



4Q23 and 2023 Webinar Transcription

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Good afternoon, and welcome to the Localiza&Co webinar regarding the results of the 4th quarter and the year 2023. With us today are Bruno Lasansky, our CEO, Rodrigo Tavares, CFO, and Nora Lanari, Director of Investor Relations of the Company.

We would like to inform you that this webinar is being recorded and will be made available at ri.localiza.com, where you can find the complete Disclosure of Results material. The presentation is also available for download on the IR website.

For the Q&A session for analysts and investors, we kindly ask you to indicate your interest in participating via the Q&A icon at the bottom of your screens, by typing your NAME, INSTITUTION, and LANGUAGE. When called upon, a request to activate your microphone will appear on the screen.

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Please note that the values in this presentation are in millions of Brazilian Reais and in IFRS. We emphasize that the information contained in this presentation and any statements that may be made during the video conference regarding Localiza's business outlook, projections, and operational and financial targets constitute beliefs and assumptions of the Company's Management, as well as information currently available. Future considerations are not performance guarantees. They involve risks, uncertainties, and assumptions, as they refer to future events and therefore depend on circumstances that may or may not occur.

Now, I will hand the floor to Bruno Lasansky, CEO of the Company, to begin the presentation.

BRUNO LASANSKY:

In 2023, we celebrated the 50 years of Localiza&Co, a year marked by remarkable advances and significant challenges.

We progressed in the integration process, with substantial gains in productivity. We expanded our Seminovos sales network, contributing to the increase in car sales volume and the reduction of the average age of cars sold, although still distant from our historical levels. Furthermore, we expanded the capillarity of Car Rental, which showed revenue growth in all segments, more than offsetting the effects of the carve-out. We scaled Localiza FAST, offering an agile and completely digital experience expanding the differential in enchantment to our customers. We captured strong growth in Fleet Rental, highlighting the success of Localiza Meoo, our subscription car. We successfully started our operations in Mexico with the opening of 10 branches in the main airports,

around a thousand cars in the fleet and an NPS at an excellence level. We have significantly advanced in technology, use of data and telemetry, resulting in a strong reduction in theft, fraud, and accidents. All of this progress were driven by a highly engaged team and a solid Management and Culture process.

Our continuous evolution was recognized by several rankings throughout 2023, of which we highlight: one of the 10 best companies to work for in Brazil by Great Place to Work; 1st place in the Reclame Aqui Awards in all categories in our sector, recognizing the excellence in service to our customers; winning the Company of the Year award by the Exame's magazine in the ranking of the Biggest and Best of the year.

Even with all these advancements, we faced an environment characterized by high interest rates and credit restrictions. These factors negatively impacted our debt cost and Seminovos sales, which were also affected by the consumer's lower purchasing power compared to the increase in car prices. Additionally, we suffered the effects of the Popular Car Provisional Measure, which negatively impacted car prices and depreciation.

Given the uncertainty regarding the residual value of cars, in 2024, we will remain focused on 5 priorities:

- i) rental pricing to restore return levels.
- ii) optimization of segment portfolio and capital allocation discipline.
- iii) fleet utilization and efficient cost management.
- iv) expansion of Seminovos sales capacity to support fleet rejuvenation process and
- v) innovation with the aim of further enhancing the enchantment differential for our customers.

Finally, I would like to highlight that even with the pandemic and all the challenges of recent years, Localiza&Co expanded its invested capital base from R\$10 billion to R\$43 billion from 2019 to 2023, a CAGR of 44% per year, with 22% annual growth in invested capital since the business combination on July 1, 2022.

Our current scale combined with a robust balance sheet increases our relative competitive advantages and positions us solidly to maintain our growth trajectory with value generation.

To present the highlights of the year and the quarter, I'll hand the floor to our CFO Rodrigo Tavares.

RODRIGO TAVARES:

Thank you, Bruno, and good day, everyone.

Moving to **page 2**, as we have done since the beginning of the business combination process, we will present the quarterly results adjusted for the one-off of fleet write-up amortization and the write-off of Locamerica Rent a Car's tax loss, which impacted net income by R\$45.3 million.

Additionally, this quarter we had a negative effect of R\$63.3 million, with R\$28.7 million related to the present value adjustment (PVA), through the anticipated liquidation of the derivatives linked to the Locamerica's shareholders financing operation in the midst of the business combination,

and R\$34.6 million of negative EBIT from operations in Mexico. These effects were not adjusted in the result.

Another highlight was the change in the allocation of costs for preparing used cars for rent. In 4Q23, the preparation cost was approximately R\$190 million, with around R\$155 million in car rental and R\$35 million in Fleet Rental, with a negative effect on rental margins in contrast to the positive effect on the Seminovos margin.

We estimate a positive depreciation effect of around R\$150 million before taxes in face of the change, or R\$100 million in the quarter's profit, around 40% in Fleet Rental and 60% in Car Rental.

Turning to the year's highlights on **page 3**, after a year and a half of a robust integration process, we have already captured significant advances in our productivity, processes, and practices.

In 2023, we achieved significant gains in operational efficiency, reflected in margin improvement. In comparison to 2022:

- Rental revenue grew by 26.0% during the year, even with the effects of the carve-out.
- Operating costs increased by 7.5% in the year or just 1.3% if we disregard the effect of the change in preparation.
- SG&A grew 1.2% in the yearly comparison.

These efficiencies brought an operating result R\$2.8 billion higher than in the previous year with an increase of 6.3p.p. in the rental EBITDA margin.

On the other hand, the effects of the cycle of increased depreciation and still high interest rates offset operational gains, representing more than 52% of net rental revenue in 2023.

We still see room for operational improvement as we move forward with rejuvenating the fleet and completing the integration process. Furthermore, any reduction in interest rates could contribute to an increase in return levels.

Moving now to the highlights of the quarter on **slide 4**, we see at the top the robust revenue growth in both rental divisions, as well as in Seminovos. Net revenue from Car Rental increases 22.3%, Fleet Rental presents growth of 40.4% and Used Cars of 39.4% in the annual comparison.

At the bottom, we see that EBIT adjusted for capital gains totaled R\$1.8 billion, growth of 23.5% in the annual comparison. Adjusted net profit, excluding the effects of capital gains and tax losses, totaled R\$750.9 million, growth of 17.8%. Furthermore, we showed an improvement in the net debt/fleet value ratio, which ended the quarter at 0.56x.

In short, we highlight the company's commercial and operational excellence to face the scenario of higher interest rates and depreciation. We grew 34% in consolidated net revenue for the quarter, with significant advances in costs and expenses, increasing rental margins.

We still see volatility in the price of cars, which requires attention in capital allocation, but the robust operational delivery gives us the conviction that we are on the path of gradual recovery of the ROIC spread to historical levels.

Now, to present the results I'll hand the floor to our IR director, Nora.

NORA LANARI:

Thank you, Rodrigo, and good afternoon, everyone.

Entering into the details of the results, we'll start the presentation with the Car Rental division in Brazil on **page 5**. The net revenue of this division reached approximately R\$2.3 billion, a growth of 22.3% compared to the previous year, reflecting the first quarter on a comparable basis after the carve-out. In just one year, the Company has rebuilt the carve-out in volume and revenue, a result of commercial excellence and brand strength.

On **page 6**, we show a 9.6% increase in average daily rates, reaching R\$126.8 in the quarter. The utilization rate shows a 1.8 percentage point growth compared to the previous year, reaching 79.7%, even in a quarter of strong car purchases. The increase in utilization rate, in the context of higher average daily rates, demonstrates the resilience of demand in the quarter.

Moving to **page 7**, we present the evolution of the rental network. After reducing the number of branches in 2022 due to the carve-out, we have resumed expanding our own network with the opening of 15 branches in Brazil and another 10 in Mexico. We ended the period with 712 branches in Latin America. It is worth noting that the average rented fleet has advanced from 2021 to 2023, even with fewer branches in Brazil, as a result of increased productivity per branch.

Turning to **page 8**, in the Fleet Rental division, we continue with a robust growth pace, with net revenue reaching R\$1.9 billion, a 40.4% increase compared to 4Q22, reflecting a 19.1% growth in the number of daily rentals. In 2023, revenue grew by 50.5%, with a 25.4% increase in the volume of this division.

Moving to **page 9**, we present the average rate of R\$87.81, which advanced by 17.6% in the quarter, reflecting the pricing of new contracts in a context of higher interest rates, car prices, and depreciation. The utilization rate decreased by 1.4 percentage points compared to 4Q22.

Moving to **page 10**, we show the balances of car purchases and sales. In 4Q23, 107,532 cars were purchased for the Company's own operation in Brazil, with 70,375 in the Car Rental division and 37,157 in the Fleet Management division, and 56,514 were sold, resulting in the addition of 51,018 cars.

In Car Rental, the strong fleet addition in 4Q23 aims to support the increased year-end demand. In the first quarter of 2024, the Company will reduce the pace of purchases in Car Rental, aiming to adjust the fleet after the peak season.

Moving to **page 11**, we present the Seminovos network, which ended the quarter with 215 sales points. Throughout the year, 29 stores were opened, with 20 in the second semester, still in the maturation phase. The new openings aim to support the increase in sales for fleet renewal, a movement that is expected to continue throughout 2024.

Continuing on **page 12**, we present the average purchase and divestment price. In 4Q23, in the Car Rental division, the average purchase price was R\$81.3 thousand and the selling price reached R\$65.8 thousand, resulting in lower fleet renewal capex compared to 3Q23. The integration and standardization of car deactivation processes throughout 3Q23, combined with the continuation of the fleet rejuvenation process, are expected to contribute to increased retail sales in 2024.

In Fleet Rental, the average purchase price of R\$91.6 thousand in 4Q23 reflects the mix of light vehicles with better conditions, while the average selling price reached R\$66.9 thousand, advancing sequentially and contributing to the reduction of fleet renewal capex compared to 3Q23, also in this division.

On **page 13**, we show the advancement of the end-of-period fleet, which reached 657,612 cars in the fourth quarter of the year, a net addition of 11.3% compared to the previous year, with a growth of 19.1% in the Fleet Rental division and 4.8% in the Car Rental division, which returns to growth after recomposing the carve-out effects.

Moving to **page 14**, we see that in the annual comparison, rental net revenue reached R\$4.2 billion, a growth of 30.1%, with 22.3% in the Car Rental division and 40.4% in the Fleet Rental. Seminovos revenue totaled R\$3.7 billion in the quarter, a 39.4% increase compared to the same period of the previous year, resulting from the significant increase in Seminovos sales on an annual comparison. As a result, consolidated revenue for the quarter totals R\$7.9 billion. We ended the year with consolidated net revenue of R\$28.9 billion, a growth of 33.9%.

On **page 15** we present an EBITDA of R\$2.9 billion in 4Q23, a 33.0% increase compared to 4Q22. In this quarter, we started allocating the costs of vehicle preparation for fleet deactivation to the rental divisions. These preparation costs were previously allocated to Seminovos, an area of the Company's efficiency; however, with the centralization of operations, the management of vehicle preparation for sale is now handled by the Car Rental and Fleet Management Divisions. This change had a negative effect on rental margins, offset by a positive effect on Seminovos margins.

In 4Q23, the EBITDA margin of the Car Rental division was 62.7%, an increase of 1.7 percentage points compared to the margin in 4Q22. In Fleet Management, the margin was 71.5%, an increase of 5.0 percentage points compared to the margin in 4Q22. The consolidated rental margin reached 66.7%, an increase of 3.4 percentage points compared to 4Q22, despite the change in the allocation of preparation costs.

Excluding the effects of the change in the allocation of preparation costs for comparison purposes, the EBITDA margin of the Car Rental division would have been 69.5%, a strong increase of 8.5 percentage points, reflecting volume, price, utilization, and lower maintenance costs per car gains, in addition to SG&A reduction. In Fleet Management, the comparable EBITDA margin would have been 73.5%, a gain of 7.0 percentage points, mainly explained by new contracts priced in the context of higher car prices and depreciation, in addition to greater cost and expense efficiency. New initiatives associated with mobility, telemetry, and workshops brought revenues of R\$45.2 million but negatively impacted the EBITDA margin of this division by 2.5 percentage points in the quarter.

The margin of Seminovos in 4Q23 was 3.5%. For comparison purposes, keeping the preparation costs in Seminovos, the margin in 4Q23 would have been -1.7%, reflecting the more challenging scenario for car sales, in a context of lower consumer purchasing power, high interest rates for financing, and still restricted credit, combined with a mix of cars with higher mileage, concentrated in wholesale.

Moving on to **Page 16** we see the evolution of the average annualized depreciation per car. In Car Rental, the average annualized depreciation of R\$6,113.1 incorporates the effect of revising cost assumptions and estimated selling prices to reflect the more challenging scenario in Seminovos; the lower relative participation of cars with higher depreciation rates in the fleet mix, cars from the 2nd vintage; as well as the exclusion of preparation costs from the total cost assumptions.

In the Fleet Rental Division, the average depreciation per car of R\$6,689.7 in 4Q23 reflects the renewal of part of the cars with lower depreciation. In this division, the effect of excluding preparation costs from the depreciation assumption has a diluted effect due to the longer cycle.

Excluding the effects of the change, the annualized depreciation in the Car Rental would be R\$7.3 thousand and R\$7.6 thousand in the Fleet Rental.

On **Page 17** adjusted EBIT adjusted for goodwill reached R\$1.8 billion in the quarter, a 23.5% increase compared to adjusted EBIT in 4Q22. Accounting EBIT showed a robust growth of 47.4% compared to the same period of the previous year. Despite the strong operational advance, the increase in depreciation and lower Seminovos results impacted the EBIT margin of the Car Rental, which was 41.0% in 4Q23. In the Fleet Rental Division, the EBIT margin reached 49.6%, an increase of 1.6p.p.

Turning to **Page 18** we present a net profit of R\$705.6 million, a 59.1% increase compared to the same period of the previous year. Excluding non-cash impacts from the amortization of write-up and tax loss' write-off, adjusted net profit totaled R\$750.9 million in 4Q23, a 17.8% increase compared to 4Q22, reflecting the increase of R\$714.8 million in operational results partially offset by the negative effect of R\$601.6 million, resulting from the increase in depreciation of cars and other fixed assets, financial expenses, and income tax.

Moving to **Page 19** we bring the Free Cash Flow. In the year, the R\$7.0 billion generated by the rental operation was consumed by higher CAPEX for fleet renewal and growth. The Company expanded the vehicle base by 21% in the year, from R\$43.2 billion in 2022 to R\$52.4 billion at the end of 2023.

On **page 20** we see that the Company ended the year with net debt of R\$29.3 billion.

Moving on to **page 21** we present the debt profile and cash position of R\$11.5 billion at the end of the period. Including the announced issuances and settlements up to January 31, 2024, the Company would have approximately R\$12.7 billion in cash.

On **page 22** we present comfortable debt ratios, mainly evidenced by net debt to fleet value at 0.56x and net debt EBITDA at 2.78x.

On **page 23** we present a ROIC of 13.7% in 2023, with a spread of 4.1 percentage points to the after-tax cost of debt, reflecting the adverse market for car sales, still high interest rates, in addition to the capital base coming from the business combination priced at lower spreads.

We are now available to answer your questions.

Q&A

Fernanda Recchia, BTG Pactual:

Thank you for taking my question. There are 2 points that I would like to explore. First of all, about the accounting effect. You mentioned in the call, in the beginning, that the net income effect was close to R\$100 million. But thinking of 2024 and 2025, what should we expect as an impact based on the measure to the short-term earnings?

And the second point, about the price increase, especially in the Rent-a-Car division, do you see room to increase rates? We saw that in 4Q, a strong increase. So should we expect that for this year and that would be strong in actual terms for rates and especially in RAC? Those 2 points.

Rodrigo Tavares:

Thank you, Fernanda. As we mentioned, a change in the estimate and the residual amount brought in a positive effect, a depreciation, pretax R\$150 million, post-tax R\$100 million.

For 2024, it is dependent on some factors. So it's too early for any estimates. There are some short-term benefits. As the car is decommissioned, you do not no longer have those benefits. And in this quarter, we would have a RAC depreciation of 7,500 in Fleet Rental, if the allocation were done in Seminovos as done in the past.

About the rate, the rate increases are done on a gradual basis, so bringing back together the ROIC spread and that happened in 2023. In the last quarter, that was more visible. So that movement continues in 2024.

Fernanda Recchia:

So just a follow-up in terms of depreciation. As you mentioned, excluding that effect, there was a sequential increase. So looking forward, do you still see more sequential increases? And the best estimates that you have, what's the estimate of the peak of depreciation without that accounting effect?

Rodrigo Tavares:

So when the market is adjusting prices, it's hard to talk about peak and depreciation when it would occur. There are positive effects that are taking place like a higher sales volume in used cars, more

credit availability that has a relative impact in opening stores. That's what we have done. Those are positive factors.

But there are still factors in settling the prices that happened in the beginning of the year, be it affordability for consumers or specific actions of some of the automakers. So it's still early to say how that depreciation would evolve and when it would achieve a peak. We will continue to monitor and make any adjustments necessary in any scenario.

Guilherme Mendes, JPMorgan:

Thank you for this opportunity. There are some points also related to the first question, and the first one is a follow-up. Rodrigo, do you see any improvements at the sell side? We have seen the sale of Seminovos is heating up. But more recently, have you seen any other gradual improvements recently, an indication for that depreciation, even though you may believe that there is no visibility of the peak?

And the second one is increasing the sales force in Seminovos. So you would open more stores during the year. So could you give us more details about that strategy in regions where you would open more stores? Are they new regions and the impact of the more recent ones, that would be great.

Rodrigo Tavares:

Guilherme, about the second point, I will start off with that. We have a plan of gradual evolution of our sales capacity to continue on a process to rejuvenate the fleet that happens not only in retail but also in wholesale. And in retail, there's are 2 situations, opening stores in certain cities and other municipalities and cities when you assess the footprint of our Car Rental. It shows us the addressable markets where you see vehicle sales transactions.

And when we have an opportunity to increase that, we have our brand present and now we have that as well, bringing into Seminovos. So the stores that are already open have been evolving according to plan, not only in retail but also in wholesale stores, so we can expedite that capability.

About the second point, Rodrigo mentioned this here, but I will stress that our evolution in Seminovos sales continues to increase. So there are some constructive factors. When you look at the new car market and used car market has grown in the 1Q in 2 digits and used cars that we have market information, it's almost 18%. So you can see that in terms of volume also related to credit, we see a positive trend in that sense.

And you also see gradual improvements of our inventory. So we still have some months to go back to our profile and particularly signal the car volume that we worked in the process before the integration.

So you see those elements as a constructive elements. But as Rodrigo mentioned, there are some aspects of affordability and the car price regarding average income and available income as well as specific action of the automakers in the brand new car market that will have a potential impact and influence the used car prices.

So we are closely monitoring that, and with our plan to expand capacity, which very robust. So if you take a step back, and look at the past 2021, 2022 to 2023, we have been growing, and we are planning on staying on that path.

Guilherme Mendes:

Thank you, Bruno. Just really quick about the sales channel, retail and wholesale. How do you see that normalizing?

Bruno Lasansky:

Guilherme, that's much more based on our inventory available and obviously, the expansion of our sales capacity. So during the year, when we look at that, what will really determine that segmentation dynamic depends on the profile of the cars that we have.

As we have been gradually reducing the age of the car that's sold, that should be constructive in the next months and year, to go back to the historical retail levels that the Company has.

But that's mainly determined by the supply than actually the demand. I am not sure if I answered your question, but it's based on our inventory and much more on that than the actual channel.

Filipe Nielsen, Citi:

Thank you for taking my question. I would like to explore 2 points. One is about car sales, about the fleet mix. We know that you are still selling vintage 2 cars. Given the current conditions, do you expect to sell that earlier or later? And could you give us some flavor on what we should expect from depreciation in the upcoming vintages? Because it would be normalizing at 7% to 8%, but given the new rule in depreciation, what should we consider for depreciation in the upcoming vintages concerning the new rule? And then I will ask the second question.

Nora Lanari:

Thank you, Filipe, for your question. Let's separate that answer. So RAC and fleet management. Fleet management, we have a longer cycle, so we prioritize Vintage 1 sales. given the fleet renewal and car rental.

We had cleaned out most of Vintage 1 and a blend of Vintage 2 should start this year. Mathematically, that should contribute for depreciation per car as Vintage 3 and 4 have better purchasing conditions. And consequently, depreciation, we see a significant improvement in that in 2024. Rodrigo, about depreciation.

Rodrigo Tavares:

Thank you for your question. About depreciation replenishment. When you look at the new terms, the new mix, is that something positive, it should contribute positively. Once again, we are still in scenario where prices are still settling and the change in the estimate of the residual amount and the preparation makes these amounts more comparable to what they were in the past, and it reduces the depreciation estimate and replenishment as well.

So once again, based on the purchase and mix point of view, be in what we are achieving and buying for cars. The trend is positive. That said, there's still a lot of volatility in the Seminovos market. And every month, we reassess the capital allocation for that new vintage.

Filipe Nielsen:

Perfect. I have a second about electrification in Brazil. I would like to know how you see that I understand it's not in the main focus but the automakers for the electric cars are really coming into Brazil. So I would like to know if you are talking to them, and how do you see that market especially compared to combustion engines that you buy? And how that should impact the expectation in the resale of those combustion engine cars? Could you talk about electrification in that sense? Thank you.

Bruno Lasansky:

Thank you, Filipe, for your question. About the trends, yes, we have been following those trends here in Brazil and abroad, and we do see new players coming into the market, even with plans to manufacture in Brazil. So there are some considerations in that case.

First of all, thinking of the powertrain in Brazil, the type of engine we believe that Brazil will be on a path where we are going to have the hybrid engine and a hybrid flex, which is one of the main paths and power engines in Brazil.

So the companies are informing that they are launching models in that sense, and it's very positive for the country because you see that the level of emissions of a flex car with the hybrid element is very interesting in emissions, and even CO2 emissions per km that's lower compared to the electrified in other geographies. That's what we have for Brazil. That's the first point.

That said, the matter of electrification started. It will be more focused in bigger centers, but their infrastructure and cost aspects that are very relevant. So in carryover and the cost of the vehicle, I think that's gradual across time.

And about the entry where we have seen some movement in that sense, what we should consider is the regulatory framework and tax framework around that. So the first movement of the imported electric vehicles, and in the next 2 years, they have defined the importation rates that are up to 35% of that product, which will give us a scenario where the competition will be mainly in the local markets, so local manufacturing, and then we have competitive elements that are more balanced out in the countries. That's a point for us to consider.

We believe that the evolution will be mainly towards hybrid than electric cars. In the long term, definitely, that should happen to electric cars, but maybe a more gradual change than what we initially expected.

And based on recent announcements about strong investments in the country from new and existing automakers, it's very positive for the country, but also for us. And at the end of the day, we have a closer relationship with all the automakers, and we are planning on continuing to be long-term partners with all these players. So that's just an overview. We do believe that the evolution will be more gradual, and we are ready for that.

And the last point, Filipe, is about price. I think I answered that well with the import rates. The launch of the electric product is in a situation of product importation and that should change, it's already changing. The first wave has already taken place, in July the second one, next year, another one and the next year after that, that will achieve 35%. That creates a bigger challenge for these imported products and then the matrix will be for local production.

Filipe Nielsen:

Perfect. So you have been talking to the automakers. Why is that a positive aspect?

Bruno Lasansky:

In general, we are big buyers. So more investment in the industry is positive. More supply in the industry is positive, more competitiveness in the industry is very positive.

So we have a close relationship with all automakers, including new entrants, and we believe that a stronger competitive environment, a strong production in Brazil and strong investment in all players, existing and new, contribute to the midterm for something that's very positive for the rental industry.

Gabriel Rezende, Itaú BBA:

Thank you, and good morning. I would like to go back to that conversation about RAC rates, as you have another significant increase to the rates in this 4Q and very high levels, and how does that connect to ROIC recomposition using the levers, which should be RAC rates? And my question is, we see a drop in the cost of debt for the Company if we consider the Selic, and then they could be improved with an improvement in Seminovos in the upcoming months and during 2024.

Based on that scenario, we can expect natural recomposition of the ROIC pretty much passive for the Company. Would not there be room for the Company to be more competitive in RAC rates and having a faster growth if we consider even affordability of rental? Because the purchase price, if it's behaved, so to speak, maybe the Company could support that lever, looking for healthy levels of ROIC spread. That would be the first point.

And the second one, exploring the Seminovos, we have seen huge focus of the market and price demand or behavior, excuse me. So how can the short-term dynamics be different than the long-term dynamics when we look at car prices, in the sense that, obviously, there's an impact to the short-term results as challenging dynamics in Seminovos, but structurally, if the curve for the car purchases is adjusted downwards, then the Company would get better in cheaper cars with the automaker, and then maybe you can transfer that affordability on to rental. So cheaper cars in Brazil, could that trigger an increase in demand in car rental? And second, in Seminovos as well, consequently, maybe a drop in car prices could be net positive? So I would like to hear your opinion on that.

Rodrigo Tavares:

Thank you very much. Let me try to answer that in a more comprehensive manner in the beginning, and then we can have some comments.

Since the merger, we are talking about rates, but you can see advances on many different fronts. As we mentioned, revenues grew 26% and costs grew 1.3% if you disregard the reclassification effects in the change that we made, the 7.5% and SG&A grew 1%. So it's a gain that we have in operational terms, and it's very strong.

Obviously, we are in the context of the uncertainty of Seminovos prices and also depreciation. And we do not have any reasons to believe that, that's structural. So I agree with you. With an environment of lower car prices, that's more positive in general. At first, it's negative because then you have invested capital that was bought at previous prices. That gives us more margin pressure. But when we think of the affordability of rental, you are right, the more stable price environment and even lower is positive.

About the rental rates, it's still not the moment for us when considering all the uncertainties and volatility in the market and residual prices. Demand is connected to lowering the interest rates should take place, and that's what we expect. It's not really a moment for us to lower or change the rental rates and make it more competitive. We are still trying to recompose our returns. So we have the rates the portfolio using the assets and strong actions in cost and expense efficiency, and that's it.

Pedro Bruno, XP:

Good morning, everyone. Thank you for taking my question. In a way, we have already discussed two of the points that I would like to address, but I have a follow-up on that one, to add to the information. First of all I would like to talk about RAC margin, what Rodrigo just mentioned about the positive dynamics of revenue evolution versus cost. Could you give us some more information? We see that effect coming from the rates with operational leverage in a relevant manner.

But we also see a positive surprise, so to speak, in the cost dynamic So can you give us some more flavor in that in RAC about how we can look at in structural terms for 2024 moving forward and also about demand in RAC. Obviously, we saw a very positive performance in the rates. And even when you talk about Seminovos, when we think about the cyclic part of the business?

In Seminovos, we have been seeing a significant price reduction. But the feedback that we get from the industry are that the volumes are improving, be it in new cars or Seminovos and that's also important in rental. Do you see that picking up based on the demand? I believe that you do, given the rate changes that we have seen. So if you can comment on demand, please. And then I will ask something else.

Rodrigo Tavares:

As you have mentioned, in the 4Q. In Rent a Car, we see a growth in revenues in utilization, in volume and in margins. It should not only be based on rates. I just mentioned the gains in scale that we had and that remained pretty much stable even with strong growth.

So we were talking about the growth of rent of car and Rent a Car delivered over 22% of growth year-over-year in revenues. And that's the first clean quarter without the carve-out. It's the 1Q that we have

a comparison and shows that. So we highlight the gains in revenue, but the gains in cost and productivity are also very significant.

So when we look at the future, we still have not concluded the integration process. We still have to integrate all our systems. And we still have a process. That's not even halfway there in rejuvenating this fleet. We went from decommissioning from 29 to 26 months and the historical levels were 14 to 15 months. So there's still a long way to go in that sense to rejuvenate the fleet and we also have the benefits associated to that.

In addition, as you mentioned demand, we have balanced out the demand with the allocations in between segments, channels and customers. But we still need to bring back our return. The demand has showed some resilience, but our main focus here in the short and midterm is bringing back our returns.

Pedro Bruno:

Perfect. And just a follow-up on depreciation. It seems normal. We see Seminovos dropping more than new cars, maybe with a surprise from the speed or exactly when. So everybody is pretty much surprised by that movement, and a bit driven by the drop in new car prices, as was mentioned here through bonuses and so on.

So what I would like to understand is, based on the data that we can see here. when we try to map out the price of cars sold and the price paid on that same car, it seems like it's going back to normal levels, but when we look at the whole fleet, it still has not been back yet because of fleet and the dynamics of a longer cycle. So when we do that math for RAC, we get close to historical levels.

So the question is, before seeing stabilization, could we eventually see worse levels than the historical levels, even pre-pandemic? So what do you see in structural in that movement?

Rodrigo, you mentioned in the previous answer that you do not see reason for that spread, for that ratio to be structurally worse, but we see an important change in the mix type of car and optionals. Could you mention if, in fact, it is a concern? And what would be structural in that sense?

Rodrigo Tavares:

First of all, when we analyze the price of a new car compared to a used car, and talking about the market, not Localiza, we need to understand that there are many different factors. The first one is the mix.

If you look at this historically, the market overall is selling older cars than it used to. And that really makes a lot of sense because in 2020, 2021, beginning of 2022, production was restricted. And all Brazilians, not just the car rental companies have extended their useful life. So the cars sold today the mix of cars from 0 to 3, within those 4 years compared to what we had before the pandemic.

And I am talking about the general used cars market. It dropped a lot. And in the car mix older than 7 and 8 years has increased. That alone makes the price seems like it's lower than an apples-to-apples.

So additionally, in those years, especially in 2020, 2021 and 2022. There were many car launches of more premium cars, SUVs, crossovers, automatic hybrid cars that still do not have a share in the used market in the same way. So in addition to having the mix of car age, there's the type of models, SUVs and so on compared to the used cars.

And lastly, we had the discontinuity of many basic cars during that period from many different automakers. We have had that, which is much higher than we have in the past. So in fact, there is an opening of car from the new to used car but not that much. So why is it still early to talk about structural changes. We went through a pandemic that was 2, 2.5 years. Now it's settling, it's being corrected. When we look at our performance compared to the market and the competition, we see very robust performance that does not informed that this scale has an effect in that. There is a factor of concern there and many factors have to be monitored. But once again, we do not have any elements to talk about any structural changes.

Rogério Araújo, Bank of America:

Good morning. Thank you for the opportunity to ask my questions. There are 2 on my side. First of all, I would like to know if I understood this correctly. The idea of Localiza is not going to step on the brakes for growth while it sees a volatile, volatile car prices. It's to continue to grow and use the levers that the Company has to offset any potential drop in prices. Does that make sense?

And the second point is, if car prices continue to drop, imagine that the Company would put that effect in depreciation, it would not impact the EBITDA. Does that point make sense as well?

And about transfer, how does the Company do the math if the car prices are going down? Which levers have to be considered and what are you going to do with price because we see a lower effect of invested capital in the next cycle when that happens? And the Company is growing. So you have a one-off effect in Seminovos. But when you think of sustainable results, we are thinking of maybe a higher ROIC spread in the future. How do you think about that transfer?

And lastly, sorry about so many questions. With the level of margin prices and rates and efficiency that we see in RAC, can we consider a ROIC that would be higher than Fleet Rental for this next cycle? So up to '15 and '16 when there was a growth in competition, you tightened margins. Could we think that, that would not be inverted again. and we would have a RAC ROIC higher than the fleet ROIC?

Bruno Lasansky:

Thank you, Rogerio. I will start. So about the first, we are not talking about slowing down growth quite on the contrary. What we have to look at is what Rodrigo mentioned about paying attention to our capital allocation.

So we are constantly looking at the replenishment ROIC as well as the return on the invested capital base that we have. The good side is based on the replenishment ROIC. We have a constructive view, be it the efficiency, operating efficiency that we have or the acquisition that we have, be it the pricing variables, but we also have to look at the invested capital that we have.

And as you mentioned, we have price variables, cost variables and utilization variables for the asset and also managing the portfolio that we look at that permanently segment regions and channels to reassess the positioning in that portfolio. So we still have the growth with manual generation.

And the replenishment ROIC is a positive. So that means we can continue to allocate that capital. But at the same time, we need to pay a lot of attention to guarantee that the capital that was already allocated, especially in a scenario where there is volatility on the residual amount. We also have to work on that because there's the cycles of the car. That's about the first question. Rodrigo, answer the second one.

Rodrigo Tavares:

Thank you, Rogerio. Localiza does not have any capital restriction and got opportunities to allocate capital. So if we have good opportunities to allocate capital, then the Company will grow and continue to allocate capital.

About price, that was the second question, the Company will always adjust depreciation. We do not want to adjust that through margin or Seminovos or any other mechanism. So depending on the speed, there may be movements in the short term, but any variation of the residual expectation is adjusted in depreciation of the effect of the EBIT in that sense.

About the allocated capital reduction is not that clear to me. So no path without a trend. If we continue our measures of efficiency in rates, the allocated capital has an effect in better use, so better use,

better allocated capital. The increase in depreciation also decreases the asset base. I think that's what you meant of the invested capital. If the adjustments are made via depreciation, that's a natural effect of reducing the capital base of those assets, and all the adjustments would be made on depreciation.

The RAC efficiency, and not only RAC but also in fleet, RAC has quicker adjustments. So in fleet, you have contracted capital. It's longer term. Some of these assets were contracted when interest was much lower. So RAC has a quicker adjustment and it would not be an impossible scenario, and return in ROIC in RAC in a moment where it would be higher than fleet.

Nora Lanari:

Especially based on the invested capital based on the past 2 years and also coming from the merger, we have to reprice contracts as they are renewed.

Rogério Araújo:

Thank you. Very clear. Rodrigo, about allocated capital, it's mainly about car prices. If you are thinking of the results per car, and you are increasing rates, you are being more efficient. Do you have better results per car, but it's cheaper, so then it would be a lower invested comp?

Rodrigo Tavares:

Yes. Better purchase conditions, maybe price drops, as I mentioned, lower car prices in the midterm are positive; in the short term, not so much, but in the midterm, yes. So no NOPAT associated to that as well.

Bruno Amorim, Goldman Sachs:

Good morning. Thank you for taking my questions. I have two. Still a follow-up about the car market. When we look at the IPCA, it seems like the used car prices stopped dropping and the FIPE list as well, with stability in the past 2 months. So I would like to know if you still see a sequential drop in the used car market, or if it's the fact that the new cars might go up as well, and with instability in Seminovos, still, you cannot talk about a peak of depreciation. So what do you see at the end with the FIPE data, the IPCA data? They are not precise and they obviously have issues. Everybody knows that.

And second question, looking forward, obviously, but there are many opportunities and short-term discussions, and recurring profit is sustainable in the next quarters given Seminovos. But obviously, there's also a lot of upside considering price and volume. So I would like to know if you can quantify that opportunity. If you look at fleet, there's 4% to 5% growth in volume quarter after quarter, can we

consider that same type of cadence moving forward? And if that's the case, we would see 15% to 20% of growth, and then in the run, they will be double-digits in volume growth. That's a good case. That's the first question.

And competitive scenarios, very favorable. Could you mention what you see at the end after the increase in 4Q? Do you see any change in the levels in the 1Q or not? There's also an upside to the drop in interest rate and how much all of the debt is hedged or not. So anything that can help us, that would be great. Thank you.

Bruno Lasansky:

Bruno, I will comment and Rodrigo will add to that. About the very short-term vision and which you mentioned, the price dynamic. We do not see any trends so that we can determine the used car prices.

I think the best way to determine that, or define that, is that yes, there is volatility. So we cannot say that there's a trend regarding that. And we are carefully monitoring that. There is a seasonal aspect that's very important in that in the car segment, where the automaker inventory is higher in the 1Q, especially about direct sales, it's usually lower in that part of the year. And that could give us some pressure on the brand-new car price dynamic, which will unfold into the used cars, but we are still talking about short-term dynamics.

And I cannot say that it's stabilized. We are monitoring that closely and working on the price portfolio dynamics that we mentioned. That what you mentioned about the opportunities, you well know that we do not give guidance in terms of growth. But important to mention here is the opportunity that you think in the long term, not only in companies, but in the subscription car is huge. We see a huge opportunity in that. And there's also the carryover of growth that's very robust that took place during last year.

That also takes us to a very interesting growth level. But it's also important to mention that as a result of the price scenario. We are also working on the customer portfolio to guarantee our ROIC spread target in the long term. So our teams are working strongly to capture that in those opportunities.

About short-term rental RAC, we also see that we are far from achieving high share. We are working on price and you want to expand volume and price. And currently, as we did in the 4Q, that would have seasonality during the year.

So we know that in the 1Q, is a quarter where we 'de-fleet', adjust the fleet. But when we look at each one of the segments, the addressable markets are big. But as mentioned, at this time, given the volatility of residual amounts we are definitely looking at the replenishment of our ROIC spread, be it

through price, portfolio or cost. So when we look at the upcoming months, this quarter, that would be our focus.

If you take a step back, obviously, there's an opportunity to continue to go into new places. We are not in segments for app drivers that have a huge addressable market. So definitely, there's room for that. But our focus is on what I mentioned before.

Rodrigo Tavares:

Another point, approximately 40% of our debt is hedged.

Bruno Lasansky:

Another point, Bruno, you mentioned about the competitive scenario. What we are talking about in price dynamics. I would even say that it's a Brazil only a scenario where you see that happening in many regions in the world, and that creates a scenario where our market participants have a constructive view of the importance of price. So we believe that it has to be constructive for Localiza.

Alberto Valerio, UBS:

Good morning. Thank you for taking my questions. First question is about GTF depreciation that changed from the third to 4Q, but we consider first-in, first-out to see the average price of your car purchased, and our math increased 2% quarter-over-quarter in fleet and 24% increase in depreciation in that segment. In RAC, depreciation is in line with the increase of the average car at Localiza fleet that's 7% and RAC was 8%. I would like to know about that hike in fleet and if we will continue to see that in the 1Q.

The other question is the accounting effect and the change in methodology. Should we still see that in the next year now? I believe it would be lower quarter after quarter based on the cars that are on in the balance sheet and provision of that maintenance. But if you have any estimates for 2024, that would be great.

Rodrigo Tavares:

There are other questions. So this is the last one. I would just like to inform everyone that the IR team is available to answer all the other questions. So the first about fleet depreciation we mark-to-market the residual prices every month, every quarter and fleet sells vintage 1 cars faster as you buy new cars.

And one quarter to the other, you see strong growth in the business. And then there is a sale of car that do not depreciate and the ones that come in, even though there's lower depreciation. So it's a level that's higher than the ones that were sold.

And that added to the drop and the adjustment of the Seminovos prices, it's still early for us to have any inferences about how that's going to work in the future. We still mark our residuals frequency as a result of the changes to the market.

About accounting changes, you are right. There's a higher effect in the beginning, and it really depends on the number of cars sold and purchased. And the 1Q is typically a quarter where you will sell more cars than buy. So it's a lower effect, but still there's many variables, and we still do not have estimates. And we do not give guidance in that sense in addition to the dynamics that we are going through in the purchase and sale and the change in the Seminovos prices.

I would like to thank everyone, and have a great day.

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