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CREDIT OPINION
28 November 2022

Update

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RATINGS

Localiza Rent a Car S.A.

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

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

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Localiza Rent a Car S.A.

Update to credit analysis

Summary

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

Conversely, Localiza's rating is constrained by the capital-intensive nature of the car rental business, as well as its lack of a significant international footprint, with virtually 100% of revenue generated in Brazil (Ba2 stable). The company's rising gross Moody's-adjusted leverage stemming from its fast growth strategy and the integration and execution risks related to the merger further constrain its rating.

Credit strengths

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

» Large unencumbered asset base with good liquidity

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

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

Credit challenges

» Capital-intensive nature of the car rental business

» Lack of a significant international footprint

» High leverage resulting from its fast growth strategy

Rating outlook

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

Factors that could lead to an upgrade

The ratings could be upgraded if Localiza:

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

» maintains strong credit metrics on a sustained basis

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

Factors that could lead to a downgrade

The ratings could be downgraded if:

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

» EBITDA interest coverage falls below 3.0x

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

» Brazil's sovereign rating is downgraded

Key indicators

Exhibit 1

Localiza Rent a Car S.A.

USD millions	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	LTM (Sep-22)	Moody's forward view Next 12-18 months
Revenue	1,897.7	2,100.9	2,589.4	2,020.1	2,024.3	2,779.2	4,000 - 4,500
Pretax Income % of Sales	12.0%	11.6%	10.6%	13.8%	25.4%	16.7%	10% - 20%
Debt / EBITDA	4.6x	4.6x	4.1x	4.3x	3.4x	5.0x	3.0x - 4.0x
FFO / Debt	13.5%	14.3%	17.3%	9.7%	17.9%	10.3%	10% - 20%
EBITDA / Interest Expense	2.9x	3.1x	3.9x	5.1x	5.7x	2.7x	2.0x - 3.0x

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

Profile

Founded in 1973 and headquartered in Belo Horizonte, Minas Gerais, Brazil, Localiza Rent a Car S.A. (Localiza) operates car rental and fleet rental businesses and has a used-car sales business to deploy and renew its fleet in Brazil. The company also franchises rental car operations in Brazil and in five countries in South America. As of October 2022, the company had a total fleet of 537,157 cars in Brazil and four other countries. The company is the market leader in Brazil in terms of car rental, with the largest number of car rental locations and presence in all main Brazilian airports. In the 12 months that ended September 2022, the company reported net revenue of BRL14.5 billion ($2.8 billion) and Moody's-adjusted EBITDA of BRL6.1 billion, with Unidas' results being consolidated starting from July 2022. Pro forma to the merger of Unidas, which is the second-largest rent-a-car and the largest fleet management company in Brazil, Localiza's annual revenue amounts to roughly BRL20 billion and EBITDA to BRL7.7 billion.

Detailed credit considerations

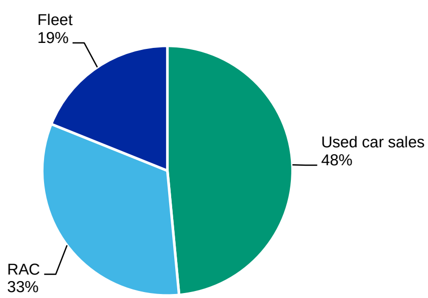
Consolidated leading position in attractive segments

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

Localiza's growth strategy and cash flow are concentrated in its car and fleet rental businesses, which accounted for around 51% of its net revenue in the third quarter of 2022. However, the company's franchising business, which represents less than 1% of net revenue, is strategic in terms of consolidating its brand, exploring new markets and increasing distribution. In the car rental and franchising segments, the company had 605 agencies in Brazil and 78 agencies in four other South American countries as of September 2022. It benefited from a well-diversified distribution network, with strategic locations across the country, which granted it access to both the on- and off-airport markets, including the replacement car market for insurance companies. This segment has been recording high growth rates in the last few years because of its low penetration and changes in consumer habits. The fleet rental business is also likely to experience consistent growth rates in the next few years, supported by the low penetration of rented fleets in Brazilian companies and changes in consumers' habits.

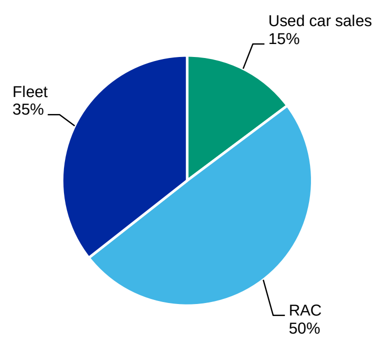
The remaining 49% of net revenue comes from the used-car sales division, which gained ground during the last economic downturn in Brazil, emerging as an alternative to the purchase of new vehicles during periods of rising interest rates, weak consumer confidence and lower credit availability when buyers become more conservative and concerned about debt. Since the beginning of 2017, the company sold about 677,779 cars, while the average used-car prices increased about 73% to BRL61,270. In Q3 2022, Localiza's sold fleet age averaged 28.0 months for car rental and 37.2 months for fleet management. The company's high inventory turnover illustrates its ability to reduce its fleet in a timely manner, thereby keeping depreciation expenses low. The company's experience in terms of pricing its used vehicles and its ability to sell used cars and raise cash even during downturns have always been key drivers of its ratings and credit quality, including during the worst months of the pandemic.

Exhibit 2
Revenue by segment
As of Q3 2022



Source: Company's financials

Exhibit 3
EBITDA by segment
As of Q3 2022



Source: Company's financials

Business model supports cash generation even under adverse market conditions

The integrated business model allows Localiza to minimize the losses stemming from the regular disposal of used vehicles and guarantee a structured market for large fleet divestitures, especially in the event of economic deceleration. For example, during the credit crisis-induced downturn in 2008-09, the company maintained strong margins and increased liquidity by unloading its fleet. During Brazil's economic recession in 2015-16, the company was able to replicate the strategy. Since the beginning of 2017, Localiza has purchased roughly 946,274 cars (including franchising) and sold 677,779 cars, mainly through its used-car network of 184 stores, thus maintaining its utilization rate above 75% and average fleet age at 10-18 months, demonstrating management's expertise in navigating through the cycles.

From 2015 through 2019, Localiza was able to increase its revenue at a compound annual growth rate (CAGR) of 26.9%, with a fleet almost three times larger, while improving its utilization rate to 79.1% as of year-end 2019 from 75.4% as of year-end 2015. The company was also able to keep profitability levels relatively stable, with an EBITDA margin of 24%-32% over the same period.

Localiza has flexibility within its business model and financial profile to maintain its credit quality during crisis. The impact of the pandemic on its operations was much smaller than initially expected, reducing the strain on its credit metrics. Localiza has conservatively halted car purchases, posted adequate performance in the fleet segment and improved its performance in the rent-a-car segment, and maintained its ability to sell used cars and raise cash. All these factors prevented a cash burn during the most severe period of the pandemic in Brazil, supported the maintenance of adequate liquidity and helped abate risks related to covenant breaches in 2020, 2021 and 2022.

We expect Localiza to maintain its focus on refinancing debt maturities in a timely manner to avoid liquidity squeezes and on strict cost and cash burn controls, and to continue to sell used cars, which will help avoid a significant deterioration in its credit profile. We also expect Localiza to continue to manage its average fleet age, capacity utilization and used-car sales to manage liquidity and leverage, and to potentially benefit from market share gains with the market rebound. Finally, the company took advantage of its comfortable liquidity to manage the size of its fleet, discounts on the sale of used cars and its long-standing relationship with automakers during the crisis, all of which will support its post-crisis profile.

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

Localiza's operating performance improved gradually along with the surge in car rental demand in Brazil since the bottom in April and May 2020, with consolidated Moody's-adjusted EBITDA increasing to BRL6.1 billion in the 12 months that ended September 2022, from BRL2.6 billion in 2020. Despite the demand drop in the car rental segment and the closure of used-car sales stores in Q2 2020 because of the pandemic, the company's adjusted gross leverage declined, with lower car purchases related initially to the temporary suspension of automotive production in Brazil during the pandemic and later to the chip shortage, and was 3.4x as of year-end 2021 (down from 4.3x as of year-end 2020). Despite the merger concluded in Q2 2022, pro forma gross leverage considering consolidated EBITDA of the two combined entities remained relatively stable at 3.6x for the 12 months that ended September 2022. Furthermore, the entity's liquidity should be reinforced by BRL3.2 billion of proceeds coming from the fleet disposal required to comply with Administrative Council for Economic Defense's (CADE) restrictions, which will help fund part of future organic growth. Localiza will still receive additional BRL320 million in the next 120 days because of price adjustments in the underlying contract related to working capital and value of fleet sold. These proceeds, along with the BRL1 billion debentures issuance in October 2022, will support net leverage ratios and help maintain covenant compliance.

Merger with Unidas will bring synergies, and increase scale, bargaining strength and market share

On 23 September 2020, Localiza's and Unidas' shareholders announced an agreement to combine both companies' operations through a share swap that resulted in the incorporation of Unidas into Localiza. The share swap ratio was 0.446824 of Localiza's share for each share of Unidas (adjusted by dividend payments). On 12 November 2020, both companies' shareholders approved the transaction and on 15 December 2021, CADE approved the deal with restrictions.

The merger will improve Localiza's scale, bargaining strength and profitability because of cost synergies. Despite the improvements, the restrictions imposed by CADE will limit the upside potential in the company's profitability and market share, especially in the car rental segment. Accordingly, Localiza's credit metrics and cash generation will not immediately change after the incorporation and the company will face integration and execution risks, implying Moody's-adjusted leverage of around 3x-4x through growth cycles. Additionally, Localiza will remain exposed to Brazil's economic environment and local debt market to finance future fleet growth, which limits the company's ability to be rated above Brazil's sovereign rating at the closing of the transaction.

Localiza will generate annual revenue of about BRL20 billion and EBITDA margin between 35% and 40% after the merger and restrictions imposed by CADE and will have a total fleet of about 500,000-550,000 cars, representing 40%-45% of Brazil's total car rental and fleet management sector. Such a scale could translate into improved bargaining strength with original equipment manufacturers (OEMs) to purchase cars with higher discounts, optimization of fleet management and disposal of used cars in the secondary market, and potential for significant cost synergies and efficiency gains. The merger will also increase the company's exposure to the fleet management segment, which has a less flexible business model than the car rental business, but that brings more stability to cash flow given the existence of long-term contracts with clients.

The company's Moody's-adjusted gross leverage increased to around 5.0x after the incorporation of Unidas, but considering the pro forma consolidated EBITDA of the two entities for the 12 months that ended September 2022, gross leverage would remain relatively stable at 3.6x (compared with 3.4x in 2021). With the stabilization of chip shortage in the automotive sector, we expect Localiza's leverage to remain close to 4x because of the sector's fast growth pace and Localiza's strategy to finance part of the fleet growth with debt. So far, the increase in Localiza's EBITDA has not been sufficient to offset the debt-financed expansion of its fleet, but with the synergy potential of the merger and rising yields and tariffs coming from higher interest rates in Brazil, the company's leverage will decline over time and cash generation will increase.

Finally, the integration and execution risks of the merger will be mitigated by Localiza's ability to quickly adjust car purchases and increase cash position. The incorporation of Unidas will accelerate Localiza's growth strategy, adding close to two years of normalized fleet expansion at once without the corresponding cash outflow. The company could use the excess cash to cover extraordinary expenses related to the integration of the business, thus reducing execution risks.

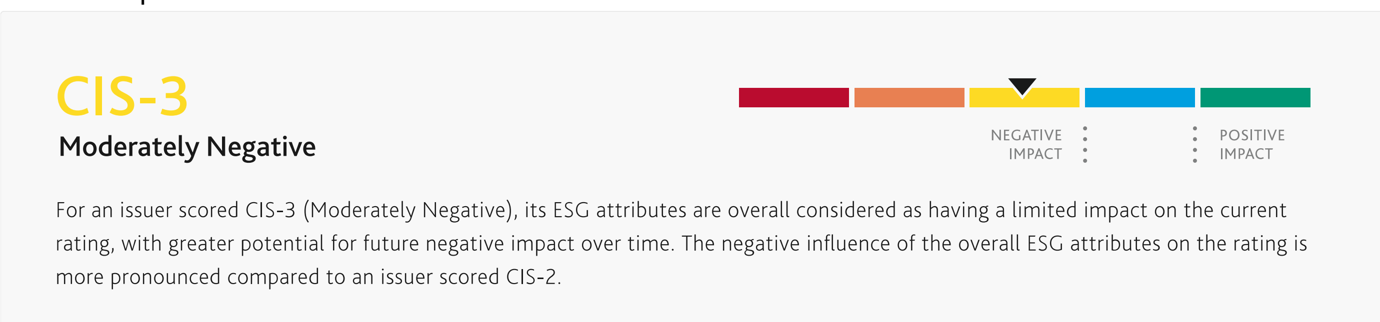
Large size, scale and diversification provide bargaining power

The capital-intensive nature of the automobile rental industry requires companies operating in this sector to have strong oversight of fleet management and secondary market prices. Car manufacturers in Brazil do not provide repurchase or guaranteed depreciation arrangements. As the single-largest car buyer in Brazil, Localiza benefits from large purchase discounts from car manufacturers, which can be as high as 20%. In 2019, before the pandemic and semiconductor shortage crisis, the company invested around BRL4.1 billion (net of used-car sales) to add 75,619 cars to its fleet. Localiza is Brazil's single-largest auto purchaser, accounting for around 6% of OEM car sales in Brazil in 2021.

ESG considerations

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

Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

CIS-3. Localiza's ESG Credit Impact Score is Moderately Negative (**CIS-3**). Environmental risks relate to carbon transition and the need to invest in fleet renewal to meet customers' preferences, as well as waste and pollution generated by the business activity. Social risks incorporate managing customer relations, including sensitive customer data, responsible production, and demographics and societal trends that may challenge the company's current business model. Governance aspects are incorporated in the rating and include a track record of conservative financial management through economic cycles, balanced by a concentrated board structure.

Exhibit 5
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

E-3. Localiza's environmental risks relate directly to carbon transition risk and the need to invest in fleet renewal to meet customers' preferences, as well as the waste and pollution generated by the business activity.

Social

S-3. Localiza's social risks incorporate managing customer relations, including sensitive customer data, responsible production, and demographics and societal trends that may challenge the company's current business model. The introduction of new mobility alternatives, such as autonomous driving, electric mobility alternatives, among others, could create hazards to the car rental sector and result in additional investments to keep up with evolving trends.

Governance

G-3. Localiza's governance aspects are incorporated in the rating and include a track record of conservative financial management through economic cycles. Localiza has good transparency and adequate quarterly financial disclosures. The company's shares trade on B3 S.A. - Brasil, Bolsa, Balcao (Ba1 stable, formerly known as BM&FBovespa) and comply with the Novo Mercado standards, the highest corporate governance level in the local equity market. Localiza's board of directors consists of eight members, of which five are considered independent according to B3 standards. Additionally, the company has a permanent audit committee of three independent members and a fiscal council. After the merger with Unidas, there was no material change to Localiza's controlling shareholding structure. Both founding families of former Unidas and Localiza, jointly control the entity with a combined 22% stake of the resulting company. About 15.7% of total shares are held by the Mattar and Brandão families, 6.2% by Unidas' founders, and the remaining 77.5% in free float. Both companies have only one class of shares and are listed on B3 - Brasil, Bolsa, Balcão Stock Exchange under Novo Mercado. Based on a new vote agreement between the controlling shareholders, Localiza's shareholders will appoint six out of eight board members of the combined company, and Unidas' shareholders will appoint the remaining two.

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

Liquidity analysis

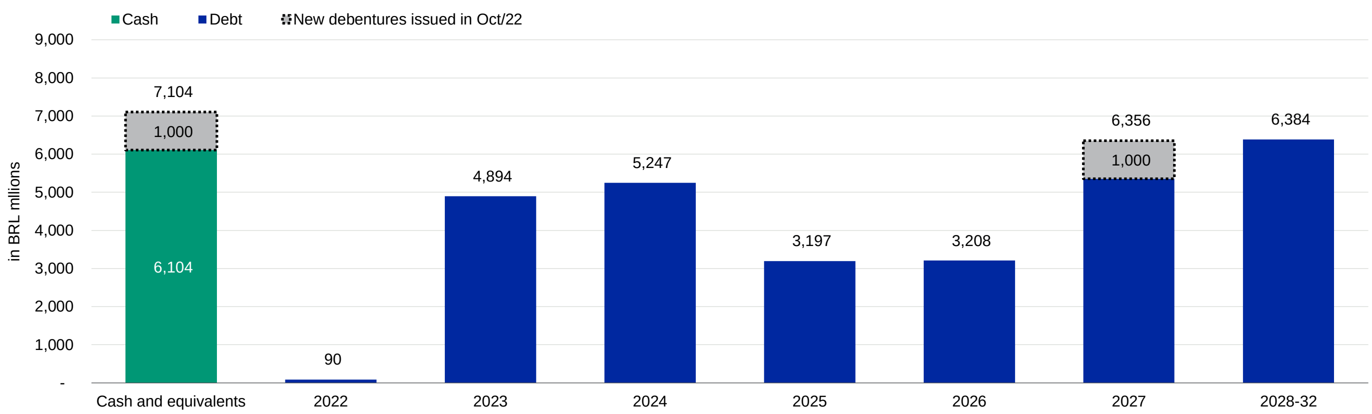
As of September 2022, Localiza reported BRL6.1 billion in cash and cash equivalents on its balance sheet and about BRL5 billion in debt maturing until year-end 2023. In October 2022, Localiza issued BRL1 billion in debentures due 2027, with proceeds directed to recompose cash position. The company also received most of the BRL3.2 billion carve-out proceeds in October, which although being partially directed for its fleet transition, should help preserve and sustain the liquidity of Localiza. The company will also receive BRL320 million in the next 120 days related to price adjustments in its fleet sale contract with Brookfield Asset Management (Baa1 stable). Additionally, the company has a consolidated fleet of about 500,000-550,000 vehicles (both in car and fleet rental divisions), mostly unencumbered and with an estimated market value of above BRL35 billion, which is an alternative source of liquidity, especially during economic downturns. The company's cash balance, alongside its unencumbered fleet value, covers the totality of the combined total Moody's-adjusted debt of BRL30 billion.

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

Exhibit 6

Pro forma Localiza debt amortization schedule

As of September 2022, considering proceeds from the new debentures issuance



The cash and equivalents amount does not consider the BRL1.5 billion collateral deposit linked to the credit line provided for the former shareholders of Locamérica (due in 2027).
Sources: Moody's Investors Service and company's financials

Methodology and scorecard

Localiza's scorecard-indicated outcome using our Equipment and Transportation Rental Industry methodology, with data as of 30 September 2022, maps to Ba1, one notch above the company's assigned senior unsecured ratings. Prospectively, our 12-18-month forward view scorecard-indicated outcome is Ba1.

Exhibit 7

Rating factors

Localiza Rent a Car S.A.

Methodology: Equipment and Transportation Rental published on 30 Sep 2022	Current LTM (Sep-22)		Moody's Forward View Next 12-18 months (as of Nov-22)	
Factor 1: SCALE (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	2.8	Ba	$4.0 - 4.5	Ba
Factor 2: BUSINESS PROFILE (20%)				
a) Business Profile	A	A	A	A
Factor 3: PROFITABILITY (10%)				
a) Pretax Income % of Sales	16.7%	Baa	10% - 20%	Baa
Factor 4: LEVERAGE AND COVERAGE (45%)				
a) Debt / EBITDA	4.95x	B	3.0x - 4.0x	B
b) FFO / Debt	10.3%	B	10% - 20%	B
c) EBITDA / Interest	2.70x	B	2.0x - 3.0x	B
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating Outcome:				
a) Scorecard-Indicated Rating		Ba1		Ba1
b) Actual Rating Assigned		**Ba2**		

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2022(L).
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 8

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

Source: Moody's Investors Service

Appendix

Exhibit 9

Peer comparison

Localiza Rent a Car S.A.

(in USD millions)	Localiza Rent a Car S.A. Ba2 Stable			United Rentals (North America) Ba1 Stable			Hertz Corporation (The) B2 Stable			Ashtead Group plc Baa3 Stable		
	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE Apr-21	FYE Apr-22	LTM Jul-22
	$2,020	$2,024	$2,779	$8,530	$9,716	$11,122	$5,258	$7,336	$8,598	$6,639	$7,962	$8,369
Revenue	$511	$731	$1,161	$4,057	$4,534	$5,415	$2,071	$3,383	$3,915	$3,034	$3,562	$3,743
EBITDA	$2,149	$2,374	$5,556	$10,409	$10,508	$10,733	$8,033	$12,499	$14,714	$5,855	$7,175	$7,744
Total Debt	$764	$899	$1,129	$202	$144	$76	$1,096	$2,257	$1,006	$27	$15	$28
Cash & Cash Equiv.	13.8%	25.4%	16.7%	15.5%	19.3%	23.1%	-29.6%	22.8%	28.4%	18.8%	20.9%	21.3%
Pretax Income % of Sales	5.1x	5.7x	2.7x	7.9x	10.7x	12.9x	2.6x	5.4x	9.0x	11.6x	15.3x	15.6x
EBITDA / Int. Exp.	4.3x	3.4x	5.0x	2.6x	2.3x	2.0x	3.9x	3.7x	3.8x	1.9x	2.0x	2.1x
Debt / EBITDA	9.7%	17.9%	10.3%	27.8%	34.2%	39.6%	13.9%	19.2%	22.5%	40.0%	42.5%	41.6%
FFO / Debt	7.3%	15.6%	6.6%	27.8%	34.2%	39.6%	13.0%	-0.9%	-9.0%	36.0%	38.8%	38.2%

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

Localiza Rent a Car S.A.

(in USD Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Ending Sep-22
As Reported Debt	**1,952.8**	**1,972.8**	**2,491.4**	**2,148.6**	**2,374.4**	**5,555.7**
Pensions	0.0	0.0	0.0	0.0	0.0	0.0
Operating Leases	398.8	369.8	0.0	0.0	0.0	0.0
Non-Standard Adjustments	2.1	9.8	11.0	0.0	0.0	0.0
Moody's-Adjusted Debt	**2,353.7**	**2,352.3**	**2,502.4**	**2,148.6**	**2,374.4**	**5,555.7**

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

Exhibit 11

Moody's-adjusted EBITDA breakdown

Localiza Rent a Car S.A.

(in USD Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Ending Sep-22
As Reported EBITDA	**450.1**	**484.3**	**617.9**	**510.6**	**756.4**	**1,186.4**
Operating Leases	55.3	56.0	0.0	0.0	0.0	0.0
Unusual	23.2	0.0	0.0	0.0	-25.0	-25.7
Moody's-Adjusted EBITDA	**528.7**	**540.3**	**617.9**	**510.6**	**731.5**	**1,160.7**

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

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