



### 3Q23 Webinar Transcription

Operator:

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Good afternoon, and welcome to the Localiza's earnings release call referring to the results for the third 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](https://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.

For the Q&A session for analysts and investors, we advise you to signal your interest in participating, through the Q&A icon, on the bottom button of your screens, indicating your NAME, INSTITUTION and LANGUAGE. When called, a request to activate your microphone will appear on the screen.

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We inform you that the values of this presentation are in millions of Reais and in IFRS. We emphasize that the information contained in this presentation and any statements that may be made during the videoconference, regarding Localiza's business prospects, operating and financial projections and goals, constitute beliefs and assumptions of the Company's Management, as well as information currently available. Forward-looking considerations are not guarantees of performance. 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 over to Rodrigo Tavares, CFO of the Company, to begin the presentation.

**Rodrigo Tavares:**

Good afternoon, everyone.

We advance another quarter confident that we are on the path to growth with value creation, always seeking to innovate in order to exceed our customers' expectations. Continuing in this direction, this quarter we saw an improvement in the demand for **Car Rental** and a robust growth rate in **Fleet Rental**, with the number of daily rentals increasing by 25.5% in the annual comparison, driven by the strong demand for fleet outsourcing and cars subscription. **Seminovos** showed important progress in the network expansion process and in the sales volumes. In the quarter 12 new stores were opened, which will contribute to the gradual expansion of retail sales, and around 57 thousand cars were sold. Additionally, we purchased approximately 76 thousand cars, resulting in an addition of approximately 19 thousand

vehicles, surpassing the mark of 606 thousand cars in the fleet, displaying progress in all of our businesses units, maintaining our customer vision and NPS – net promoter score at a level of excellence.

In July, we started our operation in Mexico with approximately 900 cars, distributed in two branches located at Mexico City and Cancún airports. We believe we can leverage our skills to improve the customer experience, develop the market and increase rental accessibility in Mexico.

Despite the advances, we faced major challenges throughout this year with inflation and high interest rates persistently high and an adverse scenario for the sale of **Seminovos**, due to the level of car prices and higher interest rates for financing, added to a fleet with higher mileage and a sales mix more concentrated in wholesale.

In this context, we remain tireless in the search for productivity gains and cost reductions through the use of technology and operational efficiency. Furthermore, we remain focused on the growth of **Seminovos**, by rejuvenating the fleet, improving the decommissioning process, increasing productivity, and opening new stores.

At last, we are honored to be recognized again as one of the 10 best companies to work for in Brazil by Great Place to Work and to win the Company of the Year award in Exame magazine's Biggest and Best of the Year ranking. We continue to promote an environment of high engagement among our employees, thus increasingly delighting our customers and generating extraordinary results, always aligned with our values and the highest ethical and governance standards.

**To summarize, in this quarter we have 4 main messages:**

- Advance in the integration process with reflexes in rental margins
- Resumption in demand for all Rent a Car segments, with a positive trend head to peak season;
- Strong demand for fleet outsourcing and subscription car;
- Still challenging Seminovos with:
  - High mileage inventory sold in wholesale;
  - Demand impacted by restricted credit and high interest rates
  - New car prices inflation, not captured by Seminovos cars

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

**Nora Lanari:**

Thank you, Rodrigo, good afternoon, everyone.

Heading to **page 2**, as we have been doing since the beginning of the business combination process, we will present the quarterly results adjusted by the write-up amortization one-off effect, which impacted net income in R\$38.6 million

This quarter, we had a positive effect of R\$60 million in the financial expenses related to the additional PVA reversion and discounts obtained from OEMs in the context of the popular car provisional measure. These effects weren't adjusted in the result.

At last, with the kickoff in Mexico operations, we'll start to report its financial indicators in separate.

Going to the quarterly highlights, on **page 3**, we display the addition of nearly 19 thousand cars, stamping a growth resumption. In the graph to the right, we present the consolidated net revenue, totaling R\$7.3 billion, advancing 19.3% in the quarterly comparison.

Net income added up to R\$703 million, excluding the write-up effect, and the accounting net income totaled R\$665 million, growth of 56.9%. We kept leverage at a comfortable level, with the ratio net debt/fleet value at 0.57 times and net debt/EBITDA LTM at 2.77 times.

Getting into the details, we'll start the presentation by the operation of Car Rental in Brazil, at **page 4**. Net revenue in this division surpassed R\$2 billion, growth of 3% in the year over year comparison, even with the carve-out divestment effects, which still impacted volume in the year over year comparison. If we excluded the carve-out effect of the comparison basis, volume would grow 10% and revenue 24%.

On **page 5**, we displayed an advance of 10.3% in daily rental rates year over year, reaching R\$119.4 in the quarter. Utilization rate displayed a growth of .7 percentage point but advances 2.1 percentage points in the sequential comparison.

Heading to **page 6**, we display the rental locations evolution. After reducing the number of branches in 2022, given the carve-out, we resumed growth in our own network with the opening of 10 branches in Brazil and 2 in Mexico, raising our proximity and convenience for our customers. We ended the period with 701 branches in Latin America.

Moving on to **page 7**, in the Fleet Rental division, we remain at a strong growth pace, with net revenues reaching R\$1.7 billion, growing 49.2% when compared to 3Q22, reflex of a 25.5% growth in daily rentals.

Going to **page 8**, we display an average rental rate of R\$84.29, advancing 19.3% in the quarter, reflecting the capture of higher prices in new contracts and the fleet mix. Utilization rate presented a slight reduction of .5 percentage points in the 3Q22 comparison but shows growth in the sequential comparison.

Moving on to **page 9**, we show the car purchase and sale balances. Despite the challenging context in Seminovos, especially due to higher price levels and vehicle financing rates, we saw a substantial increase in sales volume in the quarter, when compared to the same period of the previous year. 56,963 cars were sold, and 75,819 cars purchased in the quarter, resulting in an addition of 18,856 vehicles, marking the resumption of fleet growth.

On **page 10**, we present our Seminovos network, which ended the quarter with 207 points of sale. Throughout the year, 21 stores were opened, with the aim of regrowing the network. From 2021 to 2022, we had the carve-out effect, with the sale of 22 stores in the context of the restrictions imposed by the CADE, in addition to the reduction of 10 Locamerica stores. The movement of store openings should continue throughout 2024.

Continuing on **page 11**, we present the average purchase and demobilization price. In the car rental division, the average purchase price for the quarter was R\$83 thousand, reflecting the purchase mix and inflation in the price of new cars. The sales price was R\$60.2 thousand, reflecting a sales mix more concentrated in the wholesale channel and cars with higher mileage. The integration and standardization

of car deactivation processes throughout 3Q23, added to the continuity of the fleet rejuvenation process, should contribute to an increase in retail sales in 2024.

In Fleet Rental, the average purchase price of R\$100.2 thousand reflects the mix also composed of heavy and special vehicles, in addition to light vehicles headed by our subscription car, while the average sales price of R\$64.8 thousand is composed almost exclusively of light vehicles. The sequential reduction in the average sales price also reflects the more concentrated mix in the wholesale channel.

On **page 12**, we show the increase in the end of period fleet, which reached 606,843 cars in the third quarter of the year, a net addition of 3.5% in the annual comparison despite the carve-out, an increase of 20.6% in the Fleet Rental division and an 8.8% reduction in the Car Rental division. Our operation in Mexico ended the quarter with 921 cars.

Moving to **page 13**, we see that, in the annual comparison, net rental revenue grew by 20.0%, with a 3.0% increase in the Car Rental division and 49.2% in Fleet Rental, while the Seminovos revenue grew 18.5%. As a result, net revenue totaled R\$7.3 billion in 3Q23, an increase of 19.3% compared to 3Q22.

On **page 14**, we present an EBITDA of R\$2.7 billion in 3Q23, an increase of 12.5% compared to 3Q22. We reaffirm the quality of the company's operating results, reflected in the increase in rental margins. In the Car Rental division, the margin of 64.7% increased 5.8 percentage points in relation to the adjusted margin of 3Q22. In Fleet Rental, the margin of 73.7% remained stable in relation to the same quarter of the previous year, which had been positively impacted by the effect of R\$102.9 million, referring to the report on acceleration of depreciation for tax purposes. In this quarter, the impact related to this report totaled R\$28.7 million.

In the quarter, the Seminovos margin of 2.4% reflects the continuation of the convergence's cycle to historical levels and the more concentrated sales mix in wholesale, made up of higher mileage cars. We highlight that in 3Q23, we aligned and integrated the processes for car demobilization, which, added to the continued rejuvenation of the fleet, should gradually contribute to improving the channel mix.

On **page 15** we see the evolution of the average annualized depreciation per car. In RAC, the rate of depreciation growth slowed for the second consecutive quarter, reaching R\$6,738. The sequential increase in depreciation is explained by the renewal of part of the fully depreciated cars.

In the Fleet Rental Division, the average annual depreciation reaches R\$6,130, reflecting the renewal of part of the fully depreciated cars and the mix of special and heavy vehicles added throughout 2022. The greater depreciation is reflected in the price of new contracts.

Moving to **page 16**, we see that EBIT adjusted for write-up reached R\$1.7 billion in the quarter, a reduction of 3.0% in comparison to the adjusted EBIT of 3Q22. Accounting EBIT shows growth of 11.8% compared to the same period of the previous year. The lower EBIT margins of the Car and Fleet Rental divisions reflect the increase in car depreciation, as well as the normalization of Seminovos' results.

On **page 17**, we present an accounting net income of R\$664.7 million, an increase of 56.9% compared to the same period of the previous year. Excluding non-cash impacts arising from the write-up amortization, adjusted net income totaled R\$703.3 million in 3Q23. Increase of 3.1% when compared to the previous

year, reflecting the positive effects of the growth in operating results; the reduction in financial expenses positively impacted by the reversal of the PVA and the effect of discounts obtained from car manufacturers in the context of the Popular car provisional measure; and the reduction in income tax and social contribution, partially offset by the increase of R\$348.8 million in depreciation of cars and other fixed assets.

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

**Rodrigo:**

On **page 18**, we display the Free Cash Flow. During the year, the R\$4.7 billion generated by the rental operation was consumed by CAPEX for fleet renewal and growth. The integration and standardization of the car deactivation processes, added to the continuity of the fleet rejuvenation process, should contribute to an increase in retail sales throughout 2024 and a consequent reduction in replenishment capex.

On **page 19**, we see that the Company ended the period with net debt of R\$26.9 billion.

Moving to **page 20**, we present the debt profile and cash position of R\$9.7 billion. Including issuances and amortizations announced until October 31, 2023, the Company would have around R\$10.0 billion in cash.

On **slide 21**, we present comfortable debt ratios, mainly evidenced by the net debt over fleet value at 0.57 times.

On **page 22**, we present the annualized ROIC of 13.6%, with a spread of 3.8p.p. for the after-tax cost of debt. The ROIC spread reflects the adverse Seminovos market, in addition to the capital base arising from the business combination priced at lower spreads.

The beginning of the interest easing cycle, combined with the rejuvenation of the fleet, gains in synergy and operational efficiency, in addition to the pricing of new contracts aligned with the Company's return strategy, should bring the ROIC spread back to the historical range throughout 2024.

We are now at your disposal to answer your questions.

**Luiz Capistrano, Itaú BBA:**

Good morning. Congratulations on your results. I would like to hear more about two topics. First of all, you mentioned that you are very optimistic about GTF, and we also are optimistic because we believe that the rate at the end is higher than the base. So I would like to understand the gap today based on the contract that's being closed at the end, the yield in monthly revenue, if you can give more information about that. And how long would it take us to see that new pricing levels coming to the numbers that we see at the end?

And about rent-a-car depreciation, I would like to know a little more. It stood out to us that the fact that depreciation was flat given that you still have vintage 1 being replaced by vintage 3 and that makes depreciation go up, even though it's increased, it feels like it didn't increase too much. So is that a result of little change from vintage 1 quarter-over-quarter or maybe changing something in vintage 3 to justify

that number being a little lower, so we can explore the microdynamics of unit depreciation of rent-a-car in this quarter. Thank you once again.

**Rodrigo Tavares:**

Thank you, Luiz. Actually, you are right. GTF with the new contracts, they are priced, and it's always replenished looking at the future curve, new depreciation, new base of capital. And given that the average term in fleet is 36 months, you have some time until you are able to renew all those contracts.

What I can try to help in this case, let's consider that the new contracts have a yield of approximately 3%, about compared to the current base. So in fact, it's a positive trend and how these contracts are priced again according to the new standard about depreciation. In fact, we expected that it would continue to go up, and it still should continue to go up even marginally or gradually different than the past.

And in fact, in this quarter, we had higher sales of vintage 2 cars. Vintage 1 are still being sold. We still have cars in the vintage, with more robust sales of vintage 2. For those that do not remember, vintage 2 were the cars that were acquired during the pandemic, which was a more premium mix, but worse discounts and worse terms, so we have higher depreciation. So those two effects still made depreciation go up even though it's marginal.

We hope that, that depreciation remains at levels to become stable again, but that would happen gradually.

I would also like to remind you that in the GTF market, we have been able to the adjust prices, but it's still very competitive. We have seen an increase in competitiveness and more movements from other players, but we always have our discipline of allocation. That is why, like I mentioned today, we are at approximately 3%.

**André Ferreira, Bradesco BBI:**

Good morning. Congratulations on your results, and thank you for taking my question. I have two. The first one is more on car sales in wholesale. So I would like to understand what did that result from? Is that a specific vintage? Or is that recurring? Will we see something more of that in the next quarter?

Second point, about the operations in Mexico. Is it going to be ramp up? What are the next interesting locations? And what are your expectations in normalized margins when you are in cruise speed?

And a follow-up about Mexico, I would also like to understand competition in terms of pricing. What's the level of maturity in terms of pricing for that market? And how would you compare that to Brazil?

**Rodrigo Tavares:**

About wholesale, first of all, the fleet did go through an aging period. Now we are expediting sales. And usually, the cars that have higher mileage, they are sold in wholesale. And plus, because we have our brands associated to that since their worst quality would not be ideal to sell them in retail.

And also, in the combination process, we had two processes to decommission, one where we would prepare the wholesale car, and that led to the quality of inventory being lower to the standards.

So what's happening now is stronger sales in wholesale. And that will still last, especially in the 4Q. It should be even intensified as we expedite the sales and clear out these higher mileage cars. Obviously, when we think of formality, we see 45%, 50% of a retail mix, but we are working under 40%. But still, like I mentioned, it's not temporary in the 3Q. We will still see that in the 4Q definitely and probably still in the beginning of next year.

About Mexico, this is a long-term project. We already have three stores, and we are going to open more by the end of the year. Right now, we only have 900 cars in Mexico. So it's a very low share still. Rent-a-car has 30,000 vehicles even though the GDP is twice of Brazil, very robust flow of tourists. It's a market that's some decades behind the Brazilian market and could show a potential.

But we cannot forget that this is a long-term project. We are going to invest. We have set up a strong team. We are implementing systems and processes. So we should see that normalization, I would say, in three to 5 years only. So the main thing is to actually create a unique experience for our customers, so that would increase our share in that market.

As we promised in this last quarter, our commitment with transparency, from now on we will show Mexican results and do that from now on. In terms of pricing in Mexico, the market is still at a very low maturity level. And that's why there are many inefficiencies. Today, the rate in Mexico, when you are going to make a reservation is pretty much double the Brazilian's rate, even lower interest rates and lower car prices than Brazil. So it goes to show that it's not a mature market yet.

We are taking this very slowly and carefully. It's a long journey, and we want to transform that market.

**Guilherme Mendes, JPMorgan:**

Good afternoon. Thank you for the opportunity. I have two questions on my side. First of all, I would like to hear from you about the growth balance when we look at 2024 and even 2025. And when you showed a strong demand in all the subsegments of RAC, in GTF and subscription cars. So what's a sustainable level of growth for the next years? And what are the main bottlenecks? I understand that Seminovos is a bit more challenging, but with a drop in interest rates, it should get better. And there's also about the size that Localiza has achieved. And what's the level of a sustainable growth moving forward? If you can compare that to last year, that would be very useful.

And the second point is about heavy vehicles. You did mention in the fleet ticket, part of that was a result of the heavy vehicle mix. Can you talk about the evolution of that segment, the competitive scenario, the scenario of buying the Euro 6 trucks, that would be very useful?

**Rodrigo Tavares:**

First of all, I think the positive note on that quarter is the recovery of Rent-a-car, especially in the 2Q, where the rates went up and the demand went up. And now we see a recovery in the entire segment. Even in the corporate segment, individuals was strong. And as we imagine, still strong, ride sharing is very

robust, even with an increase in the rates. And now corporate segment is growing again. So that's the good news for this quarter. And we believe that the 4Q will be very positive in that sense.

And when we talk about growth, I am going to take a step back. At the end of the day, growth for us is growth of low capital because as we need a ROIC spread based on the capital base, even more than talking about cars or revenues, the important thing is our growth in the capital base. When you look at the past, you will see that it's greater than 30%.

And obviously, that goes into a more normal standards, but the important thing for that long-term growth is a share of many of our segments is still very low, not only in fleet management, large companies and small companies and car subscription, but even in RAC. We saw strong resilience of the demand in the industry that's pretty much elastic. So that inflection of the demand coming back in RAC will enable us to grow still.

But more important than the figures, because the market determines the figures. And obviously, the share shows that there's still room to grow, it's important to see that we need to grow in a way that would lead to the ROIC spread in the past. So that growth level will depend on those two things: market demand that we still believe that there's a lot; and in our skills, by efficiency or price transfer to achieve that ROIC spread. Today, we are under our historical levels and understand that next year, we are going to go back into that traditional rate.

About the heavy vehicles, we have exceeded the mark of 5,000 trucks and we are still growing. And we have been very disciplined. At some point, we should separate that. We are in fleet and it's also important to mention the part that also impacts the fleet figures.

And especially depreciation today, we depreciate a truck at approximately R\$35,000 per year. And obviously, today, it's in the middle of all those figures. And when we actually have the controls and everything to be able to separate those figures correctly, we will do that so we can give more transparency to the market.

**Lucas Marquiori, BTG Pactual:**

Good morning. I would also like to talk about ROIC spread, Rodrigo. You mentioned the expectation of going back to the regular levels during the year. You did mention the levers of a normal ROIC spread and one of them would be repositioning the rates in RAC. And space for that in RAC is a bit lower right now. So I would like to update that with you. What are the levers now that are available so that you can recover the historical ROIC spread?

And the second topic, which is brief is the expansion of the Seminovos network. You mentioned opening 20, 30 stores this year. So I would like to know the plans for next year. And a bit of the strategy, locations, maybe a mix of the geographies that you are attacking, what type of region that will you see that you have room to increase Seminovos.

**Rodrigo Tavares:**

About ROIC spread. There are some levers that are very natural. Cost of debt will go down. Just as a matter of reducing or lowering the cost, you will have an increase in the spread. So I believe that your question was in line with ROIC, right? We are still seeing room for the rates. In the second half, we have seen more elasticity from the market and higher demand that we expected in Rent-a-car and that could give room to reposition the rates and should support us to achieve the ROIC spread in the short term, but that's going to be a process in 2024.

Rejuvenating the fleet gives us gain in variable costs. And about synergy, we already see some gains taking place through the dilution of fixed and variable cost, but we have a number of different measures here and many different levers to lower the cost and improve efficiency, be it through theft, bad debt, productivity of staff and so on. So there's going to be a combination of many of those different factors. And the rate could still advance with that decreasing and then many efforts in efficiency.

In terms of expansion, in Seminovos, we will continue to open many stores. We will open dozens of stores in the upcoming years. So 12 in this quarter does not seem like an abnormal rate. We should continue to open stores at that rate moving forward. And when you compare that pre carveout, we have less stores than before. So we have a lot of room to grow.

About the cities, there's a lot of opportunities, be it in the cities that we already are because do not forget that Brazil has almost 40,000 stores when you look at the small car sellers in Brazil. And we have a little over 200. So our footprint is still a bit shy compared to the entire Seminovos stores market in the country. So a part of those stores will come from the current cities, increasing the density, and in other cities that we can have that opportunity. But the rate should be similar to what we have.

**Nora Lanari:**

I would like to add, Lucas, we still have a lot of gains and productivity to capture and we believe that lower interest could help, and more available credit could help that market next year. But we are doing work not only to increase the density in current stores and opening new markets, but also strongly looking at productivity as well.

**Bruno Amorim, Goldman Sachs:**

Good afternoon. I would like to address two topics, please, starting off with the dynamic of Seminovos. In a way you have mentioned this already, but I would like to hear a little more about what you hear at the end demand credit for Seminovos, the price realized in Seminovos vis-a-vis what you expected in the beginning of the year, if you think that's going to decrease or improve according to the scenario in the beginning of the year.

So I would like to know how Seminovos is doing at the end. And how does that look for depreciation outlook. Seminovos margins has normalized back to 2%, 3%. So maybe the doubt that I have is what happens to depreciation. We have already seen normalization that had to happen. Is it really happening? Do you need any more adjustments moving forward? So that's the first topic that I wanted to address.

And actually, that's a follow-up to the comment that you made that at the end, it was a challenging scenario and the Seminovos prices weren't following the prices of new cars. And the next topic is the follow-up in the growth dynamics, thinking of the 4Q 2024, Fleet Rental has been growing 4% per quarter. So I would like to validate if that's the growth rate mid-single digit, 5% a quarter. And about RAC, that is a segment that suffered more with volume and more recently and you already mentioned recently that it was a positive surprise. So can you think of RAC growing double digits next year? Or is RAC still single digit and fleet growing 5% per quarter maybe. Thank you.

**Rodrigo Tavares:**

First about Seminovos. Without a doubt, it's a more difficult scenario than what we had in many different aspects. The price of Seminovos cars is back after the effects of the provisional measure. So even with the one-off increase of brand-new cars, we do not see an increase in the Seminovo car prices. That's a market thing. When you look at that compared to the brand-new cars, that's a constant thing that has happened. So the market has credit restrictions, with higher interest rates, even for the brand new cars. It's a more difficult market in general. So without a doubt, the Seminovos market is a tougher market.

We talk about margin normalization, but still thinking of the quality of inventory and cleaning out the products, that margin still has space for improvement, getting back to normal. It really depends on market conditions, but we have not got into the floor of the Seminovos car in the short term. So we still have a challenging scenario ahead of us before seeing any improvements during the next year. So without a doubt, that's about Seminovos.

And depreciation, as I mentioned, it's a marginal impact, and it's more in the middle term, in a life cycle of 18 months where depreciation is diluted. And we have also expedited the sale of vintage 2, replacing it by a new vintage with a positive effect and the perspective of depreciation still is of marginal gradual adjustments before it starts to drop. So the Seminovos scenario without a doubt is a challenging scenario.

About growth, it's worth noting that we are talking about RAC and it suffered with volumes. It's important to note that if we exclude the carve-out effect, Rent-a-car is growing 25% in revenues year-over-year, and that's great growth even in a challenging scenario.

Once again, we see recovery of Rent-a-car and that's the best news that we have in this quarter without a doubt, and a potential of growth for next year.

So I will not give any specific figures or indications, but we believe that Rent-a-car may go back to growth next year, and fleet will have a very positive dynamic. Car subscriptions are still strong. And even given the corporate demand, it's a robust demand.

So once again, it's a very competitive market. It's a market where most of the competition is focusing more on the fleet market and that increases the competitiveness level. Both segments have a potential for growth without a doubt next year.

**Bruno Amorim:**

Thank you, Rodrigo. Going back to Seminovos, you mentioned one of the things that makes it difficult to sell is probably the more restrictive credit. At the end, you see more restriction in credit for Seminovos compared to new cars. So the question is, why Seminovos is underperforming? Do we see a reversal of the additional demand for Seminovos in the pandemic and now we see a reversal of that effect, and potentially Seminovos was doing well compared to brand-new cars, and now it's back to normal? Or is that temporary? Just to explore that a little more. So why is that happening at the end? And is that sustainable, permanent or temporary?

**Rodrigo Tavares:**

About deterioration, we are growing the volume of Seminovos. When you look at that quarter-over-quarter, year-over-year in the quarters of this year. So about financing, that's a bottleneck, it was even worse. It's getting better. But the market in general, the car market in general is softer. And to me, the main point is car prices went up too much.

During the pandemic, there was a restriction of car supply and then there was a problem that was a restriction via supply after that for a sale. The higher car prices plus higher interest rates with credit restriction affected not only brand new cars, but also Seminovos, used cars.

So we should see these prices settling as income levels go up or inflation goes up. And if the car prices go up less than inflation levels, the purchasing power related to cars should get better and that should go back to normal. But with an increase of interest rates and increase in car prices, you have that elasticity of demand.

And in brand-new cars, the same thing is happening. Direct sales have been beating record after record, so in my opinion, those are the two factors. Strong increase in car prices combined to higher interest rates, and the credit has been improving. We have sequentially seen that improving.

**Nora Lanari:**

Bruno, specifically about Localiza, if I could add here. I would like to stress that we still have a mix that's "unbalanced." We have more cars in wholesale with higher mileage. As the rejuvenating process gets better and during next year, we are going to have two effects: a retail channel makes that's more representative, meaning higher sales with higher prices and then we can sell vintage 2 that has that a higher price as well.

So specifically about Localiza, we still have to clean out that inventory, as Rodrigo mentioned. That should take 4Q and a good part of 1Q. And then we are going to have a healthier sales mix, and that could contribute towards that volume and sales price to increase during the next year.

**Lucas Barbosa, Santander:**

Good afternoon. I have a question about Seminovos. That's today's topic, I guess. More specifically about wholesale. This year, Localiza was more dependent on wholesale given the age of cars sold and mileage. I would like to focus more on the dynamics of the wholesale industry. Have you felt that the political

discussions this year in the credit crunch in the corporate market somehow affected the appetite of wholesale buyers?

And then my point is maybe this year, now that you have a higher dependence on wholesale, the wholesale buyers were less likely to buy cars and build up inventories. So I would like to know about the demand of a softer demand in wholesale that has affected you and understand if that could be a one-off matter that maybe next year, we are going to have normalized wholesale demand next year?

**Rodrigo Tavares:**

I do not see that specific effect in wholesale. There was a general effect in the market because wholesalers have to sell to end users at the end of the day. And there's more capillarity in that in car distribution. And at Localiza, what happens is car goes to wholesale or retail depending on its quality, even more than the supplier demand, and then we try to adjust that through tariffs and rates and prices. But the quality of the car is what decides which channel it's going to be sold in. No specific effect, though.

Regarding wholesale, we were able to solve a growing volume of cars in wholesale. So once again, I do not see anything different regarding wholesale and retail. Obviously, as cars get younger and the quality of cars get better, we will increase the number of cars that will go into retail. And with that, we need more stores, more teams and so on.

Next year, we are going to have cars with lower mileage. So definitely, we will see higher percentage of those cars going into retail. So most of the growth of Seminovos should come in from the retail channel.

**Lucas Barbosa:**

Very clear, Rodrigo. Maybe a follow-up to that: average age of RAC sales is 29 months, and that has been a while for some quarters. How should that evolve for the upcoming quarters?

**Rodrigo Tavares:**

Still gradual. We still have a volume, especially the used cars, the 1,000 cylinder cars that are still older. More important than the age is the mileage. We should see high mileage still in next year, and even in retail, and that would gradually improve.

We had a fleet peak in rack of 16 months of average age, and getting that close to the end of the year to go down to under 12 months. Maybe at end of next year, we probably will not reach what we had before, but more normalized levels. It's going to be gradual. That should gradually decrease, but there still is a volume, especially for 1,000 cylinder cars with more than 50,000 kilometers on them. We are going to have to decommission them and part of going to be wholesale and part retail.

**Rogério Araújo:**

Good afternoon. Thank you for taking my question. I have 2. The first one, I am having some trouble because there's a lot of moving parts in the Seminovos thing. I would like to hear from you. It's hard for me to understand what's mix, what has to do with the vintage and what has to do with the worse market in a higher depreciation, margin that's already normalized in RAC. And what I do not understand is, maybe

you have a new car market where the price increase has adjusted in volume, but the 1- and 2-year aged cars can have such an adjustment in volume.

Most of that market are the car rental companies, and they are still growing and they probably would not increase the vehicle cycle or the fleet. So it's hard to adjust the volume of that market, and there's a price adjustment. And that were since depreciation for the first year and second year and maybe even a structural manner.

I would like to hear from you if that worse effect could be more structural, a purchase and sales spread that gets worse moving forward. And the expectation of depreciation, do your cars include that already? Or do we see a scenario where the Seminovos market does not necessarily improve even though the mix does, so we are going to have to see a new scenario of depreciation and price transfer. That's the first one, and then I will go on to the second.

**Rodrigo Tavares:**

It's hard to give you accurate information on that about structural change. We had a pandemic period with very low interest rates and 2% and the car price is pretty much doubled. So now things should settle, but it's still early to talk about structural changes.

On the other hand, depreciation depends on two factors, depends on the purchase and the sale. The purchases get better, already negotiating the contracts for 2024 and definitely conditions, be it the terms or the mix are much higher than what we had in 2023.

So about the market, we always have to look at the two sites. So it's a more challenging market in Seminovos and that translates to a challenging market in new cars as well. So there's no reason to think that structurally, we have changed about the market, all the factors that you mentioned are taking place and the market is more difficult, especially in financing and interest rates, purchasing power, considering the car prices and the quality of cars that I am mentioning is not a lower factor.

About cars 1- and 2-year aged cars. And wherever you look for the references for the cars, you can see that it's further away from the brand new cars. And in the pandemic, we saw lower levels of historical differences. And now we should even be a little higher than the historical levels. But based on the purchase, I do not think we should see structural changes on the levels of depreciation.

**Rogério Araújo:**

Thank you, Rodrigo. Could you talk about the tax aspects? We have an approval of the tax reform in Senate, and now it's going back. Do you have a preliminary analysis about how the Company would be affected by that? If the ROIC spread would remain the same, if you had to pay more sales tax, would that increase the rates?

And a more specific question as well, the value-added tax, would that go on Seminovos and investments? That would help. Do you have any preliminary analysis of the impact of the Brazilian tax reform?

**Rodrigo Tavares:**

Like you mentioned, there's a lot of moving parts about income and value-added tax. Let me take this opportunity and explain the use of PIS/COFINS tax credits, because there's the reports and in our transparency, we are always trying to show the effect. So I am going to take a step back and say that the reports from the Institute of Technology says what should be the useful life of a car that's used in Rent-a-car and Fleet Management. And that's approximately 30 months.

So what's happening is that when you buy a car, it takes credit in 48 months. You only take that in the correct useful life after you get the report for that car. So we do not take the credit from the traditional useful life of the reports that I am mentioning, that's approximately 30 months.

So today, what's happening is that we only have 60% of our cars with the report. So you spend a period, you have a cut-off date and over a 3-month period for that process for the report. So we are always looking for that. And when we reach that level, where we have more frequent reports. If we start to take credit from the first day on the 30 months instead of the 48, the recurring profit would be higher and not lower, even with an effect of the report, that's very low like we mentioned. So we are doing that on a recurring basis and it's still under what it should be in recurring profit. If the entire fleet would be following the 30 months in Rent-a-car, and fleet varies a little depending on the type of car.

About the tax reform, interest on own capital, obviously, if there's not a counterparty on the rate of income tax, it would be direct and value-added still has a lot to happen, like you mentioned, right? So if taking credit is going to be at once when you buy the car. So how would you decommission capital. So there's a lot of matters there. In general, sales to corporates, they are going to take credit and most of them do not. I think that the effect would be positive or neutral. In individuals, we are going to have a higher impact. But there's so many things still to happen that it's really hard to be sure of any impacts at this time.

**Pedro Bruno, XP:**

My question was partially answered. But I would like to hear a little more about what you mentioned this last part Rodrigo, about the bargaining power. Looking at the purchase side, not just the sales side when we talk about Seminovos. You had mentioned direct sales on the high level that we have seen in direct sales. I would like to see what you see as healthy in this dynamic. So the extreme and lack of supply when the purchase was affected, especially to you when we think of the discount point of view, commercial negotiations and so on. And now, a scenario that was widely discussed in the dynamics and the demand in Seminovos. That pulls the scale to the other side. Where do you see things going back to normal in that sense?

And have you seen any structural dynamics for those negotiations, even thinking of the traditional discounts and purchasing terms? That's what we have been seeing in negotiations.

And lastly, just the dynamics of heavy vehicles. That was quickly mentioned in the beginning of the call. How do you see the dynamic of Euro 6 going into that discussion? Thank you.

**Rodrigo Tavares:**

The automakers are our big partners, that's something balanced and has to be sustainable for both sides during the pandemic. We have clearly seen a restriction of supply that led to a strong reduction.

And the good part for both sides is the mix and car subscription that's more lucrative for the automakers, and there's some improving conditions in terms. There could be some gains, but it's still marginal. 30 days depending on some of the automakers and we are getting an extension in the payment terms that supports working capital.

So the scenario is relatively favorable in that sense, in the Company's competitive position. It's hard to say, though, what would be a new balance where we could get, it's a daily discussion. It really depends on new car prices and official prices, public prices, and that's been going up. We have been seeing a difference in the one that's practiced. So that means discounts are dropping and you have to replenish that. So all those factors play in, in that equation.

So we hope that in 2024, we will have more advantages, conditions in terms than we have seen nowadays. And heavy vehicles, same thing. So the dynamic for Euro 6 is very similar even to the demand. We had a sharper drop because we still had a high inventory of Euro 5 being sold and with that, the discounts have been increasing in general. So it's a positive dynamic and we have to reach a balance that makes sense for the entire chain. But we do expect an increase in 2024 compared to 2023.

**Filipe Nielsen, Citi:**

Thank you for taking my question. Thinking about Mexico, going back to Mexico and going into the conditions in Seminovos, can you give us some details about the purchasing terms and conditions in Mexico? How have you seen these negotiations with the automakers abroad and the Seminovos dynamic abroad? If you see any relevant differences, what do you see in that? Thank you.

**Rodrigo Tavares:**

It would be fair to say that in car purchases, Mexico is probably 6 or 9 months behind Brazil. So the demand, it was undersupplied till the middle of the year. And now we actually see excess supply, and that has been advancing in purchasing conditions, still a small volume of cars, but the purchasing terms in the beginning of the year were not that favorable and now they have been significantly improving.

Our fleet is very young. So we still do not have any cars being sold and we should start selling through partners. It does not make sense to open a store to sell that first vintage of cars. And the cars depreciate more in Mexico than in Brazil, only the conditions, but also the depreciation dynamic of cars. It's not as much as the U.S. market but more than the Brazilian market.

So depreciation structurally a little bit higher than Brazil and purchasing has been advancing in a relevant manner. So now that's starting to happen in Mexico getting back to normal, like we see in Brazil.

And there's a lot of flow between Brazil and Mexico, so we may eventually have some sort of benefit in that sense. But still, the operation is still in the beginning, like I mentioned, 900 cars and the conditions will improve and should continue to improve as Mexico we are 9 months behind Brazil in terms of supply and demand, of course.

**Operator:**

Now, I will hand over to Rodrigo Tavares for his final remarks.

**Rodrigo Tavares:**

Thank you, everyone, for your presence. Our IR team is available for any additional clarification you may require. Thank you, and a good day to all.

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