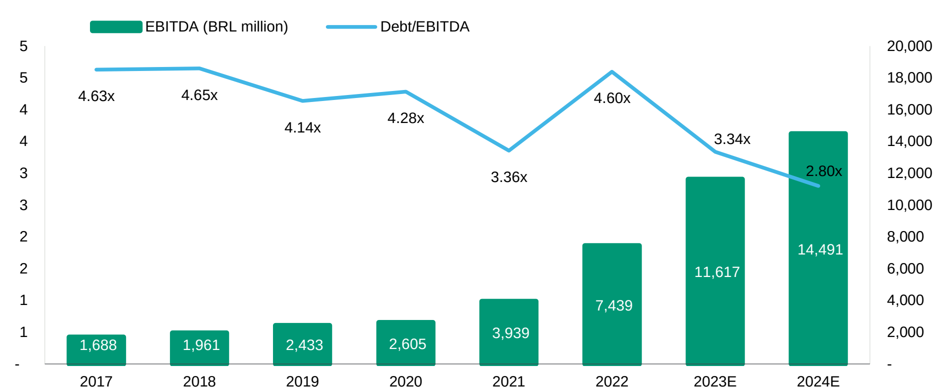
Summary

Localiza Rent a Car S.A.'s (Localiza) Ba2 rating is supported by the company's stable operating performance and cash flow, and resilient and flexible business model, which helps it weather economic and auto market slowdowns. Localiza's leading market shares in both the car and fleet rental segments in Brazil, and its improved scale and market share after the merger with Companhia de Locação das Américas (Locamérica) also support the rating. The company has historically maintained robust profitability as a result of low fleet maintenance requirements, high utilization rates, attractive discounts from automobile manufacturers and expertise in the used-car sales market. The rating also reflects the company's adequate corporate governance practices and strong liquidity.

Conversely, Localiza's rating is constrained by the capital-intensive nature of the car rental business, as well as its lack of a significant international footprint, with most revenues generated in Brazil (Ba2 stable). Since 2023, Localiza has started to operate in Mexico, but those operations should remain limited in terms of sales compared with consolidated figures. The capital-intensive nature of the business leads to relatively high gross Moody's-adjusted leverage.

Exhibit 1

Localiza Gross Leverage will continue to reduce with a higher EBITDA generation
BRL million



Source: Moody's Financial Metrics

Credit strengths

» Stable operating performance and a historically resilient business model in stress scenarios

» Large unencumbered asset base with good liquidity

» Strong market share in both the car and fleet rental segments in Brazil

» Long-term growth prospects of the Brazilian car rental industry, supported by positive fundamentals

Credit challenges

» Capital-intensive nature of the car rental business

» Lack of a significant international footprint

» High leverage resulting from its fast growth strategy

Rating outlook

The stable rating outlook reflects our expectations that Localiza will continue to grow while maintaining solid profitability, and adequate leverage and cash generation.

Factors that could lead to an upgrade

The rating could be upgraded if Localiza:

» further gains market share, and improves its geographic diversification and revenue

» maintains strong credit metrics on a sustained basis

An upgrade of Brazil's sovereign rating would also be required for an upgrade of Localiza's rating.

Factors that could lead to a downgrade

The rating could be downgraded if:

» liquidity deteriorates or the car rental utilization rate declines below 60%

» EBITDA interest coverage falls below 3.0x

» gross debt/EBITDA exceeds 4.0x without prospects of an improvement

» Brazil's sovereign rating is downgraded

Key indicators

Exhibit 2
Localiza Rent a Car S.A.

US Millions	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	LTM (Sep-23)	Moody's forward view Next 12-18 months
Revenue	2,100.9	2,589.4	2,020.1	2,024.3	3,450.3	5,306.9	5,800 - 7,300
Pretax Income % of Sales	11.6%	10.6%	13.8%	25.4%	13.6%	5.7%	6.0% - 12.5%
Debt / EBITDA	4.6x	4.1x	4.3x	3.4x	4.6x	3.5x	2.7x - 3.4x
FFO / Debt	14.3%	17.3%	12.5%	18.8%	10.2%	13.9%	16% - 24%
EBITDA / Interest Expense	3.1x	3.9x	5.1x	5.7x	2.5x	2.2x	2.2x - 3.2x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) or projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Profile

Founded in 1973 and headquartered in Belo Horizonte, Minas Gerais, Brazil, Localiza Rent a Car S.A. (Localiza) operates car rental and fleet rental businesses and has a used-car sales business to deploy and renew its fleet in Brazil. The company also franchises rental car operations in Brazil and in five countries in South America. As of September 2023, the company had a total fleet of 606.932 cars in Brazil and four other countries. The company is the market leader in Brazil in terms of car rental, with the largest number of car rental locations and presence in all main Brazilian airports. In the 12 months that ended September 2023, the company reported net revenue of BRL26.9 billion ($5.3 billion) and Moody's-adjusted EBITDA of BRL10.3 billion, figures which already present a full 12 months contribution of Locamérica Rent a Car S.A. (former owner of the Unidas brand).

Detailed credit considerations

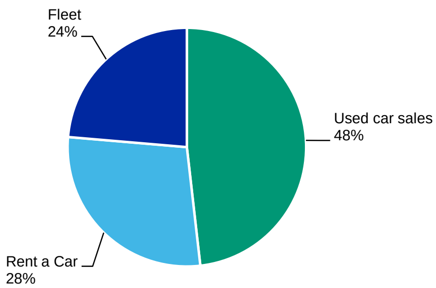
Consolidated leading position in attractive segments

Localiza benefits from its dominant position in the fragmented Brazilian car and fleet rental industry, with a strong brand name and leading market share in the car rental segment, which we estimate is more than 2x the revenue share of its largest competitor. Localiza operates in three main businesses: short-term car rental and franchising, fleet rental and used-car sales.

Localiza's growth strategy and cash flow are concentrated in its car and fleet rental businesses, which accounted for 52% of its net revenue in the third quarter of 2023. However, the company's franchising business, which accounts for less than 1% of net revenue, is strategic in terms of consolidating its brand, exploring new markets and increasing distribution. In the car rental and franchising segments, the company had 612 agencies in Brazil, two agencies in Mexico and 87 agencies in five other South American countries as of September 2023. Localiza benefits from a well-diversified distribution network, with strategic locations across the country, which granted it access to both the on- and off-airport markets, including the replacement car market for insurance companies. The rent a car segment has been recording high growth rates in the last few years because of its low penetration and changes in consumers' habits. The fleet rental business is also likely to experience consistent growth rates in the next few years, supported by the low penetration of rented fleets in Brazilian companies and changes in consumers' habits.

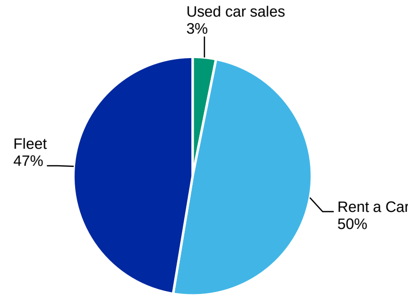
The remaining 48% of net revenue comes from the used-car sales division, which gained ground during the last economic downturn in 2020 and 2021 in Brazil, emerging as an alternative to the purchase of new vehicles during periods of rising interest rates, weak consumer confidence and lower credit availability when buyers become more conservative and concerned about debt. Since the beginning of 2017, the company sold about 919,450 cars. In Q3 2023, Localiza's sold fleet age averaged 29.0 months for car rental and 36.3 months for fleet management. We expect the average age of rent a car to reduce in 2024 with the sale of older vehicles during all of 2023 and 2024. Localiza has a high inventory turnover, illustrating its ability to reduce its fleet in a timely manner, thereby keeping depreciation expenses low. The company's experience in terms of pricing its used vehicles and its ability to sell used cars and raise cash even during downturns have always been key drivers of its rating and credit quality.

Exhibit 3
Revenue by segment
As of Q3 2023



Source: Company's financials

Exhibit 4
EBITDA by segment
As of Q3 2023



Source: Company's financials

Business model supports cash generation even amid adverse market conditions

The integrated business model allows Localiza to minimize the losses stemming from the regular disposal of used vehicles and guarantee a structured market for large fleet divestitures, especially in the event of economic deceleration.

We expect Localiza to maintain its focus on refinancing debt maturities in a timely manner to avoid liquidity squeezes, to benefit from synergies with the merger, maintain strict cost and cash burn controls, and to continue to sell used cars, which will help it avoid a significant deterioration in its credit profile. We also expect Localiza to continue to manage its average fleet age, capacity utilization and used-car sales to manage liquidity and leverage.

Credit metrics recovered fast from the lower-demand environment in 2020

Localiza's operating performance improved since the coronavirus first negative impacts in April and May 2020, helped by a surge in car rental demand. Consolidated Moody's-adjusted EBITDA increased to BRL4 billion in 2021 from BRL2.6 billion in 2020. During the coronavirus crisis, in Q2 2020, there was a decline in demand for the car rental segment and the closure of used-car sales stores. At the same time Localiza reduced car purchases to protect liquidity. As of September 2023, 12 months accumulated EBITDA reached BRL10.3 bi - also reflecting the business combination with Locamérica.

Merger with Locamérica increased scale, bargaining strength and market share

On 23 September 2020, Localiza's and Locamérica's shareholders announced an agreement to combine both companies' operations through a share swap that resulted in the incorporation of Locamérica into Localiza (as detailed in Localiza's Credit Opinion, published November 28, 2022). On 12 November 2020, both companies' shareholders approved the transaction and on 15 December 2021, CADE approved the deal with restrictions. In order to move forward with the merger certain Locamérica assets were sold to Brookfield Asset Management, including approximately 49,000 vehicles and the Unidas brand. The merger was consummated and became effective on July 1, 2022. We believe the merger has improved Localiza's scale and bargaining strength, and it should provide further profitability gains with cost synergies.

Localiza's Moody's-adjusted gross leverage peaked at 4.9x after the incorporation of Locamérica at 4.9x, Q3 2022, but pro forma to the consolidated EBITDA of the two combined entities leverage remained unchanged at 3.6x. We expect gross leverage to reach 3.3x, with EBITDA reaching BRL11.6 billion, at year-end 2023.

Following the merger Localiza generated annual net revenue of BRL26.9 billion and maintained an EBITDA margin between 40% and 42% in the 12 months that ended September 2023. The company has presently a total fleet of 605,932 cars, representing 40%-45% of Brazil's total car rental and fleet management sector.

Large size, scale and diversification provide bargaining power

Localiza's scale translates into high bargaining strength with original equipment manufacturers (OEMs) to purchase cars with at a discount, optimization of fleet management and disposal of used cars in the secondary market, and potential for significant cost synergies and efficiency gains. The merger will also increase the company's exposure to the fleet management segment, which has a less flexible business model than the car rental business, but brings more stability to cash flow because of the existence of long-term contracts with clients.

The capital-intensive nature of the automobile rental industry requires companies operating in this sector to have strong oversight of fleet management and secondary market prices. Car manufacturers in Brazil do not provide repurchase or guaranteed depreciation arrangements. As the single-largest car buyer in Brazil, Localiza benefits from large purchase discounts from car manufacturers, which can be as high as 20%. In the first nine months of 2023, the company invested BRL16.6 billion to add 181,100 cars to its fleet; a net investment of BRL6.4 billion considering cash inflow from the sale of vehicles. Localiza is Brazil's single-largest auto purchaser, accounting for around 12% of OEM car sales in Brazil in 2023.

ESG considerations

Localiza Rent a Car S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Localiza's Credit Impact Score reflects its environmental risk exposure relating to carbon transition and the need to invest in fleet renewal to meet customers' preferences, as well as the waste and pollution generated by its business activity. Social risks incorporate managing customer relations, including sensitive customer data, responsible production, and demographics and societal trends that may challenge the company's current business model. Governance aspects are incorporated in the rating and include a track record of conservative financial management through economic cycles, balanced by the capital-intensive nature of the business and relatively high leverage.

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-3
Moderately Negative	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental

Localiza's environmental exposure relates directly to carbon transition risk and the need to invest in fleet renewal to meet customers' preferences, as well as the waste and pollution generated by the business activity. In terms of environmental carbon footprint Localiza has a competitive advantage to global peers since its operations are focused in Brazil where roughly 47% of light-weight vehicle fuels are already from renewable sources. That considers the anhydrous ethanol blended in E27.5 gasoline and hydrous ethanol, both of which service a national fleet with over 83% flex fuel vehicles (which can be fueled with both gasoline and anhydrous ethanol). Localiza's quick turnover of its fleet also helps it to anticipate changing consumer habits.

Social

Localiza's social risks incorporate managing customer relations, including sensitive customer data, responsible production, and demographics and societal trends that may challenge the company's current business model. The introduction of new mobility alternatives, such as autonomous driving, electric mobility alternatives, among others, could create hazards to the car rental sector and result in additional investments to keep up with evolving trends.

Governance

Localiza's governance aspects are incorporated in the rating and include a track record of conservative financial management through economic cycles. Despite theconservative financial management, gross leverage is expected to remain relatively high given the capital-intensive nature of the business coupled with a robust paceof growth. Localiza has good transparency and adequate quarterly financial disclosures. The company's shares trade on B3 S.A. - Brasil, Bolsa, Balcao (Ba1 stable, formerly known as BM&FBovespa) and comply with the Novo Mercado standards, the highest corporate governance level in the local equity market. Following the merger of Localiza with Locamerica the two reference shareholders controlling Localiza have combined 19.7% stake of total shares, with 79% free float. The board of directors consists of eight members, of which five are considered independent according to B3 standards.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

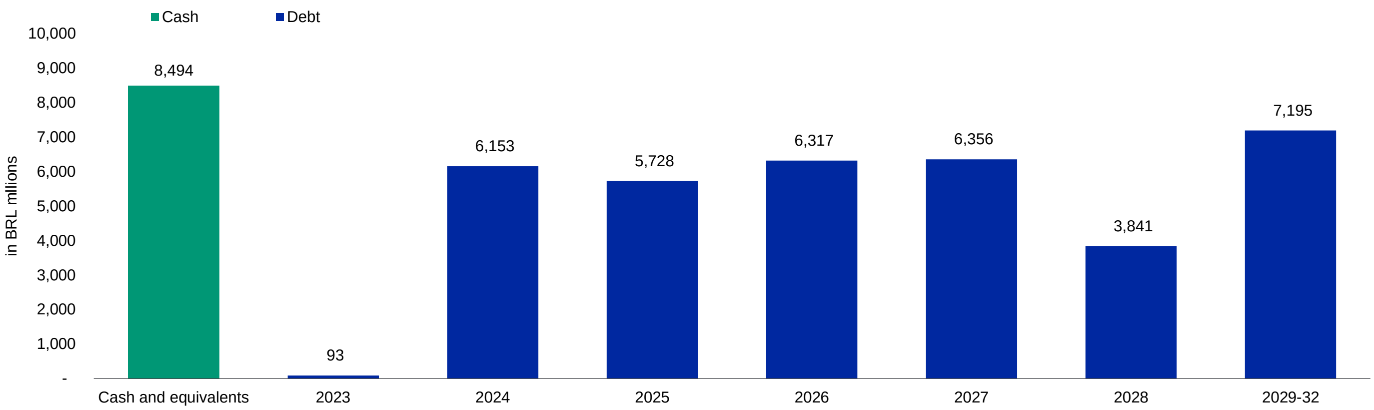
Liquidity analysis

As of September 2023, Localiza reported BRL8.5 billion in cash and cash equivalents, and about BRL6.5 billion in short-term debt. Additionally, the company has a consolidated fleet of about 500,000-550,000 vehicles (both in the car and fleet rental divisions), mostly unencumbered and with an estimated market value of above BRL45 billion, which is an alternative source of liquidity, especially during economic downturns. The company's cash balance, alongside its unencumbered fleet value, covers the totality of Localiza's Moody's-adjusted debt of BRL38 billion. Regarding the deal with Locamérica, Localiza is yet to receive an additional BRL320 million because of price adjustments related to working capital and value of the fleet sold.

After September, to reinforce its cash balance and conduct liability management of upcoming maturities, Localiza has issued a debenture of BRL1.9 billion with a 5 year term, Localiza Fleet S.A. has raised BRL1.15 billion of which BRL155 million due in October 2024 and BRL1 billion in September 2028.

Localiza's current cash position and proven ability to sell cars in a timely manner to raise cash mitigate the risks associated with high leverage and a covenant breach, because the company can quickly adjust its cash position to offset the lower EBITDA stream during economic downturns. We also expect Localiza to continue to proactively refinance upcoming debt maturities to preserve its good liquidity.

Exhibit 7
Localiza debt amortization schedule
As of September 2023



Sources: Moody's Investors Service and company's financials

Methodology and scorecard

Localiza's scorecard-indicated outcome using our Equipment and Transportation Rental methodology, with data as of 30 September 2023, maps to Ba2, in line with the company's assigned senior unsecured rating. Prospectively, our 12-18-month forward view scorecard-indicated outcome is Ba1, influenced by its funds from operations/debt of more than 20%.

Exhibit 8

Rating factors

Localiza Rent a Car S.A.

Methodology: Equipment and Transportation Rental published on 30 Sep 2022	Current LTM (Sep-23)		Moody's Forward View Next 12-18 months (as of Nov-23)	
Factor 1: SCALE (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	5.3	Baa	$5.8 - 7.3	Baa
Factor 2: BUSINESS PROFILE (20%)				
a) Business Profile	A	A	A	A
Factor 3: PROFITABILITY (10%)				
a) Pretax Income % of Sales	5.7%	B	6% - 12.5%	B
Factor 4: LEVERAGE AND COVERAGE (45%)				
a) Debt / EBITDA	3.46x	B	2.7x - 3.4x	B
b) FFO / Debt	13.9%	B	16% - 24%	Ba
c) EBITDA / Interest	2.17x	B	2.2x - 3.2x	B
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating Outcome:				
a) Scorecard-Indicated Rating		Ba2		Ba1
b) Actual Rating Assigned		**Ba2**		

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2023(L).
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
LOCALIZA RENT A CAR S.A.	
Outlook	Stable
Corporate Family Rating	Ba2

Source: Moody's Investors Service

Appendix

Exhibit 10

Peer comparison

Localiza Rent a Car S.A.

	Localiza Rent a Car S.A. Ba2 Stable			United Rentals (North Amer Ba1 Stable			Hertz Corporation (The) B2 Stable			Ashtead Group plc Baa3 Stable		
(in US millions)	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Apr-22	FYE Apr-23	LTM Jul-23
Revenue	$2,024	$3,450	$5,307	$9,716	$11,642	$13,900	$7,336	$8,685	$9,222	$7,962	$9,667	$10,104
EBITDA	$731	$1,443	$2,157	$4,534	$5,774	$6,781	$3,383	$3,637	$3,755	$3,609	$4,414	$4,604
Total Debt	$2,374	$6,474	$7,563	$10,508	$12,223	$12,881	$12,499	$15,751	$18,193	$7,175	$8,989	$9,704
Cash & Cash Equiv.	$899	$1,053	$1,697	$144	$106	$284	$2,257	$943	$594	$15	$30	$25
Pretax Income % of Sales	25.4%	13.6%	5.7%	19.3%	24.2%	23.1%	22.8%	22.0%	7.4%	21.5%	22.3%	21.9%
EBITDA / Int. Exp.	5.7x	2.5x	2.2x	10.7x	12.6x	10.6x	5.4x	7.2x	4.1x	15.5x	12.0x	11.0x
Debt / EBITDA	3.4x	4.6x	3.5x	2.3x	2.1x	1.9x	3.7x	4.3x	4.8x	2.0x	2.0x	2.1x
FFO / Debt	18.8%	10.2%	13.9%	34.2%	38.3%	39.5%	19.2%	19.1%	16.1%	42.5%	40.2%	38.0%
RCF / Debt	16.5%	6.3%	10.5%	34.2%	38.3%	37.1%	-0.9%	3.4%	12.8%	38.8%	36.2%	34.3%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted debt breakdown

Localiza Rent a Car S.A.

(in US Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Ending Sep-23
As Reported Debt	**1,972.8**	**2,491.4**	**2,148.6**	**2,374.4**	**6,474.5**	**7,563.1**
Pensions	0.0	0.0	0.0	0.0	0.0	0.0
Operating Leases	369.8	0.0	0.0	0.0	0.0	0.0
Non-Standard Adjustments	9.8	11.0	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	**2,352.3**	**2,502.4**	**2,148.6**	**2,374.4**	**6,474.5**	**7,563.1**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted EBITDA breakdown

Localiza Rent a Car S.A.

(in US Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Ending Sep-23
As Reported EBITDA	**484.3**	**617.9**	**510.6**	**756.4**	**1,443.2**	**2,157.2**
Operating Leases	56.0	0.0	0.0	0.0	0.0	0.0
Unusual	0.0	0.0	0.0	-25.0	0.0	0.0
Moody's-Adjusted EBITDA	**540.3**	**617.9**	**510.6**	**731.5**	**1,443.2**	**2,157.2**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

REPORT NUMBER 1385451

Contacts

Clara Tobar +55.11.3956.8777
Associate Analyst
clara.tobar@moodys.com

Marcos Schmidt +55.11.3043.7310
Associate Managing Director
marcos.schmidt@moodys.com

Erick Rodrigues +55.11.3043.7345
VP-Senior Analyst
erick.rodrigues@moodys.com

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Asia Pacific	852-3551-3077
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