



## LOCALIZA RENT A CAR 4Q20 AND 2020 RESULTS CALL

February 26, 2021

**OPERATOR:** Good morning, and welcome to Localiza Rent a Car's Conference Call of the 4th quarter of 2020. Hosting the event today are Mr. Eugênio Mattar, CEO, Mr. Rodrigo Tavares, CFO and Mrs. Nora Lanari, Investor Relations Officer.

We inform that the numbers in this presentation are stated in millions of Brazilian Reais and based on IFRS. The presentation will be recorded and all participants will only be able to listen to the conference call during the company's presentation. Immediately afterwards, we will start the "Q&A" session for analysts and investors, when further instructions will be provided. If anyone requires assistance during the conference call, please request help from the operator, by pressing "star (\*)" and then "zero (0)".

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Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the Company, forecasts, as well as operating and financial targets, represent the opinions and assumptions of the Company's Management, which may or may not occur.

Investors must comprehend that political and economic conditions and other operating factors may affect the Company's future and may lead to materially different results from those stated in this call.

To start the 4th quarter of 2020 teleconference, I turn the floor to the CEO, Mr. Eugênio Mattar.

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**EUGÊNIO:** Good afternoon and thank you all for your presence.

In 2020, we faced enormous challenges in our businesses, but once again we proved our resilience and adaptability, planning and execution.

In the context of the pandemic, we acted quickly. In March, we established our crisis management committee, which handed important results on five main fronts: care for our employees, our customers, our operations, our liquidity and society. We instituted



the remote work policy and a new methodology - PEG - to foster and measure team Productivity, Engagement and Management during this period. We were able to verify, through research and analysis, a high level of productivity even with the change in the way we relate through remote work. Our collaborators who inspire and transform once again proved their role and boldness in building the future of mobility.

We took care of our partners and the society around us. Reinforcing our role as a company committed to citizenship, we contributed with approximately BRL 16 million in initiatives to support the health CARE system, including hospital infrastructure and equipment, as well as in actions with small and medium businesses strongly impacted by the pandemic and vulnerable citizens.

We made the right decision to reinforce our cash with new funding, instead of accelerating the reduction of our fleet in a period of low liquidity in car sales. Thus, we saw the increases in new cars prices pass-through to used cars, resulting in smaller depreciation. During the second semester, notably in the last quarter of 2020, the challenge became the temporary limitation of the capacity to expand fleet through the acquisition of new cars due to the reduced supply of vehicles in the national market, forcing us to reduce the pace of selling used cars in Seminovos. We are confident that setbacks and challenges in the automotive supply chain will be resolved, with the restoration of production and supply levels along the second quarter of 2021.

Even in rough seas, with the reinforcement of the structures and the right decisions, we kept our planning for the future and continued to invest in important advances. It is worth mentioning the launch of Localiza Meoo, a new way of having a car that represents a long-term subscription mobility model for individuals and small and medium-sized companies. We created Localiza Labs, Localiza's laboratory, which, with around 700 professionals, leads our digital transformation, increasing our capacity for internal development of new solutions.

We also looked around us and, through careful choices, took important steps. We acquired Mobi7, which brings us several opportunities for fleet monitoring, telematics and internet of things (IoT). We are connecting the entire fleet at a fast pace, while adding several functionalities for our operation, our business and our customers. We also announced the combination of our operations with Unidas, a transaction that can be transformational for the rental industry and generate a lot of value for all stakeholders.

2020 was for the Localiza team a year of great boldness and protagonism. The challenges demanded resilience, flexibility and a lot agility to make the right decisions, which contributed to the quick recovery of volumes and prices, allowing the delivery of record results. We surpassed the BRL 1 billion net profit mark! This performance is the result of a solid culture that is strengthened with the evolution of time, supported by a base of great trust and ethics.



Last year, we mentioned in our letter about the strong changes that the world of mobility was going through, without having at the time the visibility of the effects that quarantine and social distance, due the coronavirus pandemic, could have in accelerating this process. Today we have the perception that changes in habit should further accelerate the adoption curve for new technologies and innovations in mobility. We seek these opportunities generated by cultural and social change and we are absolutely focused on continuing to serve our customers with pleasure and fulfilling their needs in this environment of constant change.

In the last few years our market has expanded considerably, and Localiza, the protagonist in this expansion, is the company that has the best service and solutions to the demands whose origins are the most diverse. This diversification makes our business highly resilient, adaptable and attentive to trends, allowing us to direct our efforts to the best opportunities in the market.

For the country, we contributed significantly, with more than 11 thousand direct jobs and collection of 723 million BRL in taxes net of credits, in addition to approximately 1.1 billion BRL in taxes on the purchase of cars. In addition to this is the movement and promotion of an entire ecosystem of multiple businesses that involves from large industries to thousands of SMEs and service providers spread across all regions of the country.

In this year that inspired us even more to be careful with others, we evolved in our attention to diversity, an extremely relevant topic for the Company, with initiatives that include the launch of the Diversity and Inclusion Program. We have a mission to work continuously towards a respectful plural environment that instigates creative and constructive debate for both our business and society. On the environmental front, we have made significant progress in neutralizing emissions from our operations for the year of 2019 (scopes 1 and 2), reported in the 2020 emission inventory, and we became partners and supporters of the Commitment to the Climate Program, a movement with the purpose of engaging and inspiring the private sector in climate responsibility actions. In 2020, we were honored with the recognition by several communication vehicles and inclusion in international rankings for our investment in initiatives in the three pillars of ESG.

To continue building the future of mobility, we maintain our focus on generating value and having a positive impact on society, our customers and partners. We continue to invest in the improvement of our processes and of our customer experience, valuing long-term relationships. We know that great challenges were overcome, but we are aware that others will come and will bring new opportunities, which we will be prepared to embrace with boldness, innovation and agility!



Yesterday at the end of the day we also announced my succession. I'm going to be the Executive Chairman, working full-time in the Company, supporting Bruno Lasansky, who is going to be my successor as a CEO. He is absolutely prepared to take on my position and to spearhead Localiza for the upcoming years in a well-organized and planned process and in a way to preserve the experience of those who join us and the renewal with the new person that joins us. So I'll continue working together, with Bruno as the CEO and our Chairman will be the Vice-President of the board of directors in the next mandate.

Thank you, now I would like to hand over to our CFO, Rodrigo Tavares.

**RODRIGO:** Thank you, Eugênio. Good afternoon, everyone.

It's with great pleasure that I inaugurate my presence as CFO in Localiza's earnings conference call and share with you the 2020 results of the Company, disclosing record results.

Starting on **page 2**, we can see a summary of Localiza's operating highlights for 2020.

In car rental, we reached the average rented fleet of over 156 thousand cars in the 4th quarter, consolidating the resumption of volumes with a growth of 4.1% year over year. The division ends the year with a volume growth of 8.9%.

The fourth quarter of car rental was marked by high utilization rates and tariffs, a result from efficient fleet management and pricing in a context of vehicle unavailability. The utilization rate reached 84.5% in the quarter, reducing the impact caused by the pandemic in the 2nd and 3rd quarters of the year, and 73.5% in the year, while the average daily rate was BRL79.6 in the quarter and BRL68.5 over the year.

In Fleet Rental, in 2020 we had an increase of 11.7% in the average rented fleet, reaching more than 59 thousand cars. Quarter over quarter, the average daily rate in Fleet Rental grew 0.7%, and year over year it increased 2.3%.

On **page 5**, we can see the financial highlights for the quarter and the year.

In the quarter, consolidated revenue falls 2.2%, reflecting the Company's decision to curb sales of used cars in a context of lower supply of new cars, but with a 19.5% growth in EBITDA.

While in the year, consolidated net revenue grew 1.1%, reaching BRL10.3 billion and EBITDA increased 11.5%.

Driven by a lower depreciation, quarterly EBIT grows 56.6%, while annual EBIT exceeds BRL1.8 billion, with an increase of 21%.



We achieved record quarterly and annual profits, exceeding BRL400 million in the quarter and BRL1 billion in the year.

To present further details on 4th quarter results, I would like to give the floor to our investor relations officer, Nora Lanari.

**NORA:** Good afternoon, everyone. Thank you, Rodrigo.

Giving a little more detail about the results of the quarter and of the year, I would like to start with the car rental division and I would like to highlight that, from this earnings release, we now report the Franchising division together with the Income Statement of the Car Rental division, so that the numbers presented on **page 4** already reflect this change. Going on to the highlights, in 2020, the average rented fleet of RAC grew 8.9%, an increase of more than 11 thousand rented cars on average in the year. Net revenue increased 3.2%, when compared to the previous year.

In the 4th quarter, the revenue growth was 12.1% year over year, exceeding the mark of BRL1 billion in revenue in a quarter, mainly due to the average daily rate practiced in the period.

On **slide 5**, we see that the average daily rate of BRL\$79 and 60 cents in RAC increased 10.4% compared to 4Q19, reflecting an efficient management of the mix and prices per segment and the utilization rate achieved 84.5%, the result of an efficient fleet management in a context of scarcity in the availability of cars, which remains in the first quarter of 2021.

On **page 6**, we show that the network of own branches was expanded by 15 units compared to the end of 2019, of which, 6 were branches previously operated by franchisees. In addition, several branches have been expanded or renovated to increase their capacity and enable fleet expansion.

Moving on to **slide 7**, in the Fleet Rental division, the average leased fleet grew 5.1% and net revenue increased 7.7% compared to 4Q19. In the same comparison, the daily rate rose 2.3%, mainly reflecting the pricing of new contracts that reflect higher car prices and expansion of the Localiza Meoo, which brought a mix with a higher rate. In the year, the Fleet Rental division increased by 11.7% the average rented fleet and 12.0% in net revenue, which totaled more than BRL1 billion.

Moving on to **slide 8**, we show the balances of car purchases and sales. During the year, despite having delivered volume growth both in car rental and Fleet Rental, reduced the fleet by 26 thousand cars. The investment in the 2020 fleet reached BRL5.5 billion, and the net result of the fleet reduction was a generation of BRL585 million. In the quarter, we bought 42,748 cars and, even in a period of strong demand for used cars, we reduced the decommissioning pace and sold 31,857 cars, to enable an increase of almost 11 thousand cars in the current context of lower offer of new



cars. Referring to what we currently see at the beginning of the year, we point out that the automakers are working on restoring production levels and shipping volumes, but the context of restriction still remains with the supply chain affected by the pandemic.

On **Slide 9**, we show the Seminovos network. In 2020, we opened 7 new stores. In the quarter, we limited the volume of cars sold by reducing the decommissioning pace, working with a smaller number of cars available for sale and thus prioritizing car rental during the high season. As a result, we had a volume of 31,857 cars sold, a drop of 23%, partially offset by the strong increase in the sale price, of 15.7% in the quarter, reflecting the increase in the price of new cars. We ended the year with 130 points of sale and 135,490 cars sold.

On **slide 10** we show the end-of-period fleet, which was reduced by 9.6%, with over 292 thousand cars, a reduction of 9.2% in Car Rental and 10.6% in Fleet Rental. The reduction in the end-of-period fleet, as already mentioned, was offset by the higher rate of use of cars, with the average fleet rented in both divisions growing in the year.

Moving on to **page 11**, we see that the consolidated net revenue for the quarter decreased by 2.2% year over year. Net rental revenue increased by 11.1% in the quarter, while that of Seminovos dropped 10.9% due to the reduction in sales volume, partially offset by higher prices.

In the year, consolidated net revenue grew by 1.1% when compared to 2019. In 2020, net rental revenue increased by 5.3%, being 3.2% in the Car Rental Division and 12.0% in the Fleet Rental Division. In Seminovos, net revenue decreased by 1.6% when compared to 2019, due to the 8.4% drop in sales volume, offset by the 7.4% increase in the average price of cars sold.

Moving on to **page 12**, consolidated EBITDA increased by 19.5% in 4Q20 compared to the same period last year, as a result of the higher margin in used cars and the expansion of revenues in the Company's business divisions. The EBITDA margin of RAC falls 4.3 percentage points compared to the margin of the 4th quarter of 2019, considering the same basis, especially due to the recomposition of leadership salaries that had been reduced in the period that the company adopted the government program to support employment, due to the increase in tax provisions and allowance for doubtful accounts and increase in the provision for profit sharing, reflecting a better than expected annual result for the year in the context of the pandemic. Fleet Rental had a margin reduction of 2.6 percentage points, mainly due to the recomposition of salaries and the provisioning of profit sharing as described for RAC. Seminovos presented a margin of 10.1%, continuing the effect of the substantial increase in prices practiced in the sale of used cars, which reflect the increase in new car prices. The higher price levels should maintain a higher level of Seminovos EBITDA margin in the upcoming quarters, when we will still be decommissioning the vehicles purchased at lower prices.



In 2020, consolidated EBITDA was close to the BRL2.5 billion mark, showing an increase of 11.5% when compared to 2019.

On **page 13**, we show the evolution of depreciation. As a result of the expectation of increase in sale prices of cars in the fleet, as a consequence of the general increase in prices practiced in the market, in the 4th quarter we see a 48% drop in the RAC depreciation and in relation to the 3Q20, reaching BRL612 per car. In the year, the average annual depreciation per car reached BRL1,707, a decrease of 11%, when compared to 2019. In the Fleet Rental Division, the average annual depreciation per car was BRL1,907 in the 4th quarter, 17.5% lower in relation to average depreciation in 3Q20. In the annual comparison, there was a drop of 44% in the average annual depreciation per car, which is mainly explained by the change from the SOYD method to the linear method for calculating depreciation, in addition to the increase in sales prices.

On **page 14**, we can see that the consolidated EBIT in 4Q20 reached BRL645.4 million, representing a 56.6% growth compared to the same period last year, due to the 19.5% increase in consolidated EBITDA combined with the decrease in depreciation of cars. The EBIT margin of the Car Rental division was 46.7%, representing an increase of 14.6 percentage points, compared to 4Q19, especially due to the reduction in depreciation and to the used car margin. In the Fleet Rental division, the EBIT margin was 63.4%, representing an increase of 15.1 percentage points, compared to 4Q19, in RAC, especially due to the reduction in depreciation and the used car margin.

In 2020, the Car Rental division's EBIT margin was 35.1%, representing an increase of 1.4 percentage points, compared to 2019. In the Fleet Rental division, the EBIT margin was 66.4%, an increase of 17.3 percentage points, in the same comparison.

Net income for the fourth quarter, on page 15, grew 75.9% year over year, reaching BRL401.8 million. The expansion of net income is explained by the growth of EBITDA, of approximately BRL123 million, combined with the reduction of depreciation of approximately BRL114 million and financial expenses of approximately BRL47 million, partially offset by the increase in taxes on profit of approximately BRL107 million.

In 2020, the Company had a record accumulated profit of BRL1 billion, representing an increase of 25.7% in relation to 2019.

On **slide 16**, we show the cash generation before the fleet reduction of BRL1.3 billion in 2020. The reduction of about 26 thousand cars in the fleet generated about BRL1.2 billion, used to reduce the balance of accounts payable to automakers.

As can be seen on **page 17**, there was an important generation of cash from rental activities, combined with a generation of cash from the reduction of the fleet, partially offset by the reduction in the level of accounts payable, interest expenses, repurchase



of shares and payment earnings, resulting in a reduction of net debt by approximately BRL500 million in the year. I would like to turn the floor back over to Rodrigo.

**RODRIGO:** Thank you, Nora.

You can see on **page 18**, that we ended 2020 with a debt profile that will help in the resumption of the growth path post-pandemic and cash position of almost R\$4.0 billion. We continue to actively manage the debt profile.

On **slide 19**, we can see that the Net Debt / EBITDA ratio ended the year at 2.5x, the lowest level since 2016. We consider a comfortable level to expand and finance growth without the need for equity in the short term, considering our leverage policy and environment of low interest.

To conclude, I would like to highlight the evolution of the annual consolidated ROIC spread versus the cost of debt that can be seen on page 20. In 2020, the year in which we had to face all the setbacks generated by the pandemic, we delivered a nominal spread of 7.4 percentage points, higher than 2019, generating value for our shareholders in an extremely challenging year.

We maintain our goal of delivering profitable growth and we will leverage our competitive advantages to capture business opportunities and continue to develop and expand the car rental market in Brazil.

Before we conclude, on **page 21**, we have our advances in sustainability with the evolution in the three dimensions.

We are now open to answer your questions.

## **Q&A SESSION**

**OPERATOR:** Ladies and gentlemen, we will now begin the Question & Answer session. If you have a question, please press star 1. To take your question off the list, please press star 2.

The First question is from Alex Falcão, from HSBC.

**ALEX:** Good morning, everyone. I have two questions, actually. The first one is about the used cars dynamics. I'd like to understand if what's happening is a decrease in the spread between the new cars and the used cars and the fact that there are practically no new cars available in the market and when there is new cars available again the spread will come back, or is it inflation and the new car prices also raised a lot, so the dynamic that we saw in the fourth quarter should continue for at least a relevant period?

And the second question is about subscription cars. I'd like you to talk about the size of that business and the perspectives for that and if you have a relevant bet in relation to



that? Is the competition focusing on that as well, talking about that, will that eventually be modeled in a different way in the future? And I'd like to know where you think that business will be in the next 2 years or 5 years, that would be very interesting. Thank you.

**RODRIGO:** Thank you. I'll answer first about the spread between the new cars and used cars and then Nora can add in relation to the subscription cars. What we've seen is not a compression of the spread of the new car compared to what we can sell the used car for, we see historical levels of that difference. What actually happened is that the new car prices have gone up because of the exchange rate, lack of inputs and transferring that cost increase, and that has been transferring to used cars, but we don't see a compression in the spread.

**NORA:** Falcão, thank you for your questions. About subscription vehicles, we launched Localiza Meoo on September 22nd and right after that we went into the context of a restriction of new car supply, given that long chain of inputs for the automakers, so it's really hard to give you some exact numbers about the run rate for that business, but we're pretty optimistic about the product, the perception has been very good and so is the demand. To start, we don't have the idea of breaking that down into a subsegment, as we don't with RAC.

**ALEX:** I'd like to follow up on the depreciation policy. Given all of that that's going on and new cars prices are still going up, do you think that you would decrease depreciation, given the car price dynamics or will depreciation eventually be adjusted? Apparently it was a scenario last year and now, in the new scenario, if it stays that way will it still drop?

**RODRIGO:** About depreciation, we have to assess the seasons, so the cars that were bought before the pandemic, that had a different price before the new car price increase, then you see that already depreciated with low depreciation. For the new cars that are being added to the fleet come in with the new prices, so the depreciation policy that we always have is the expectation of price realization and the expectation of going back to normal levels in buying those new cars. Composition of depreciation will receive the interference from these two car seasons, so to speak, the older cars and the cars that were recently bought.

**NORA:** And Falcão, I'd like to add, I know that we're during a period of restriction of car receive, so it's becoming one hundred percent depreciated. We have more cars getting close to zero depreciation, so I'd say it's two things, the first part you have lower depreciation for these cars, as we mentioned, and as fleet renewal, and we recompose the volume of delivery go up to average depreciation, then you'll see an increase of the average depreciation, and the EBITDA of Seminovos will only be reflected in the future, because throughout the year we will sell the cars that have already been 100% depreciated and already have a positive margin, so the



depreciation will go up throughout the year, but the EBITDA margin will still remain a bit higher for a longer period throughout 2021.

**ALEX:** Yeah, that was my next question, okay, thank you.

**OPERATOR:** The next question is from Lucas Barbosa, from Santander.

**LUCAS:** Good morning Eugênio, Rodrigo and Nora, congratulations on your results and thank you for taking my question. My question is related to one of the previous questions about receiving brand new cars. So, I imagine that you plan to get a limited number of cars in the first quarter, but now how do you see, in fact, what was actually delivered, was it in line with expectations, any positive or negative surprises? And when do you think things will come back to normal? And then I'll ask my second question. Thank you.

**RODRIGO:** Thank you. Well, the expectation for the first quarter was to receive less cars and it's within our expectations, so now we're waiting because as the beginning of the second quarter and if production goes back to normal, I believe vehicle supply will come back to normal.

**LUCAS:** Okay, thank you. The second is about the average age of the RAC fleet, so I'd like to understand what the strategies for the next quarters, if you can have a higher average age, as you'll be selling more cars because of the peak of leisure would have passed.

**NORA:** Lucas, thank you for your second question. Our business is car rental, it's not selling car, so we will prioritize rental cars and fleet and if there's additional possibility of selling, we can slow down the volume of sold cars, which we did in the third quarter. We sold 45 thousand cars and we can do more, but we slow down to 30 some thousand in the fourth quarter. We base that on the demand of rental and then the receipt of new cars, that's how we base it on.

**LUCAS:** Thank you, Nora, that's clear, good morning.

**OPERATOR:** Our next question is from Rogério Araújo, from UBS.

**ROGÉRIO:** Good afternoon, Nora, Eugênio and Bruno, good luck to your new job position. I have two on my side, first in fleet rental. One of your competitors has been saying or has been showing, actually, that they're closing new deals and it's much higher than the fleet increase, so they've been accumulating a lot of contracted vehicles and just waiting for the vehicles to be delivered by the automakers to enter fleet. Is that also happening to Localiza, have you been closing a lot of contracts in fleet rental, but we haven't seen that in your results because of the delay in car deliveries from the automakers? That's my first question.



**NORA:** Thank you, Rogério, for your question. During a crisis, I believe that more companies will be outsourcing and they will cash in their own fleet and become a client, so we've seen that demand, but there is the context of restriction of car delivery and there's also this new path of the subscription cars, so we're confident that demand will continue to be firm, but it's not outside the regular standards.

**ROGÉRIO:** Thank you, Nora. My second is about the ICMS tax provision that was done. I'd like you to confirm the number, it's 49 million in the cost breakdown, cost and expenses, but in the wording in the text it says 68, so I'd like to know the provision for the ICMS tax. And can you talk about the year-to-date period for that provision, so since when have you been, is it a one-off provision, will there be a cash effect and what's the impact moving forward? I imagine that there will be a new policy for ICMS payments, so what's the impact, what's the recurring impact in the next quarters because of that? Thank you.

**NORA:** Rogério, we mentioned some extraordinary effects that have affected the margins not only in car rental, but also fleet, during the fourth quarter, and one of them were the tax provisions. In note number 23, we have a breakdown and it differs from 17, because one part is booked above the EBITDA and the other one is under EBITDA, because it's accounted for as financial expenses, so you have a 49 million impact to the EBITDA and the difference from the 68 to the 49 were booked as financial expenses. That's mainly a result of discussions from the last five years provisioned as they're written off, we reverse. Oh, I forgot, there's another part you ask moving forward, right? Moving forward we don't see that risk.

**ROGÉRIO:** Okay, perfect, very clear, thank you very much and congratulations on your strong results.

**OPERATOR:** The next question is from Steven Trent, from Citibank.

**STEVEN:** Good morning, everyone, and thank you for your time. First of all, this is Steve Trent. First of all my condolences on Roberto Mendes, he was an amazing person. I have two questions. Why did Mauricio Teixeira leave? I'd like to know for how long he was the CFO, it was three or four years, is that correct?

**NORA:** Hi, Steve, thank you for mentioning Roberto, yes, we do miss him. About Mauricio, I think it's worth asking him as well, he was with us for about 4 years, he's an executive that we truly respect and admire and is well-seen by the market. As a personal decision, he decided to take on a new challenge and was announced as the CFO of Hapvida, so it was a personal decision and he goes back to São Paulo and he's taking on a new project at Hapvida. It was a personal decision and we truly respect him and admire him, and our home is his home, so we have open doors.



**STEVEN:** Okay, thank you very much, Nora. Just one more question, please. Why is the spread between the ROIC and the cost of debt, why did it drop from the 3rd to 4th quarter, is it because the invested capital increased?

**NORA:** Steve, when we look at the third and fourth quarter of 2020, if I understood the question, the spread increases, but there are some ways to report that. In 3Q we reported 9 months annualized and we broke down the third quarter annualized, so the spread annualized was 9.5% percent. In the fourth quarter report, where we have 2020 closed, which is the ROIC that you saw of 10.2%, with a 7.4 spread. If we calculate the ROIC spread fourth quarter annualized, the ROIC could have been 15.1%, so it's mainly because many competitors report in a different manner, so we want to make this comparable, so our ROIC in 2020 was 10.2%, with a 7.4% spread, and the fourth quarter annualized would have been 15.1%, a spread of almost 12, 13 percentage points.

**STEVEN:** Okay, great, thank you very much, Nora.

**NORA:** Steve, and I forgot to mention the last part of the question. The capital base has been increasing because the price of new cars is going up. Note that since the exchange rate evaluation and we saw a transfer of new car prices, of 15% to new cars and that has been impacting the price of the cars that we buy. And in Seminovos, we can capture the new car prices and we have a similar transfer to that price, so even though the capital base has increased, depreciation dropped, so no pet is better and we saw and evolution of ROIC every quarter throughout 2020.

**STEVEN:** Okay, I understand. So part of it was the accounting interference in the period. Okay, I understand, thank you.

**OPERATOR:** The next question is from Régis Cardoso, from Credit Suisse.

**RÉGIS:** Hi, everyone, good morning, thank you for taking my questions, congratulations on your results. Two more specific topics, first figures and then more general. So, the specific about figures, I want to talk about margin, so in the margin, specifically, there's more than one subject actually, so we saw a margin reduction relating to cost and expenses given that the price has gone up and in cost and expenses we already mentioned some, there was the ICMS provision, could you also comment on profit-sharing provision and how much that impacted, is it recurring or not?

I'd also like to understand the comment about if there's going to be another cost increase in the fourth quarter, because of the comeback of people after the Covid issues and then about expenses and costs. So, in marketing expenses, I've seen that that's growing and in cost there's maintenance. I know it's a very long question, I wanted to number the effects, but I'd also like to understand what happened in costs and expenses, that's putting pressure on the margin. The other specific question is about the tax rates for this year. It seems like there's an issue about car depreciation



because of IFRS and the OCP payment couldn't have been higher to improve the rate? So we can start off at that.

**RODRIGO:** Thank you, Régis. Let me try to summarize the effects. If we look at the effects that we consider extraordinary for the fourth quarter, we have profit sharing, obviously the expectation wasn't to achieve this result and when we had that expectation we adjusted the amount and we also had the salaries going back to normal, we already mentioned that, and the removal of the Hertz brand from our branches. And if we combine all these factors I can say that that would impact the margin by 6.6 percentage points in Rent A Car and 2 percentage points in Fleet Rental, or Fleet Management. So they're extraordinary costs and they do affect the margin significantly and that explains a part of the reduction. Nora, would you like to talk about the tax rate?

**NORA:** Régis, just to remind you, we have the depreciation that we report, the 600 and some per car and we have the tax depreciation that's used to pay taxes, so it's 20% linear in 5 years. The main reason for the income tax rate is related to interest on own capital and since we had less profit throughout the year, interest on own capital is on a quarter, so we paid less than that and the taxable profit grew with less leverage so it was, our equity was growing, but with lower profits, though. So, management proposed that in the shareholders meeting the payment of 18 million in dividends to add to the minimum mandatory amount of 25%. So, we don't expect that impact moving forward. There was an effect of profit volatility, especially in 2Q20, given the pandemic.

**RÉGIS:** Thank you Nora and Rodrigo. I have a follow-up on costs. So, two expense lines that are volatile in 4Q, marketing, bad debt and maintenance. The 4<sup>th</sup> quarter, is that recurring levels for maintenance? And, on another note, there are two large avenues for growth, which is subscription cars and app drivers. I'd like to know if Localiza 2.0 has been helping you to increase your share, even in a bigger horizon of drivers, if you consider profile and credit. So, if the new product is helping to mitigate the credit risk in the addressable market?

**NORA:** Thank you, Régis, for your question. I believe that the marketing increase is a result of the high season, so more individuals and the sale of Seminovos in retail. In a context when we are slowing down sales, we focus more on rental, but they do have a higher average rate, but you need more marketing efforts based on that. So bad debt was higher year-over-year, so on 4Q20 it was higher over 4Q19, but it's already showing a dropping trend, so 90 days, quote, unquote, after the worst effect of the pandemic for the company and then you have a dragging effect from that, but it's already lower in 4Q over 3Q and we believe it will continue to normalize and go back to very historical low levels for the company. There are no evidences that it will remain high, quite on the contrary. After the pandemic is over, we believe that it will go back to more normal levels.



You mentioned subscription cars and then you mentioned the app drivers. Let me start off with the app drivers and then I'll understand your question, what you want to know about Meoo. About incremental improvements in the product, we've been doing that across time, so the app, we've been adding new features to the app and we believe that we'll get more granularity, less default rates, so I believe that we'll have benefits with these applications that are embedded in the app. That said, we're in a context of car restriction, right? So we can't really say that there's a relevant change, but it should be a competitive advantage for Localiza as we implement it. And we measure that by the net promoter score, so we have some measures of general customer satisfaction, we break that down per segment and per touch points that the customer has with us. About subscription cars, I got a little lost on that, I'd like to you to ask about that again.

**RÉGIS:** Actually, it's not really a specific question about the app cars and no worries about the subscription cars, it was just a general question, I'd like to know if you see that as an avenue for growth, are those the two largest markets where you can grow your share, those two, that's what I mean, if increasing the addressable drivers scope, so increase the scope of app drivers and the other was subscription cars, because it's a market that competes with new car sales.

**NORA:** Okay, Régis, thank you. We see the rental car market with low barrier of entry and a lot of growth. I wouldn't limit that to subscription cars or app cars. We have a low share in the individual segment, even in the corporate segment there is a migration of owning a car to renting a car, so we still see a huge avenue for growth there in the most diverse segments that the company operates, so I wouldn't say that they're necessarily the biggest drivers

**RÉGIS:** Okay, thank you.

**OPERATOR:** Next question is from Julia Toledo, from Citibank

**JULIA:** Hi, good afternoon, congratulations on your results. And my question is if you foresee any impacts of Ford leaving Brazil?

**RODRIGO:** Thank you, Julia. Well, of course it's very unfortunate that Ford is leaving the country, a centenary company, there's an impact on jobs, so it's bad news, not only for the automobile market, for automakers, it's also bad news for the country. About the impact, we believe that it's a limited impact. They already had a very limited, small share of the market, which was 7%, and given the idle capacity that the industry has, that volume should be absorbed easier by the remaining players in the country.

**JULIA:** Okay, thank you.

**OPERATOR:** The next question is from Victor Mizusaki, Bradesco BBI.

**VICTOR:** Good afternoon, congratulations on your results. I have two questions. First one, Rodrigo, when we see the slide that talks about leverage and debt profile, Localiza



has a very comfortable position. I'd like to understand if it would make sense for Localiza to use that flexibility to try to negotiate your working capital, pay faster to speed up the delivery process. And now, in the succession process, given the negotiation between the Localiza and Unidas merger, why not now or after the merger?

**RODRIGO:** About the first question, we use all the levers in a negotiation with automakers, so we always look at negotiation in a very holistic manner and, if necessary, if we have to use the levers that enable us to have better conditions for competitiveness to purchase cars, we will use them, and not only limited to liquidity, so we're always looking at the negotiation in a very complete manner and use everything that we have available to guarantee that we will have more competitiveness in cars. About succession, Eugênio, would you like to comment?

**EUGÊNIO:** Good morning, Victor, thank you for your question. Localiza has prepared a well-structured and organized succession plan. Bruno has already been the CEO of the company for a while, he really understands the business, so the company, it continues to act as an independent company, we won't be tied to future decisions of other instances. It was a process that would happen and now this is the right moment, because I'll remain in the company as a Chairman, Oscar, as the current Chairman, will remain as well, so there was no reason not for us to do something that was already mature to happen.

**VICTOR:** Okay, thank you.

**NORA:** We have a question that came through the chat, I'm going to read it, from Rodrigo Faria. Rodrigo, thank you for your question. Good afternoon, Eugênio, Rodrigo and Nora, congratulations on your results in such a challenging year. I have two questions. Please comment on the strategy and execution of the prioritization of the segments in RAC and the strong tariffs in the 4<sup>th</sup> quarter. Are the rates offering a yield in line with the increase of brand new cars or were you able to leverage a rate that was even better?

Rodrigo, thank you for your question. We took advantage of the high season of the summer vacation in Brazil, October, November, December and January, and given the context of a restriction of new car supply, we were very selective in our mix of the segments to offset the quote-unquote lack of cars. So we had to use the utilization rate higher, reaching 84.5%, and increase the weight of the mix of individuals, which is a profile that usually rents more during summer vacation, so that said, the mix in relation to 2019, compared to 2019, is still closer to the longer-term segment and lower rates, so the mix doesn't explain the yield gain, it was a selective pricing that we had in relation to the fleet, and a part of that increase helps to offset the increase in car prices, but we still have to see the increases that we'll have in 2021, given the context of the transfer of steel cost and we still have scarcity in the supply and the automakers are still getting back to speed.



There's a second question, with the increase of the average age of fleet, does that impact the service level and a reduction in RAC rates to offset that?

The company is very careful in quality of service for our customers, so obviously the fleet is aging, but the cars undergo maintenance and prepare the cars and we're undergoing a supply scarcity, so we'll price accordingly. So, in the first quarter, the peak of summer vacation drops and historically we have a comeback in the long-term segment, so that could reflect the average rates we'll see throughout the quarter. The previous was from Roman.

Bruno Oliveira, now. Good morning, everyone. Could you give further detail about new car delivery by the automakers? Last year there were delays in deliveries. I'd like to know if that gap was normalized or if that's still close to happen?

**RODRIGO:** Last year, there was a restriction in supplies, especially in the fourth quarter, and restrictions continue. In relation to the volumes that were offered in the fourth quarter, those were already delivered in 2021, so new volumes that were negotiated. There's still a lot of uncertainties and we're waiting for gradual normalization in 2Q, but especially in providing the semiconductors, that's the main issue, so we expect normalization from 2Q on, but there are still uncertainties that we can't be sure of.

**NORA:** We have one last question here in the chat. In relation to the ESG initiatives. What are the plans for 2021 to continue the incredible environmental, social and governance performance?

Well, thank you very much for the praise and the question. We will continue, we do plan on advancing in all fronts in relation to the sustainability. The company always has the perception of strong governance, that was always perceived. In the past three years we've done relevant efforts on the social and environmental side and we will continue on that trend of evolution

**OPERATOR:** Ladies and gentlemen, to ask a question please press \*1. We have a question in English from Mr. Nathan Churchill, from American Century.

**NATHAN:** How are you doing? I was wondering if you could help us understand how we should be thinking about the margins, in RAC in particular, in the context of the extra cost that you just had this quarter. So, if there were some 600 basis points of added cost, should we anticipate that any of that carries into 2021?

**NORA:** Thank you for your question. I'm going to answer your question. So, the extraordinary costs, we see them as non-recurring and they shouldn't affect the year of 2021. Obviously, throughout the year, there should be other expenses and costs that we haven't planned, but those specific ones that have the 4th quarter in 2020, we don't expect that there will be effects in 2021.



**NATHAN:** Thank you.

**NORA:** We have one more question in the chat. What will Eugênio's work be like in the company's day-to-day with this change?

**EUGÊNIO:** Thank you for your question. I will act as the Executive Chairman, meaning a chairman that will be fully dedicated to the company. I will be handling future plans, I'll support the CEO in his activities, I'll be considering the company strategy, acting strongly in governance and ESG and I'll be a coach for the CEO, while he's taking on his new position, and focus on the institutional side of the company with the class associations, I'll act on the institutional matters related to the industry. work with Unidas in the process with the Brazilian Antitrust Agency, with Cade, not much in operational, focusing mainly on strategy of the company, working with the CEO to guarantee that the standard of governance and culture and investments in ESG are coherent and in line with our proposal and purpose.

#### **CLOSING**

**OPERATOR:** Now I'd like to hand back over to Mr. Rodrigo Tavares.

**RODRIGO:** Thank you very much for your presence. Our IR team is available for any further clarification. Have an excellent day!

**OPERATOR:** The Localiza Rent A Car conference call is now over. Thank you for your participation and have a good afternoon.