

Localiza&co

2Q23 Webinar Transcription

Operator:

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Good afternoon, and welcome to the Localiza’s earning’s release call referring to the results for the 2st quarter of 2023. Today with us are Rodrigo Tavares, CFO and Nora Lanari, Investor Relations Officer.

Please be advised that this webinar is being recorded and will be made available on ri.localiza.com/en, where the complete material of our Earnings Release is available. The presentation is also available for download in the Company’s IR website.

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Now, I will hand the floor over to Rodrigo Tavares, CFO of the Company, to begin the presentation.

Rodrigo Tavares:

Good afternoon everybody.

In 2Q23, we continued to advance in the integration process and capture synergies, with engaged teams, maintaining the focus on our customers and the high NPS rates in all of the Company's businesses. We continue to grow with value creation, maintaining discipline in the allocation of capital and we see a positive perspective for our businesses. Despite this, we had a very challenging quarter, impacted by Provisional Measure 1,175 (PM) detailed on **page 2**, which established a discount mechanism between R\$2,000 and R\$8.0 thousand for the acquisition of brand new vehicles priced up to R\$ \$120 thousand, in

the total amount of R\$500 million and initially intended only for individuals. The prior announcement of the publication of the Provisional Measure and the expectation of a reduction in the price of cars, resulted in a slowdown in the price and pace of sales of **Seminovos**, in addition to impacts on the residual value of the fleet. For this reason, we recognized R\$631.4 million in the accounting result before taxes, of which 153.3 million in **Seminovos**, highlighted as “Adjustment to Impaired Value of Assets” and R\$478.1 million in the car depreciation line. With the extension of the discounts offered under the Provisional Measure to legal entities at the end of June, we accelerated purchases again, having purchased around 23 thousand cars at a discount between the end of June and the beginning of July. In the quarter, 57,110 cars were purchased, 32,242 in **Car Rental** and 24,868 in **Fleet Rental** and 52,711 cars sold in **Seminovos**, also impacted by the Measure.

Going to **page 3**, we highlight the adjustments made to the result for better comparability of numbers. We remind you that the numbers for 2Q22 and 1H22 are proforma and were adjusted for the effects of the business combination, in order to better reflect the Company's actual performance. In addition, this quarter, together with the effects related to the write-up of cars and the customer portfolio, which were already being highlighted in previous results, we will also highlight the non-recurring effects of the write-off of Car Rental Systems tax loss and the impacts arising from of the PM, which added up to a negative impact of R\$507.8 million on the last line.

Going to the highlights of the quarter, on **slide 4**, we present the consolidated net revenue of R\$6.8 billion, an increase of 34.6% in the quarterly comparison, driven by the growth of 27.4% in rental revenue and 43.4% in **Seminovos**.

In the **Car Rental** division, after the end of the high season and without the effects of the summer holidays, we noticed a reduction in the volume of room rates, offset by the higher average rate. In this context, net revenue remained in line with the previous quarter and increased 9.9% in the annual comparison, evidencing effective price and mix management. In **Fleet Rental**, we once again showed strong net revenue growth, 9.9% higher in the sequential comparison and 58.1% in the annual comparison, even with the impact of the Provisional Measure, which reflected in lower purchases and deployment of cars in this division between the months of May and June, resulting in a backlog of 21 thousand cars.

Seminovos revenue grows 43.4% in 2Q23, even in a quarter impacted by the Provisional Measure, and reflects our ability to increase sales volumes, contributing to the process of fleet rejuvenation.

In the graph on the right, we show the operating result, with EBITDA reaching R\$2.5 billion, an increase of 27.9% compared to 2Q22.

On June 16, 2023, we announced a public offering of shares (Follow-on) in the total amount of R\$4.5 billion, with demand multiple times greater than the size of the offering, demonstrating the confidence deposited by our shareholders in our ability to capital allocation and value creation. As a result, we ended the second quarter with R\$11.1 billion in cash and net debt/EBITDA LTM and net debt/fleet value ratios at 2.78x and 0.59x, respectively.

The proceeds from the share offering contribute to strengthening our competitive position and capturing opportunities in a market with ample room for growth, especially in the context of a reduction in the yield curve, which tends to boost the car rental sector cars.

Despite the quarter's challenges, we believe we have reached a turning point with the beginning of the interest rate decline cycle; signs of improvement in car rental demand and; process of resuming brand new car prices to levels close to pre-Provisional Measure levels. Finally, we expect an improvement in the cash generation cycle as a result of longer terms with automakers and a reduction in renewal capex.

In summary, we had 4 major effects this quarter:

1. Rising rental rates in rent a car offsetting seasonal cooling off of demand, which itself already presents recovering signs
2. Impacts of the Provisional Measure resulting in lower growth than expected by the Company in Seminovos and Fleet Rental
3. Strong demand for fleet management, resulting in an increase in the backlog to around 21 thousand cars
4. Capital structure strengthened after completion of the follow-on, preparing the balance sheet to support the new growth cycle

To detail our result, I'll hand the floor over to our head of Investor Relations, Nora.

Nora Lanari: Thank you, Rodrigo. Good afternoon, everyone.

Going into the details of the result, we will start the presentation with the Car Rental division, on **page 5**. Net revenue from this division totaled R\$1.958 billion, growth of 9.9% in the annual comparison, even with the effects of the sale of the carve-out, that still impact the volume in the annual comparison.

On **page 6**, we show the increase in the daily average, which was R\$119.3 in the quarter, an increase of 16.7% in the annual comparison. The growth in the daily average reflects mix and price management, with the objective of adapting return levels to the Company's historical levels. The utilization rate, despite remaining at a healthy level, showed a reduction of 1.8p.p. in the annual comparison, reflecting the accommodation of demand after the peak season.

Moving to **page 7**, in the Fleet Rental division, we continue to grow at a strong pace, with net revenue totaling R\$1.604 billion, an increase of 58.1% when compared to proforma 2Q22, reflecting the 29.3% growth in number of daily rentals, even with the impacts of the PM, which resulted in lower car purchases between May and June and, consequently, in the lower implementation of new contracts, increasing the backlog to 21 thousand cars at the end of 2Q23.

Going to **page 8**, we present the average tariff of R\$81.6, which increased 22.5% in the quarter, reflecting the capture of higher prices in new contracts, and the fleet mix.

The utilization rate shows a slight reduction of 1.5p.p. compared to 2Q22 but is already starting to show progress in the sequential comparison.

Moving on to **page 9**, we show the car purchase and sale balances. After the announcement of the publication of the Provisional Measure, the Company significantly reduced the volume of cars purchased between the months of May and June, returning to accelerate purchases under better conditions in the

last week of the quarter, after extending the Measure to legal entities. We ended the quarter with 57,110 cars purchased.

In Seminovos, 52,711 cars were sold, despite the impact generated by the prior announcement of the Provisional Measure on prices and sales turnover.

Continuing on **page 10**, we present the average purchase and disposal price. In the car rental division, the average purchase price for the quarter was R\$79.1 thousand, reflecting the prioritization of revenue from cars not impacted by the Provisional Measure, with an amount greater than R\$120.0 thousand, during the months of May and June. The selling price was R\$59.6 thousand, stable in relation to the previous quarter, reflecting the impact of the Measure, as well as the continuity of the sale of entry-level cars with higher mileage.

In Fleet Rental, we had an average purchase price of R\$103.7 thousand, also impacted by the prioritization of billing for cars worth more than R\$120 thousand, not impacted by the Measure. Furthermore, we remember that the purchase mix in Fleet Rental is also composed of special and heavy vehicles that have a higher acquisition value, while the sale price of R\$67.4 thousand reflects the mix composed mainly of light vehicles.

On **page 11**, we show the advance of the fleet at the end of the period, which reached 587,424 cars in the second quarter of the year, a growth of 10.0% in the annual comparison despite the carve-out, being an increase of 32.4% in the Fleet Rental division and a 4.7% reduction in the Car Rental division. The Company continues to support global fleet utilization for the second consecutive quarter in the car rental division.

Moving to **page 12**, we see that, in the annual comparison, net revenue from rentals grew by 27.4%, with a 9.9% increase in the Car Rental division and 58.1% in Fleet Rental, while Seminovos revenue grew 43.4%. As a result, net revenue totaled R\$6.8 billion in 2Q23, an increase of 34.6% compared to 2Q22.

On **page 13**, we present EBITDA of R\$2,499 billion in 2Q23, an increase of 27.9% compared to proforma 2Q22. We reaffirm the quality of the company's operating result, reflecting the increase in prices, in addition to increased efficiency with cost dilution and capture of synergies that brought a positive impact on the margins of both divisions in the annual comparison. In the Car Rental division, the EBITDA margin of 64.5%, increased by 9.3p.p. compared to the 2Q22 margin. In the Fleet Management division, the 69.5% margin represents growth of 4.5p.p. compared to the same period of the previous year. The Car Rental and Fleet Rental margins continued to offset the continuation of the Seminovos margin normalization cycle in the quarter.

We also brought here the sequential comparison of the margins. Compared to 1Q23, the Car Rental margin decreased by 1.6p.p. We recall that in the first quarter the EBITDA margin was positively impacted by the adherence to the Zero Litigation program by +1p.p.

In the sequential comparison, the Fleet Rental margin decreased by 6.7p.p. In 1Q23, this division's EBITDA margin was positively impacted by the effect of the accelerating tax depreciation report on cars, with a positive effect on PIS/COFINS credits, in addition to adherence to the Zero Litigation Program, which added up to around 6.5p.p. In 2Q23, new initiatives associated with mobility, international expansion, telemetry

and workshops, impacted negatively the EBITDA by R\$9.2 million. Excluding the effects of new businesses, the EBITDA margin would have been 72.2%.

In 2Q23, the Seminovos margin was 3.7%, impacted by lower turnover and car prices, which resulted in the mismatch between preparation and sale, in the context of the Provisional Measure, as well as a lower fixed costs dilution, considering the branches network already started.

On **page 14**, we present the evolution of depreciation excluding the effects of the Provisional Measure, in both divisions. In the RAC, as we signaled over the past quarters, the average annualized depreciation continues to increase sequentially, at R\$6,578, due to the lower proportion of fully depreciated cars, following the fleet renewal process.

In the Fleet Rental division, average annualized depreciation also grew, reaching R\$5,661, reflecting the addition of new cars with higher depreciation, a mix also made up of special and heavy vehicles added throughout 2022 and the effect of car sales fully depreciated, acquired until 1H21. We emphasize that the greater depreciation is reflected in the price of new contracts.

Moving to **page 15**, we see EBIT adjusted for the write-up and effects of the PM, of R\$1.575 billion in the quarter, growth of 3.6% compared to 2Q22. The Car Rental division's EBIT margin reached 38.6% and Fleet Rental, 51.1%. The reduction in the EBIT margin reflects the increase in car depreciation.

On **page 16**, we present net income adjusted for the write-up effects, tax loss write-off and PM, which totaled R\$419.0 million. In the annual comparison, the increase of R\$545.4 million in EBITDA was offset by the increase of R\$491.1 million in depreciation and by the increase of R\$493.2 million in financial expenses, reflecting the higher CDI and average debt balance in addition to of R\$67.1 million of effects related to MTM.

To present cash generation, leverage and ROIC, I would like to return the floor to Rodrigo.

Rodrigo Tavares:

We bring on **page 17**, the free cash flow. In the first half, cash generation from rental operations totaled R\$2.860 billion, which were consumed by renewing 108 thousand cars and by reducing R\$1.5 billion in the balance of accounts payable with automakers.

In this scenario, the Company ended the quarter with a Net Debt of R\$25.9 billion, as displayed on **page 18**.

On **page 19**, we see the debt profile and a robust cash position of R\$11.1 billion, which is equivalent to 81.2% of debt maturities until 2025. Including funding and liquidations announced up to July 31, 2023, the Company would have R\$12.1 billion in cash.

On **slide 20**, we show our debt ratios. After the completion of the follow-on public offering of shares, in the total amount of R\$4.5 billion, we ended the quarter with comfortable debt ratios, of which we highlight net debt / LTM EBITDA, which ended the quarter at 2.78x and debt net fleet value, which ended the quarter at 0.59x.

On **page 21**, we present the annualized ROIC of 14.5% in 1H23, a spread of 4.5p.p. for the cost of debt after taxes, considering the annualized semester. In 2Q23, ROIC was impacted by the lower growth in net revenue from Fleet Rental and Seminovos in the context of the Provisional Measure and by the greater relative weight of vintage 2 cars, which have higher depreciation.

Despite the before mentioned challenges, the company has gradually been rebalancing returns, as the balance of contracts from Locamerica, with a lower ROIC spread, converges to Localiza's historical levels, as it captures operational efficiencies in a scenario of reducing interest rates, factors that will contribute to return the ROIC spread to the range between 5 to 8 percentage points.

We are now at your disposal to answer your questions.

Rogério Araújo:

Good afternoon. Thank you for taking my questions. I have two. So the first one, if you could talk about the cost of expenses, there was a relevant increase in Fleet Rental, even adjusted to zero litigation and PIS/COFINS credits. I know it's a less seasonal segment, so I would imagine that these expenses would be a little less volatile. So I would like to understand if this quarter has more costs and/or less costs and any provisions or things of this sort? We have found the line of others and services to third parties increasing a little quarter-after-quarter, but we do not exactly know what happened in those lines. So what can we expect from Fleet Rental margins for the upcoming quarters? Would it be normal rates at 70 like this quarter, 75 like the previous quarter? That's the first question.

And the second one is pretty much related to it. Rodrigo explored the ROIC spread from Locamerica converging to the Localiza rates, which should affect it a little. So I would like to understand if that's already expected, that the ROIC spread would be under the Company target? And if the case, if it would be lower. And if you can give us some timing on that in that recovery. Is it the timing for the entire cycle of the vehicle and Fleet Rental 1 year, 1.5 years, or should we expect any recovery before that?

Rodrigo Tavares:

Thank you, Rogério. First of all, about the cost of fleet expenses. Let me take a step back and talk about fleet because it's a little more structured. As I have mentioned in previous quarters, what we call new businesses is under fleet. So let me give you more flavor about the new businesses, and I will separate that into 2 parts. Mexico, structuring and the others.

The new businesses had revenues of R\$45 million in this quarter. And they are already in breakeven, except for Mexico. So even positive results. But after we exclude the R\$45 million from the revenue, you can see an impact relevant to Fleet Management.

So structuring Mexico operations, where we started the operations in the previous month, we are already renting cars and open in some airports, had an impact of R\$12 million in this quarter. So as you can see, EBITDA was affected in line. So Mexico alone was R\$12 million. The other businesses are the difference that are in the breakeven but had a denominator effect. So when we consider that adjustment, the margin goes to 72.2%. And we hope to be able to separate Mexico a little more in the next call, so then it would be easier for you to conduct your analysis.

So considering the 72.2, let's consider the other effects now. A specific effect, which is technology effects that were discontinued, an impact of R\$12 million. And what does that mean? The former Locamerica and even Localiza had a practice of capitalizing on part of the technology projects. But given the merger and the combination, many of these projects were discontinued for many different reasons. So the brand was sold the telemetry side. We have our own at Localiza.

So there are many projects that were capitalized and projects that would no longer have continuity. So the correct procedure, in that sense, is to write off those projects. And that was a R\$12 million impact. And do not forget that it's an integration context. So first, we integrated the front office and now it's back office. So these things might come up.

In addition, you mentioned third-party services. There's still some of the integration, we are implementing SAP S/4HANA and some other consulting firms that were part of the integration process, marginal expenses compared to what we have already spent, but it's still there. Another mention is that we had more expenses in maintenance of approximately R\$30 million. And it's important to mention that we have a mix of severely used cars that came from former Locamerica, especially from agriculture and special vehicles. So in this quarter, we were focusing on corrective maintenance.

So in the 1Q, we were charging the extra maintenance, and that's why maintenance was a little lower. And in this quarter, we had an effect of these corrective maintenance of the severely used cars. So those effects explained there.

And there's also the effect of an increase of bad debt. That's an impact that we have seen. We have seen that in fleet. It's not that different, but it did have an impact in that quarter.

And when you talk about the margin and margin of new contracts, we do not have to wait for 2, 2.5 years. You will see gradual improvements in the fleet margin. First of all, because by separating the new businesses, that already happens, like I mentioned, it was a heavy quarter in corrective maintenance, heavier than usual, and that should converge into the mid-70s in the future.

About your second question about the ROIC spread, it's under expected because of the provisional measure. We should have had a much higher fleet growth. We had a fleet backlog of 15 days. Now, once again, we have a backlog of 2 months. In addition, the provisional measure affects Seminovos directly because we opened 9 stores in the quarter and we sold less than the previous quarter. So we could have sold much more.

But given the fact that we hadn't bought cars in the half of May and all of June, we only bought cars at the end of June, we had to slow down the sales in Seminovos, in addition to the fact that the prices dropped.

So the ROIC spread of 4.5 is under our expectations, and it's mainly affected by the provisional measure and its effects, especially in fleet and in Seminovos.

Rogério Araújo:

Very clear. Thank you very much, Rodrigo, for your explanation.

Daniel Gasparete, Itaú BBA:

Good morning. Thank you for taking my questions. I also have two. The first one is, I would like to know the trend in depreciation. I see here in your release that you still expect that it should go up. In depreciation, I would like to know, in terms of the provisional measure and the magnitude of that depreciation, is it a bit different or close to the results? That's the first one.

And the second one is to understand the purchasing condition with the OEMs. So competitors have been saying that they have been buying cars.

Operator:

Daniel, you are mute.

Rodrigo Tavares:

You can interrupt me, Daniel, if you come back, but I understand that in the purchase and depreciation of cars, I can address that. And if there's something else, you can add on later.

So once again, expedited depreciation coming from the provisional measure had an impact of 1.2%, 1.3% in the value of fleet. Even though it's a very high amount, it's small to actually affect depreciation in such a big way.

So first of all, Rent a Car, it comes from a conversions measure. And now it should continue, but in a smoother way. We should continue to see that. But obviously, it does depend on Seminovo conditions. We can see the market coming back gradually in terms of prices, but there's still cars in dealerships that have benefits. So that would be essential. So we are still talking about the 7 to 8 level, which will be smoother in Rent a Car.

In Fleet, Fleet is a little behind in that convergence. Obviously, we are also talking about a smoother movement going forward. But in Fleet, you are adding more cars, and you have a volume of older cars that are fully depreciated, so it takes longer in the convergence. So we still expect some convergence, but softer looking forward.

And when we look at purchases, we were able to buy 23,000 cars with the benefit from the provisional measure. So that does mitigate a bit of the impact of the provisional measure. But in fact, the market does have vehicles available. There are already conversations going on in supplying next year and even more than a year. So there are purchase opportunities, and we have been taking advantage of that so we can converge the ROIC spread to the historical levels.

Nora Lanari:

To add to what Rodrigo mentioned, obviously, the purchase conditions, we consider prices and payment terms, and that will not reflect in depreciation, but in the financial result.

Guilherme Mendes, JPMorgan:

Good morning. Thank you for taking my questions. Two things, to explore two segments that are a little less relevant. So going into the international expansion in Mexico, you did mention some of the figures

and additional expenses that you will have, and continue to have. So tell us how, has it been the beginning of operating there, the challenges, negotiation with automakers? So what are your initial thoughts on that? I imagine that you are going to tell us a target of what you expect there. So would you think about the marginal growth outside Brazil and marginal return in the regions?

And the other question is about heavy vehicles. A similar question on that. How have you seen the evolution of that segment in the conditions for purchases with Euro 6?

Rodrigo Tavares:

Guilherme, thank you. So we started our Mexico operations. It's not a globalization movement. We believe that Mexico has very interesting opportunities. It seems like the Brazilian market 20 years ago under-penetrated and very poor service levels and high prices. Lower interest rate in cheaper cars. So you see an interesting condition for that.

So it's a movement, but we are still very disciplined in capital allocation. So we do not have any aspirations right now or a definition of the volume that we want to have in Mexico. We need to go through things step by step. And the first step is servicing our customers well. You can be absolutely sure that we can buy cars at a competitive advantage that our brand will be recognized. And with that, we will have a demand even in a country where Localiza is not known.

And the first results have been positive. We have had access to airports. We have been able to rent the cars with even a surprising utilization rate, we should be present in the main airports still this year and with volume. And about the automakers, they have been receiving us well. There are discussions about automakers even here in Brazil to see how we can unify the purchases, Brazil, Mexico. So it's something small that starts now. We have to win over some of the battles.

Huge ambitions, but like everything, here in Localiza, we always start small and understand with the basic fundamentals so that we can expedite and reach the levels that we wish. In terms of heavy vehicles, that's a bigger business. That's something that we can't really say it's a new business because we already have capital allocation of approximately R\$2 billion. And we have sold Euro 6 contracts, not just inventory. We have lowered our inventory a lot. So we have high asset efficiency and an adequate ROIC spread for Localiza levels within our parameters.

So we have been allocating capital in a selective manner. In fact, there is a big market to grow. And mainly within our own customers, there's an appeal, a credit appeal in a difference in the discount where I can buy and my customer can buy, and then we can actually add value to that. So it's a segment that's been growing with good margins and once again, in a very selective manner according to our capital allocation policies.

Guilherme Mendes:

Very clear, Rodrigo. Thank you. Have a great day.

Bruno Amorim, Goldman Sachs:

Good afternoon. Thank you for taking my question. I have three questions, actually. The first one is about provision of approximately R\$600 million, considering the government program and an ex-post given

market conditions today and some uncertainties, what is your vision today? Does the provision seem to be a little conservative? Is it aggressive? Is it fair? What can you say about that?

And the second point is about Seminovo's margin in 2H this year. On 1 side, the margins of the 2Q were impacted by lower sales, as you mentioned. And there's also a normalization that was underway. So it's natural to see a gradual decrease in the margin this year. So I would like to hear from you if you believe that the 3.7% margin in the 2Q is a good reference for this 2H? Or can you give us some flavor on that, up or down, based on the factors that I mentioned.

And about demand, it's very clear that the 2Q has weaker demand seasonally, it's usually weaker. But can you give us some direction on that? If we look at the past quarters in Fleet Rental, for instance, we saw an average growth of 7% per quarter, and now it's 4%. Can we say 10% for the 3Q, given there is a repressed demand? As you mentioned, the backlog is high. Can we consider that?

And in RAC, an area mainly affected by economic activity, can you give us more flavor on that? I believe that there's a seasonal recovery, but on top of that, what do you see adjusted according to seasonality? Is the demand weak? Is it robust? Any signals on that would be great. Thank you.

Rodrigo Tavares:

Bruno, thank you. First, about the provisional measure provision, I think it's always good to look at that. When it was published, there was a lot of uncertainty. The rumor started on the 15th, and I think it was announced on the 23rd and published at the beginning of June. And as in past provisional measures, they said it would be 3 or 4 months, but it could be extended. And at that time, we were getting ready for the follow-on.

So in respect towards our current and future investors, we had to be pretty conservative. We could go to market with a follow-on and then capture funding and have a negative surprise for our investors or new investors. So back then, we took the best decision, which was relatively conservative of an impact that the provisional measure would have and if it extended more than the 3 months.

And in fact, it did happen. It was R\$500 million, and then it was extended for another R\$300 million. What we see now is that in fact, the Seminovo and new car prices dropped immediately after that provisional measure, and then you have the convergence.

There's still a lot of cars in dealerships that have that benefit. So the automakers, now that the model year is changing from 2023 to 2024. They hike up the 2024 price but maintain the 2023 prices lower. So there's still an effect of the provisional measure right now. In fact, we were very conservative in the past. That was necessary, and that effect is still not over. it's ending, but that effect has impacted the sales of Seminovos.

About the Seminovo margins, the expectation is to be in the low 5-digit. There's still uncertainty. There's a wholesale mix, and we will still see these cars that have higher mileage, especially in Rent a Car. And fleet cars have higher margin, but the demobilization is mainly in Rent a Car. And with that, we expect low-single-digits by the end of the year.

And the fleet demand is still very robust. We can see that through the backlog and through the orders, not only the subscription cars, but in all business lines. We have seen a high demand. So there's an expectation of growth, a good one for this year and years to come. On a positive note, it's Rent a Car July, we had a

very positive demand higher than our expectations. And in the 2Q, even though the demand has been higher, we were able to up the prices compared to the 1Q, and that's rare.

So we have increased our marketing efforts. You can see that 1 of the reasons for the increase in expenses in Rent a Car in this quarter were higher expenses in marketing and advertising. You probably saw our new store at the Congonhas Airport, we have strengthened our new brand.

And we have upped the prices even though we did not have the demand. In the 3Q, we always see more robust demand in Rent a Car. Still not as bullish as we would expect, but still better than what we have seen in the 2Q.

In addition, and that's the main thing relating to the follow-on, it seems like the interest rate curve is dropping even faster than what we expected in that turning point, probably end of the year, beginning of the next year, maybe even earlier.

So interest rates going down, demand going up could increase the rental demand in a context where we have been getting market share. We have been growing the fleet even though not much in a context of a reduction in the market. So we are still taking up market share and getting ready for that turning point.

Bruno Amorim:

Thank you.

Luiza Mussi, Safra:

Good morning. I would like to understand a little more about the subscription cars. So if you can tell us about the demand in that, and how you are capturing synergies. Thank you.

Nora Lanari:

Thank you for your question, Luiza. As Rodrigo mentioned, the demand in Fleet Management, in general, it's very robust. And I would like to include B2B, so the Fleet Management and also subscription cars, we have seen that going well, good brand recognition. We have new features in our app, and the NPS is at a level of excellence. So there's a high demand and a big market for that. We are very optimistic about the growth of that segment.

I would like to remind you that the 2Q was impacted, as Rodrigo mentioned, by a hiatus of purchases between May and June. So we allocated less cars to that division. So the backlog is 21,000 cars, we will allocate them in the upcoming months.

About synergies, they have been captured. They are being captured according to plan. The Company has prioritized in the first 3 months of the carve-out following the integration of the front office. So you see the branches and the new Seminovos stores that have been integrated. And now, we are looking more at the back office. That's even the justification of the margin that Rodrigo mentioned implementing a combined ERP and so on.

So we decided to give guidance on the synergies, but they are according to plan, not only in car purchase. And in maintenance, we also believe that the decommissioning of cars has given us a lot of opportunities in synergies.

Luiza Mussi:

All right. Thank you, everyone.

Alberto Valerio, UBS:

Good afternoon. Thank you for taking my question. Trying to see the new level of depreciation per vehicle, we have realized that in the past 8 quarters, it's a bit higher in the Seminovos line compared to before the pandemic. So there's maintenance. What can we expect for this moving forward? And considering the price that you paid for that car and the price that you are selling it today, and first in/first out of the cars, it was higher than 5% in the last 8 quarters. So what can we expect moving forward? Should that line of cost of goods sold be higher, or the depreciation, since you had heavier maintenance, would that line be equal to the price of what you paid for that car, minus the depreciation of that car? Thank you.

Nora Lanari:

Thank you for your question, Alberto. Conceptually speaking, taking a step back, let's explain how the depreciation. It's the purchase price minus the estimate of the price of sale and minus the sale expenses.

And to prepare that car for a sale, we should have a gross revenue to cover the SG&A of Seminovos and have low-single-digit margin left over. That's the concept. But we do have some moving parts in that case. We still have cars in RAC that have lower book value and lower mileage, and we decommission those cars.

And by the end of the year, we should have had all of the decommissioning. And then you have left over book value resulting from the beginning of the sales of the cars that were sold before the pandemic a bit more premium. So less mileage on those cars and more high end. So that should reflect on price. But conceptually speaking, the gross profit should be enough to cover SG&A of the Seminovos, which is approximately 5% to 6% today, and net margin of 2%, 3% as a general rule.

Alberto Valerio:

Just a follow-up on that. Can we consider that level of depreciation that we had pre-pandemic, should we see that in the future? Approximately 4% of vehicle value? Or should it be higher than the 4%?

Rodrigo Tavares:

It will be a bit higher, given some factors. So we have been talking about 7%, 8% because of some factors. First of all, thinking about the mix, that changed a lot in 2019. We did not have smaller SUVs. There was a smaller share of SUVs. So you have an effect of car mix that depreciated more because they just devalue more. It's not necessarily a problem, provided that the tariffs can handle that.

You have sedans that have higher depreciation, but it has a higher return because consumers really appreciate those cars and are willing to pay that rate. So first of all, the mix changed a little, so you will not have that. The second, we have extended the terms. So a part of that depreciation, you can see that in financial expenses and in accounts payable for suppliers. So the 4%, looking forward, shouldn't come back.

Alberto Valerio:

Thank you, Rodrigo and Nora.

Victor Mizusaki, Bradesco BBI:

Good afternoon. I have two questions. First of all, could you talk about the working capital dynamics for the 2H, accounts to suppliers and an improvement in used car sales for the 2H? Do you think things can improve, given that there's a comeback on that?

And second question, about Mexico again, could you tell us how you see the contribution margin in Mexico compared to Brazil? Thank you.

Rodrigo Tavares:

Thank you, Victor. About working capital, we should see an improvement in the 2H23. And given the automakers' terms and expediting the sales in Seminovos, the dynamics to generate cash and cash burn should be better in the 2H compared to the 1H23, basically for 3 reasons: generating cash from rentals should increase with more fleet and with tariff and in rental coming back, and little by little, lower innovation CAPEX, even though it's not in the very short term, that also has an effect. The drop in the interest rate burns less cash and an increase in payment terms. And with the growth, there's also a positive effect in working capital. So that should happen in the 2H, so better cash generation in the 2H23.

About Mexico, still early for us to compare. We are setting up a team in Mexico. We want to service our customers well. We want to have the same levels of compliance in Mexico. That's essential for us. But what I can say for now is that the rates in Mexico are higher than Brazil. Cars are cheaper and interest rates are lower.

So there are great conditions for us to have a contribution and ROIC spread at the levels that Localiza aspires. But today, we are talking about very restricted number of cars. And it's not our focus in the short term to reach the contribution level. We are testing the ground. And you can be sure that our capital allocation will be very disciplined, and we will only expedite capital allocation when we are sure that the return will be achieved.

Victor Mizusaki:

Great. Thank you.

Regis Cardoso, Credit Suisse:

Thank you for taking my question. A follow-up on the entry-level cars, and then a question about the overview of the segment and capital allocation. About the entry-level cars. Rodrigo, can you mention the effects on the pace of purchase and sale? And here, I am thinking of the effects on the Seminovos business. Did people stop buying before the program, expecting the announcement? Did they buy more during the program? Did it go down later? So I would like to understand that effect. And not just on the sale of Seminovos, but also on the purchase. You already mentioned that a little.

And a teaser on the entry-level car is that it seems to me that the program was a catalyst to drop the list price of cars. That was probably already overdue, given a deflation in the industry cost and the BRL

appreciation. But there's always that expectation from the automakers and a concern that it could be a detractor in vehicle depreciation compared to other automakers, or competitors. So the teaser is to say that maybe part of the price list drop would not come back after the program. So are there any metrics or numbers for specific models that you can mention that would prove or not confirm that theory? That's about the entry-level car.

And another quick question, what do you think would be the best avenues for capital allocation? And in subscription cars, I remember there was a discussion about credit risk about being this type of CDC. And on the other hand, Zarp, it may have a more positive dynamic. So I mentioned those 2 things. Maybe not too obvious, but that would be, I do not know, part of the allocation.

Rodrigo Tavares:

Perfect, Regis. Let me talk about the provisional measure effect. So the rumor started in the second week of May, maybe the 10th. Since we did not have much information, we immediately stopped buying. So in the beginning of the second week of May, we stopped buying because imagine an effect that would lower the car price by R\$8,000 is more than depreciation. Now expect days or months to buy a car with a benefit would make a lot of sense.

So on the 10th and 12th of May, we stopped buying cars. Back then, we stopped buying 100% of the cars. On May 23, if I am not mistaken, the government gave us more flavor about the program without giving any details. Actually, the 25th of May, without giving the details about how the program would work. So we still did not buy cars, and then we had to make a decision, how much we could decommission and how much we would sell.

And the first program that the government launched way back was supposed to last 3 months or 4 months, and it lasted 2 years. So back then, we decided to decrease decommissioning and sales because in the event the program would last for individuals alone for a longer period of time, we would have more time to lower our purchase pipeline and sale pipeline without affecting rental.

And if the government extended that and gave that only to individuals, we would have to make a very different difficult decision. We would have to buy cars at worse prices than individuals or decrease our fleet, and that's something that we did not want to do. So back then, the best decision was to decrease the rate of decommissioning in sales so that we could have more time to make a decision in the future.

When the measure was published in June and for individuals alone, we decided to not buy. And then for the ones that are higher than R\$120,000, they were okay for fleet and RAC. And then in the last 2 or 3 days of the month, basically, where the government extends the program, another R\$300 million, and then approves it for corporates, then we bought fast. We bought almost 30,000 cars from June to beginning of July, and 23,000 are within the benefits of the provisional measure. So that really affected that balance of purchase and sale.

About your other question, that's a harder question. Automakers would probably not lower their list price. We were seeing some bonuses for consumers, shy bonuses, I would say. And we monitor that. Not too strong, but just for some specific cars with provisional measure. They lowered car prices, and some even a little more than the benefit.

But what happened in most part is that the automaker included the bonus that they were giving in the ad as marketing. So in fact, car prices dropped, in fact, according to the provisional measure. And now

automakers are bringing the prices back up. But they are doing that in the context of the model year 2024. They are bringing up the price in the model year 2024, but they still have model year 2023 at a discount, at lower prices.

So the perspective, even given the financial terms of the automakers, is that they should go back to that price, and we shouldn't see deflation unless we see the U.S. dollars at very low rates and generalized drop in commodities, there's no expectation on the automakers' side to drop their prices, at least in the short term.

In regards to the avenues of allocation, especially in the short term, you are going to see fleets and the Neo, the subscription car with a strong growth. So fleet in the short term should have a higher allocation of capital. We already see the demand heating up in rental, starting off with the daily rent and then goes through the app and then monthly rental. That should be in that order that we should allocate capital.

And marginally, but also with growth in heavy vehicles. And Mexico is still very small. Like I mentioned R\$12 million in the quarter. Most of it was in expenses in cars, of R\$1,000 in some cars. In Zarp in the 2Q, we raised the rates a lot and the demand settled. And now we see the return on growth. So as I mentioned, the corporate rental should be increased in the future, and Zarp has increased that now.

Regis Cardoso:

Okay. Thank you for your answers.

Operator:

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

Rodrigo Tavares:

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

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