Localiza Rent a Car 4Q21 and 2021 Results
February 23, 2022

[Anna Branco]: Good afternoon, and welcome to the Localiza Rent a Car webinar referring to the results for the 4th quarter and full year 2021. Today with us are Bruno Lasansky, CEO, Rodrigo Tavares, CFO and Nora Lanari, Investor Relations Officer.

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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. Investors should understand that general economic conditions, market conditions and other operating factors may affect the Company's future performance and lead to results that differ materially from those expressed in such forward-looking statements.

Now, I will hand the floor over to Bruno, the Company's CEO, to begin the presentation.

[Bruno Lasansky]: Good afternoon, everyone. Welcome to Localiza´s results webinar.

In 2021, Localiza achieved significant results, both in its financial performance and in the development of skills to build the future of sustainable mobility.

Rodrigo and Nora will provide the results following, but I would like to highlight the resumption of growth in the car rental and fleet divisions, with net revenue from car rentals increasing by almost 40% year over year and the record level of new contracts in the Fleet Rentals division, not yet reflected in rented cars due to the new car delivery backlog. We maintained our NPS, at a level of excellence in all divisions, which continues to be a great differential for Localiza, and we received the ReclameAqui award for the 7th consecutive time in Car Rental and 5th consecutive time in Used Car Sales, another example of the high quality of our service.

We delivered a ROIC of 17%, a spread of 13 p.p. over the cost of debt after-tax, and a record net income above R$2 billion, evidencing the Company's resilience and adaptability.

In 2021, the availability of new cars continued to be impacted by the unfolding of the pandemic and the lack of inputs, mainly semiconductors. In this scenario, we worked on rental pricing, fleet utilization and we were very diligent in the capital allocation, prioritizing more profitable segments, however, without neglecting valuable and long-term relationships with customers and partners.

We have evolved our maintenance processes to manage costs and maintain high standards of excellence, even with an older fleet. Car theft and default costs were impacted in the second half of 2021 due to a higher risk environment. To mitigate this effect, we incorporated new processes and technology that, at the beginning of 2022, put us at levels comparable to those of 2019 in terms of theft and default. The challenges imposed by the pandemic and the lack of vehicles will certainly leave a legacy of new processes and practices at Localiza that will help us maintain high performance and productivity in the coming years.

In building the future of sustainable mobility, the execution of our strategy of innovating and growing with value creation advanced consistently. We launched Zarp Localiza brand, a differentiated rental value proposition for app drivers, with a modern and low-cost branch concept, in addition to the use of proprietary technology to create competitive advantages in the segment. We continue to accelerate in our subscription car model: Localiza Meoo website is already the most accessed in its category, with a delightful experience, and we also launched a new app, which brings the best evaluation in the sector.

Our digital transformation, led by Localiza Labs, our technology and analytics team, had another year of substantial results. We are modernizing our technological stack to gain speed and scalability. The number of deploys per day, or code changes in our digital products, increased by 130% between 2019 and 2021, bringing much more agility and learning, increasing productivity, which allows us to generate value and test new solutions in the mobility ecosystem. We have also made progress in the customer experience, as example, the Company's main applications have excellent customer ratings in app stores, such as Google Play.

We also transformed the management of our operation, with digital solutions for supply, washing, fleet movement, traffic fines management and fleet return, among others, which will enable productivity gains and increase customer delight. In the last quarter, we launched new solutions that will allow us to increase additional revenues and reduce the no-show rate in 2022 in the Car Rental Division. We surpassed 180 thousand connected cars, creating a differential in the management of our fleet, and allowing cost reduction through proprietary IoT. The convenience of Localiza FAST, our 100% digital rental, is already present in 45 major agencies and this year has seen triple-digit growth in the number of rental days.

Another major highlight of the year was the CADE' approval of the business combination with Unidas, still subjected to conditions and pending final approval. If approved, we believe that the Combined Company will be in a unique position, allowing us to offer the best mobility solutions for customers, in addition to generating value for shareholders. Following all legal and antitrust protocols, we are planning the integration so that the Combined Company leverages the best of each of the companies and manages to capture important synergies to advance in expanding our scale and scope.

We also had important achievements in our ESG agenda, which was accelerated in 2021 with structuring projects aimed at reducing carbon emissions. We continue to neutralize scopes 1 and 2 and, for the first year, we disclose scope 3 emissions, with a complete and audited greenhouse gas inventory, which received the gold seal of the GHG Protocol. Our Diversity and Inclusion Program continues to engage our employees and we were honored at the end of the year with the National Award from Aberje (Brazilian Association of Business Communication) in the Diversity category. Sustainability is a fundamental part of the Company's strategy and, in 2022, we will continue to work to reduce and neutralize our carbon footprint and promote an increasingly diverse and inclusive environment.

After a robust multi-year process, in April 2021, we took an important step in the Company's history. Eugenio took over as Executive Chairman of the Board and I as Localiza' s CEO, continuing our strategy and following the best corporate governance practices, supported by an active board with great knowledge of the business.

All these results were only possible thanks to the dedication, commitment, and very high engagement of Localiza's Team, to which I would like to deeply thank. Our culture, based on passion for the customers, people who inspire and transform and extraordinary results, continues strong and sustained in more than 48 years of achievements.

We begin 2022 prepared and capitalized to continue taking advantage of the growth opportunities which we will face and further expand Localiza's role in the market. We are very confident in our ability to execute with excellence and continue to generate value for shareholders, customers, employees and all our stakeholders.

To present the highlights for the year and quarter, I would like to give the floor to Rodrigo Tavares, our CFO.

[Rodrigo Tavares]: Thank you, Bruno. Good afternoon, everyone.

Before moving on to page 2 of our Webcast and reinforcing Bruno's words, we remind you that we made important decisions last year, regarding capital allocation. We were disciplined in the purchase of cars to seek good levels of profitability at the replacing cost of cars, impacted by the increase in inputs, the devaluation of the Real against the Dollar and the scarcity of supplies. This reflects in lower levels of depreciation compared to the historical. We accessed the capital market to seek an extended debt profile at competitive costs. We revisited internal processes, which will result in lower costs of bad debt and theft, opening space in the rentals margin. We increased the recognition of tax credits and accelerated the pace of investments in team, processes and technology, which will support the Company in the next growth cycle and in the expansion of its mobility activities. We had CADE's approval for the merger with Unidas, still conditioned to the divestment of the "remedy" and we ended the year with leverage at 1.9x net debt Ebitda, which gives us room to accelerate volume growth in 2022.

As a result, as you can see on page 2, we ended the year with a 39.8% growth in car rental revenue, because of the 6.6% increase in the number of daily rentals and 30.9% increase in the average daily rate. In the fleet rental division, we posted a 13.7% growth in net revenue for the year, with volume increasing 7.2% and average ticket increasing 6.8%. I highlight that the numbers of this division still do not fully capture the increase in the number of contracts closed, due to the delay in the delivery of cars, resulting in a backlog of orders in backlog of more than 20 thousand cars.

After a difficult year, from a car supply point of view, we adjusted purchases and decommissioning, and ended 4Q with the addition of 18,510 cars to the fleet. Bearing in mind that a relevant part of these purchases was received at the end of the quarter and is not yet fully reflected in the RAC and Fleet Rentals operating fleet numbers.

On page 3, we show the financial highlights for the quarter and the year.

Compared to the same period last year, EBITDA grew 49.8% due to higher operating income from car and fleet rentals, as well as from Seminovos, and net income increased 95% in the year, reaching an all-time high of R$2 billion. We ended the year with a ROE of 29.6% and ROIC of 17%, with a spread of 13.3 percentage points in relation to the after-tax cost of debt.

The year 2022 has already started with challenges in the automotive chain, including absenteeism in production lines due to the Omicron variant, but we believe that from May onwards we will have increasing volumes, increasing especially in the second half. In this context, we expect to accelerate volume growth in the business, car rental and fleet divisions, especially from the second half of the year and we believe we are well positioned, from a competitive point of view, with lower replacement capex, in addition to lower leverage and cost of debt.

To present more details of the result, I will give the floor to our director of investor relations, Nora Lanari.

[Nora Lanari]: Thank you Rodrigo, good afternoon, everyone.

Starting with the Car Rental division, as you can see on page 4, in the 4Q the number of daily rentals totaled 14.1 million, an increase of 1% year over year, with net revenue increasing 30.5%. It is important to highlight that we already see the average operating fleet advancing 1.8% compared to last year, even without reflecting the addition of fleet in the quarter. We will talk about purchases and sales later, but this quarter we received 22,937 cars and sold 12,319 cars for this division, resulting in 10,618 cars added. We also continue to adjust our rates to incorporate new car price increases and higher interest rates. We have seen resilient demand and consistent growth, which reinforces our confidence in the growth avenues for rentals in the coming years.

On page 5, we show the result of the efficient management of prices and the mix of segments. In the context of a lack of cars and consistent demand, the car rental division maintained the utilization rate at a high level, above 81% and presented an average daily rate of R$102.7, with the prioritization of more profitable segments, however, without failing to care for valuable, long-term relationships with customers and partners. Considering the cost of replacing cars and higher interest rates, we still see the need for price adjustments, but we continue to work to mitigate the impacts through productivity gains and cost management.

On page 6, we show that the network of own branches was expanded by 11 throughout 2021, from 442 to 453, with 10 new Zarp branches. Including franchised branches, the Company ended 2021 with a distribution network comprising 620 branches in Brazil and 4 other countries in South America.

Moving on to page 7, in the Fleet Rental division, we see the number of daily rentals increasing 7.9% in the quarter and net revenue growing 17.2% compared to 4Q20. In this comparison, the average tariff has increased by 10.4% and the new car delivery backlog is still above 20,000 cars. In this quarter, we received 11,123 cars in this division and sold 3,231, resulting in 7,892 added cars.

Moving on to page 8, we show the car purchase and sale balances. In 4Q21, the balance between cars bought and sold totaled 18,510. 34,060 were purchased and 15,550 cars were demobilized, with a net investment of R$1.7 billion. Our average purchase price with accessories was around R$79 thousand, compared to a sales price of R$64 thousand, resulting in a replacement effort of R$15 thousand per car in the quarter and R$11.5 thousand in the year, showing the importance of maintaining discipline when buying cars. In the year, the fleet addition added up to 18,665 cars and a net capex of R$2.3 billion.

On page 9, we show the Used Car network. At the end of 4Q21, we had 127 points of sale, a reduction of 5 points compared to the peak of 132 stores. Still in the context of restricted production and supply of cars, we reduced the number of decommissioning and demobilization of cars, resulting in the sale of 15,550 cars sold, a reduction of 51.2% in volume sold compared to the same period of the previous year. The average price charged was 28.2% higher than the prices charged in the same period of the previous year and reflects the increase in the new car price, captured in our cars sold. With a long-term view, we will keep our structure prepared to accelerate the pace of fleet renewal, which will be gradually expanded as purchase volumes increase, which should occur progressively throughout the year, especially from 2H22 onwards.

On page 10 we show the fleet at the end of the year, compared to the end of 2021. In Car Rental, we ended the quarter with a stable fleet, at 216 thousand cars, while in Fleet Rental, the fleet at the end of the period was expanded by 19 .2%, totaling 73.5 thousand cars. Both are still impacted by the reduction in the level of car production in 2021. Consolidated, the fleet advances 4.2%.

Moving on to page 11, we see that consolidated net revenue for the quarter fell 8.3% year-over-year, impacted by the slower pace of fleet deactivation. Net revenue from rentals increased by 27.6%, with a 30.5% increase in the Car Rental division and 17.2% in Fleet Rental, while used car revenues were impacted by the company's decision to reduce the pace of deactivation and lengthening the useful life of the fleet, in the context of a shortage of car supplies, seeking volume growth in the rental divisions.

On page 12, we see that EBITDA increased 24.3% in 4Q21 compared to the same period of the previous year, reaching R$935.4 million, with a strong contribution from Car Rental and Used Cars.

In the quarter, the Car Rental EBITDA margin increased 5.4 percentage points compared to 4Q20, while in the Fleet Rental division, the margin decreased by 6.9 percentage points. Seminovos presented a 3.5 percentage points superior margin, mainly due to the higher average car sale price, partially offset by the lower fixed costs dilution due to the reduction in car decommissioning.

We had some additional costs and expenses that impacted margins, among which we highlight for 4Q21:

• Costs and expenses of approximately R$12 million in the quarter associated with the merger process with Unidas.

• Increase in maintenance costs due to the lengthening of the fleet's useful life, which impacted the average age of the car sold by 8 months in Car Rental, and 5 months in Fleet Rental

• Increase in the cost of theft in RAC when compared to historical levels that, with the greater use of telemetry and data science for fraud prevention and car recovery, is already inflection and with a tendency to levels comparable to 2019

• Increase in Fleet Rental marketing and advertising expenses, especially associated with Localiza Meoo

• Increase in profit sharing provisioning due to the higher ROIC generated in the year

• In addition to the increase in costs and expenses for advances in technology and new initiatives in the mobility ecosystem

In this quarter, we obtained a new report reviewing the useful life of our cars in the RAC, with a positive impact of R$51 million on the car rental EBITDA. The Company will seek to maintain greater frequency in obtaining reports as a way of minimizing volatility in the recognition of credits.

On page 13, we see that in the RAC, the annualized average depreciation per car continues to advance sequentially, at R$1684. In 2021, the Company reduced the pace of car sales to extend fleet useful life. Lower sales volumes have a direct impact on depreciation, since the cost of sales estimate is one of the variables that make up the calculation. We expect sales volume to remain low throughout 1H22, to accelerate the resumption of growth. On the other hand, in 4Q21, we saw an increase in the number of cars purchased, around 23 thousand, which already have depreciation levels closer to normal and impact the annualized average depreciation for the quarter and the year.

In the Fleet Rental Division we see the same trend, but as the pace of fleet renewal in this division is lower, the progression is slower. We ended the quarter with an annualized average depreciation of R$1259.

On page 14, we can see that consolidated EBIT for 3Q21 reached R$773.6 million, representing growth of 19.9% year over year.

In 4Q21, the EBIT margin of the Car Rental Division was 43.9%, representing a reduction of 2.8 p.p., compared to 4Q20 and reflecting the higher average depreciation per car. In the Fleet Rental Division, the EBIT margin reached 60.7%, a reduction of 2.7 p.p. year over year, mainly reflecting the lower EBITDA margin, as explained above, partially offset by the lower depreciation per car.

As the fleet renewal cycle returns to normalized levels, we expect that the increase in depreciation and the reduction in Seminovos EBITDA margin will be offset by the growth in rental revenues and normalization of maintenance costs, as well as by the increase in efficiency and dilution of platform fixed costs.

Net income for the quarter, on page 15, grew 10% year over year, reaching R$442.1 million. In addition to the EBIT variation described above, financial expenses increased by 140.0%, mainly due to the increase in the CDI rate and in average debt balance.

On page 16, we show a cash consumption of R$342.6 million after growth, mainly explained by the change in working capital, and the increased renewal capex per car, resulting from the higher new car price and from the more premium mix of car purchased compared to the mix sold, in a context of lower car production and imbalances between demand and supply.

As can be seen on page 17, net debt increased by R$899.4 million, ending the year at R$7 billion, impacted by the increase in capex for fleet renewal and growth.

On page 18, we can see that we ended the year with a strong debt profile and cash position. Including January's net funding, the Company's pro forma position brings R$4.9 billion in cash. Efficient management of the cost and debt profile, maintaining protection for long-term contracts in Fleet Rental and prioritizing CDI+ instead of CDI percentage, leaves Localiza relatively well positioned for the higher interest rate scenario.

On slide 19, we can see that the Net Debt / EBITDA ratio in 2021 ended at 1.9x. in 2021 we had an improvement in all ratios, leaving us with room in the balance sheet to finance the next growth cycle.

I would like to return the floor to Rodrigo to present our ROIC spread.

[Rodrigo Tavares]: Thank you Nora.

On page 20, we present the evolution of the ROIC spread versus cost of debt. In 2021, we see an advance in our spread, which reached 13.3p.p., with an ROIC of 17% We reinforce that, despite the high level of short-term returns, the current context emphasizes the importance of decision-making considering the cycle full rental, as well as vehicle replacement costs. That is why we maintain our austerity in the allocation of capital, certain that we are making decisions with a long-term view, seeking growth with value creation. We ended the year with a ROE of 29.6%.

Finally, we continue to advance in the sustainability journey, with the goal to bring even more positive impact. In this quarter, we selected projects to reduce greenhouse gas emissions and increase forest carbon inventory. We made progress in emission reduction strategies and continue to advance in the solar energy generation project at our branches.

In the social pillar, the Localiza Institute finalized the selection process for its public notice for the Project Juventude em Movimento and selected projects that have the potential to impact 8,000 young people with technical and professional training activities.

In Governance, we highlight the definition of KPIs related to sustainability and their inclusion in employee and C-level performance contracts, with monitoring, by the Board of Directors, of actions and initiatives related to the theme.

We are now at your disposal to answer your questions.

[Anna Branco]: We remind you that for the Q&A session, 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. For telephone participants, dial *9 (raise hand), once your question is announced, dial *6 to mute and then to unmute the audio.

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Our first question live is from Regis Cardoso from Credit Suisse.

[**Regis Cardoso]:** Hi, everyone. Can you hear me? Rodrigo and Nora.

[Rodrigo Tavares]: Yes, we can.

[Regis Cardoso]: Okay. Thank you for the opportunity. Thank you for taking my questions. So, Rodrigo, maybe the more controversial topics in the results this quarter was the margin. So, meaning the margin of all businesses, margin in Rent a Car, which was much lower than your competitor, that reported last week. And that dropped on a quarterly basis. And Seminovos had a sudden drop. So, Rodrigo, I'd like to hear from you: does that concern you? Do you believe that this recurring margin levels are similar to your levels right now in the competition, your peers? And if you have any measures, things that you're considering to improve your margins? I'll start off with that one.

[Rodrigo Tavares]: Okay. Thank you, Regis. So, when we look at the results of margins, first of all, you see an increase quarter over quarter of five percentage points already disregarding any effects of the depreciation reports in Rent a Car. And more specifically, when looking forward, there are relevant changes. So the first thing that we consider are the integration costs related to consulting firms and analysis and the approval of the deal as affected the margin of Rent a Aar by one percentage point this quarter in theft, as we had mentioned, we changed the criteria we started to launch in the results in the maximum of 30 days. So, we did have an increase in theft as of the second half. and we felt that impact. When you look at December, in the beginning of this year, we have substantially lower levels than the average presented.

If we go back to the normal levels, that would be four margin points of difference in rental cars. So that's a very relevant difference. And as mentioned in the beginning, as this was a record year, not only in terms of ROIC and profit, we have profit sharing greater than normal. So, when we created the provision that affected us in another point. So those are things that we don't expect to occur. Moving forward, we're at different levels already. So, we're talking about an impact of almost six percentage points to the rental car margin. Now, switching over to Fleet Rental, we have similar impacts but of a different kind.

So, in integration, almost one and a half points to the margin in marketing, once again, we're consolidating our brand of Localiza Meoo. So since in Fleet, the revenue base is lower than Rent a Car, those investments have a higher impact in the short term. So, in marketing is already higher than normal almost three points of margin in another point associated to profit sharing.

So that totals five points to the margin that we expect that in the next quarters will not have this effect. In Seminovos the volume issue, which was a company decision, we decided to decrease decommissioning and that affects the Seminovos acquisition cost. So, if you think of the long term, you may have higher decommissioning of the structure.

But if you think of a scenario that you're going to increase the sales even more in the future and considering potential integration, it makes a lot of sense to carry that cost. And that has a relatively high effect. And almost 6,000 cars that we decided to not decommission., if you look at contribution margin, that's almost 100 million to the quarter, so, 17 million impacted profits.

But we decided that we preferred to take up more market share and grow and carry the structure that we will require in the second half when we integrate the businesses.

[Nora Lanari]: Regis, I'd like to add that the first point is margin comparability. So, we have important accounting differences and relevant to capitalization levels. So not only for RAC, but also Fleet margin, I'd add higher maintenance costs as we had to increase the shelf life of the fleet. We added maintenance costs, but on the other hand, depreciation is more controlled. That's a very important.

And the second point is the investment in technology. So, the company, when you think of the short term, we're not thinking of the short term, we're thinking of the long term. We're preparing the company for the next cycle so that those expenditures have obviously affected the margin in Seminovos, RAC and Fleet and we’ll give you more disclosures about that throughout the year. And another thing about Seminovos, as Rodrigo said, we deliberately stopped selling so we can increase the volume in and now we see an increase in the volume of 19% and Fleet Rental and RAC. And so, the effect of a lower dilution of fixed costs cannot be disregarded, as you will know.

And as we speed up purchases, we have the offset in SG&A. So, it's important to mention that our strategy has an impact on maintenance. But on the other hand, we have an effect in depreciation. So, in this period, we will have this to get back to normal in the balance of purchase and sales. So, as he mentioned, 70 million because we sold 6,000 cars less and that will change as we decommission these cars slowly so we can deliver growth to our business divisions.

And another important aspect is that Rodrigo mentioned beginning of the call as of May, we believe that we will gain traction in purchases and that will speed up in the second half of the year. That's why it's important to slow down sales so we can continue to deliver growth in both business divisions as from the first quarter.

[Regis Cardoso]: Okay, thank you, Nora and Rodrigo, if you'll allow me a second question and on a positive note, so your leverage is still much lower than average and historical was three times and now it's close to 1.9. So, my question is that gives you room to growth moving forward, going forward. So, would you know off the bat or would it be easy for you to break down how much of that leverage would be consumed in a process to renew the current fleet? And if that renewal and additional EBIDTA, can you translate that into less maintenance and higher rates or not?

And how much is left in addition to renewal? What's left in fleet expansion? If we consider the increase in leverage, that could be close to three times. I'm not even sure if that's the correct reference.

[Rodrigo Tavares]: Thank you, Regis, for your question. This is Rodrigo speaking. I'll speak answer that in terms of a concept that we do have a robust balance sheet ready to grow to just renew the fleet, we do not have to increase indebtedness. I'm not even going to talk about the ratio. Our cash generation for fleet renewal is sufficient. So operating cash generation, if we only renewed the fleet, you would see the indebtedness level dropping and dropping even more. So, we can grow a considerable volume of cars and still maintain in our left fridge way under three times in a in a very rough estimate, I can grow over 100,000 cars this year if I could. Obviously, without getting close to the three times leverage rate, because I can clearly create increase my EBITDA. Of course, leverage will increase, but with the increase in net debt, I wouldn't achieve the three times. So, the room for growth based on the balance sheet point of view is very robust.

[Regis Cardoso]: Rodrigo, can you add something about fleet renewal given higher car prices?

[Rodrigo Tavares]: Yeah, already in considering renewal rate. So historically it for instance, in 4Q the cost was 15,000 BRL increase substantially lower than the market when we forecast that movie going forward we expect a higher renewal cost, but our cash would still be enough without indebtedness to renew that.

So, cash generation is sufficient and the balance sheet allows us to grow with the high volume of cars without getting close to the three times of EBITDA. And don't forget that our covenant is four times the EBITDA. So, we do not have any financial restrictions to continue to grow substantial volumes, not only in RAC, but also Fleet Management.

[Nora Lanari]: And Regis, I'd like to stress that the space that we have in managing and theft and bad debt and operating efficiencies, it's important to note that the Capex difference in replenishment is very important. And in that Capex replenishment for the company, 15,000, as he mentioned, we have a mismatch of what's being purchased and sold, which should still be the tone for this year because given the restrictions in production, we know that automakers are putting the semiconductors in higher added value cars. So that is not normalized yet. When production is normalized, we believe that the purchase mix will be closer to normal and the sales mix could move a little.

Obviously, there are a lot of moving parts we still don't know when that would get back to normal, meaning that mismatch between the supply and demand. So, we believe that in the second half we'll have a significant improvement so that in 2023, which should be close to normal.

[Regis Cardoso]: Thank you, Rodrigo and Nora. Thank you.

[Anna Branco]: Next question is from Lucas Marquiori, BTG. Go ahead, Lucas.

[Lucas Marquiori]: Hi, everyone. Can you hear me?

[Nora Lanari]: Yes, we can hear you, Lucas.

[Lucas Marquiori]: Okay. Good morning. Thank you for taking my question. I have two quick questions. I'm also trying to understand that what Regis touched on evolution of cost and margins. So, two things that I'd like to hear more specifically about. First one is level of theft. Bruno mentioned that in his introduction that that should be a point that should improve this year.

So, what's the path? Not only tracking the vehicles and increasing the bar of credit levels, maybe working with the different customer portfolio, more premium portfolio? I like to know if that's possible because of your products and if that impact is that heavy this year and if it's going to improve as of next year, that's relevant. And the second one is maintenance. I believe that everybody understood the effect of working with an older fleet, with a longer cycle because of the moment we're going through in the market.

But maybe we're in that inflection point right now in depreciation and expecting production to get back to normal. So that maintenance curve might get heavy now and maybe it's not worth it anymore based on your point of view. So how can you mitigate that? Do you have any internal initiatives in relation to maintenance? And so, I'd like to understand your dynamics internally and for 2022, Rodrigo and Nora

[Rodrigo Tavares]: Thank you, Lucas. First of all, about theft. Let me be more encompassing. First of all, we changed the criteria of realizing that. So, we used to take longer. So, a customer gets a car and doesn't return it. We gave him more time to try to recover that car without judging them. Now, we've been very strict in that process.

So, in addition we have a number of different customer brackets. Some of them, we believe they're high risk, very high risk, and we can enter that in one week, which is a possibility. But we don't wait for more than 30 days to enter that information about the car when it's at risk. So that's the first thing. In fact, in the second half there was an increase and it's been significantly decreasing. In December it was very low and in January now we're much lower than historical levels.

So, it's already confirmed your talk you said next year, but you mean 2022. So, the levels that we are at are already at historical levels. So, we do not expect to have any other impacts or relevant impacts in that. The actions are many not just connected fleet and analyzed credit and analytics. So, our technology team is being used so that we can price that risk in real time.

When a customer leaves based on how they're going to use that, the time they're getting the car, we're starting to do that. And that's working. In selecting our customers. You're absolutely right. We not only have a credit score, but we also have a fraud score. So, we're starting to deny reservation for customers that we believe are high risk.

And that high risk is measured with dozens of factors based on the type of payment, their credit score or the type of car they're renting, if it's their first rental or not. So, there are a number of different factors that we're already using. There's a huge toolkit that we're using in processes that has changed the type of level of theft and fraud that we've seen, especially in this second and third quarter and also in October and November of the fourth quarter.

In terms of maintenance. As Nora mentioned, there is a tradeoff between maintenance and depreciation, which is still very positive. So, when you look at the differences and depreciation of some of the cars, it could go up to 300 to 400 BRL in one month. In maintenance, you're talking about tradeoff a 50, 60, 70 BRL per month. Obviously, that depends on the perspective of supplies and market demand to see how much we're going to grow or not, and commercial conditions of certain car models.

So that's the math that we do all the time to understand if it makes sense to extend that shelf life of the car or the capital base or increased depreciation because we talk about depreciation, but there's a capital base that grows a lot. So, when I have an old book of 55,000, a new car is 85,000. So, with that, that's 50% increase.

So not only depreciation, but also the capital base. And you can see the benefit that you would have in relation to maintenance. So, we do that on a recurring basis in the beginning with the restriction of cars in the first months we're extending the shelf life as of May in second half we should decrease that shelf life for the car again.

[Lucas Marquiori]: Perfect. Rodrigo, thank you. Just a follow up question. Maybe the comparison of the maintenance cost of the car is unfair because you're extending the shelf life. So do you have any subsidies to tell us based on the part or component, have you been gaining productivity in that, in maintenance of specific parts, given the companies scale that's bigger today. Can you give us this mitigation effect in that?

[Rodrigo Tavares]: Yes. Obviously, car prices went up because car prices went up. So, we see those effects as well. But we've definitely gained excellent efficiency levels, not only in parts, but also in logistics, distribution, and also by performing some services at the branch, not only improves the cost, but also the speed to get the car ready again for rental.

So, we increase availability. So that's an area where we've evolved a lot and we have significant advantages in that.

[Lucas Marquiori]: Great. Thank you, Rodrigo.

[Rodrigo Tavares]: So, thank you.

[Anna Branco]: Next question is from Lucas Barbosa from Santander. Lucas, go ahead.

[Lucas Barbosa]: Good afternoon. Can you hear me?

[Nora Lanari]: Yes, we can. Go ahead.

[Lucas Barbosa]: Good afternoon. Bruno, Rodrigo and Nora, thank you for this opportunity. I have two questions on my side. First of all, can you comment on what caused the increase in third party services in the fourth quarter? It's 116 million versus an average of 130 million in the other quarters. Would that basically be the cost of the merger with Unidas? I know you mentioned 2 million. Is there anything else that is affecting that line?

[Rodrigo Tavares]: Thank you, Lucas, for your question. Yes, we do have costs in there because of the merger and 12 million in the quarter. But we also have the consulting firm costs in that line. So, there are some advances in those news and new initiatives that are all locked up and affecting those costs.

And more specifically, speaking with the CADE approval, that was a trigger to renew the costs of partners so that also happened in the fourth quarter for a good reason. Of course, the approval of the deal was December 15 and that was one of the triggers for some of the payments.

[Lucas Barbosa]: Perfect. Can we imagine that that line will get back to normal or even lower in the next quarters? not completely, but at least a little.

[Nora Lanari]: Yes. Okay. Perfect. Lucas, I'd like to stress that we are going through an integration process planning. So that line would be all would be an outlier. But at some point, we will have some gains in that this year.

[Lucas Barbosa]: I have a second question. If you allow me, I'd like to understand the dynamics of purchase and sale of cars now in the beginning of 2022. Are you getting new cars at the same rate as that you received in the fourth quarter? And are your expectations to sell what you sold in the fourth quarter in the first and second quarter now?

[Rodrigo Tavares]: Well, the first quarter should be worse than the first quarter of 2021. January was extremely affected by Omicron Variant, especially because of labor. So, in sales that was the worst month in the past 17 years. January was a really tough year and we believe that the first quarter is a quarter that we have less receipts and improving in February and March so that volumes should improve gradually and fourth quarter will be higher than the first quarter. Definitely.

[Lucas Barbosa]: Thank you for the answers and have a great afternoon.

[Anna Branco]: Next question is from Pedro, from Levante. It's in writing. So as the semiconductor production is taking too long to get back to normal, do you believe that it was a good decision to let the fleet age and delayed purchase of cars?

[Nora Lanari]: Well, thank you for your question. Only time will tell, but our strategy is a bit late in margins, as Rodrigo mentioned, because we have higher cost and maintenance, on the other hand depreciation is lower. You see the depreciation number this year was substantially lower than 2020. And in addition, we believe that considering the fact that we're an atypical moment of the market and an on balance high end balance of the supply and demand we have the new car prices are very connected to what they suggest. And Seminovos is also connected to what's practiced and the dynamics would get back to normal at some point and reflect in depreciation.

So, we truly believe that our depreciation said go slower and less intensely compared to the competition at the margin of Seminovos is still at levels higher than normal at least throughout this year. So, we are confident about the strategy in capital discipline. We have strong results in the past two years and record net income to prepare the company that advanced the technology for the next growth cycle.

And we'll start to see the reversal in business margins in rental in the next quarter. So, we are very confident about that.

[Rodrigo Tavares]: I'd like to add to that. One thing that's always difficult to analyze is that we present the highest ROIC spread in history, but we're seeing is that we have the highest difference in ROIC spread in the legacy that I have in the balance sheet and replenishment.

So, the difficulty to assess and as Nora mentioned as well, there are many moments in 2021 and now it's not a huge volume of cars but in many different times that return the ROIC spread in replenishment already considering certain normalization would make sense. So, we're still in a moment of transition where we turn on the depreciated base of assets.

It's very high. The depreciation is very low and interest rates in the past were very low. So, when you consider those three facts of the increase of the capital base, increase of interest and increased depreciation and punishment, we'll see different scenarios. So only time will tell. And that transition will take place from these three effects. And in some moments, we believe it didn't make sense to use our capital, we didn't. And we decided to extend the shelf life.

[Nora Lanari]: We have a question from Ankur, HSBC. I'm going to translate it into Portuguese. So, can you give us some highlights of the supply of car situation is evolving? in that context, has the mix of your across multiple automobile brands changed?

[Rodrigo Tavares]: Well, thank you for your question. So, this year, the contracts that we have signed enable us to have a very high-volume year over year. So, in 2022, in terms of receipt, if we don't in fact have the new cars and things that would change the dynamic significantly is that we expect to receive much more cars than we did in 2021. In the first quarter it will still be difficult January difficult, February better and so on and as of May, but especially in the second half of the year we will see an improvement in car receipt. In relation to the carmakers we have also been very selective.

So, you can see that our purchase price increases less because we have a mix of more popular rain, mainstream cars compared to premium SUVs and less focused on high added value vehicles. So, in our in our opinion, that decision is very positive. We already see pressures especially in more volatile segments such as the daily segment. The daily rates in the premium SUV segments are suffering the pressure.

So, since we have a lower percentage of that mix in a higher distribution among the segments, that enables us to settle better with that situation

[Nora Lanari]: In addition to that we already see new cars heating up in retail and some automakers making promotions for those types of cars that will potentially affect depreciation. There's a follow up from Ankur.

I'll continue and then I'll pass to Felipe. Can you confirm the extent of divestment of assets required to proceed with Unidas' acquisition? And how do you intend to leverage the two different brands? Or will you retain a common brand? So I'll begin answering this. So, the remedy isn't public, but there are some insights in the votes of the board members that determine the limit close to 50,000 cars.

It's not public, but that reference makes sense. And in addition, to the cars we're talking about branches, the system, people and the brand. So, the brand is part of the divestment plan. I'd like to remind you that the combined company still has an agreement with Vanguard that owned the Enterprise National and Alamo Brands and are still going to use the three brands.

[Anna Branco]: Next question is from Felipe Nielsen from Citibank. Go ahead, Felipe.

[Felipe Nielsen]: Hi, everyone. Good afternoon. Can you hear me?

[Nora Lanari]: Yes, we can.

[Felipe Nielsen]: Thank you for taking my question. I'll try to be brief because we're running out of time. So, I know that my colleagues have covered some of the questions that I had. And now I'd like to understand in fleet renewal, still, what would be a limit limited fleet age. And what would be a target fleet age going forward? Now, as you mentioned, about this process of extending the fleet age in the short term and then decrease that as you buy cars. That's my first question.

[Rodrigo Tavares]: Thank you Felipe. It's a bit complex, but let me explain. When does it make sense to renew fast or when you have good sales conditions and a discount, you renew faster and you can actually make that move faster and decrease your depreciation so depreciation is higher in the second year than the first year.

Last year, we had the opposite. So, you have a perspective of price increase and depreciation in the second year was lower than the first year. In that sense, in economic terms, it's valid to extend the life. And now we're working on maintenance procedures to guarantee customer experience. So, the limit it's not about technical, the technical side, but we want our customers to have a good experience in the economic point of view so it makes sense to maintain the fleet and not kilometers. I mean it's not 50,000, 60,000 kilometers, that's the issue. what we have to maintain is our customer experience with the Localiza standards, with the cars that are older. But we do not have a specific number for that.

[Nora Lanari]: And Felipe, to add, there's an importance to operate many different segments and rental cars so we can allocate those cars in different segments depending on how much mileage they have on them so that we have some room to work there.

[Felipe Nielsen]: Okay, perfect. I have a last question about the merger. I don't know how much you can talk about that, but I'd like to understand how the negotiations are moving to sell the Unidas assets? Is there someone that you're more interested in? If you can give us some more color on that so that we don't depend on the news and speculation.

[Rodrigo Tavares]: Thank you. We've been seeing a lot of news, and I know that some news can't really trust, especially in relation to deadlines, the size of the remedy and people interested. But what I can say is that we have an excellent number of companies interested. We've been evaluating many of them, and all of them are very credible based on the antitrust agency point of view.

This is moving fast, and we've seen interest coming from many different types of players, local players, international players, various players that you can even imagine. In fact, I cannot go into the details, but the fact is that the process is moving well fast with many people interested.

[Felipe Nielsen]: Okay, perfect. Thank you for the answers.

[Anna Branco]: Next question is from Bruno Amorim from Goldman Sachs. Go ahead, Bruno.

[Bruno Amorim]: Good afternoon. Can you hear me?

[Nora Lanari]: Yes, we can. Go ahead.

[Bruno Amorim]: Okay. Thank you. I have a quick question. The others were answered. In the scenario of the price increase in rental and a segment where there's more interest there may maybe a worse outlook. So, offering a lower opportunity for growth. So, can you comment on the growth perspectives for each segment in RAC for this year and for the next year? Thank you.

[Nora Lanari]: Hi, Bruno. Thank you for your question or speaking obvious. You're right. Obviously, there are short term segments like leisure there discretionary. It's worth noting that within the pandemic context of the pandemic, what we've seen in 2021 is a disposable income used in Brazil, so domestic tourism has recovered pretty fast with short term travel and rentals. But obviously it's discretionary and it requires and care with price. So, an increase in new car prices and an increase in interest rates have turned the replacements at a disadvantage in the relative point of view. So more long-term segments will benefit from that. We have an important backlog in Meoo that's also in Fleet Management and in monthly as well, because the logic is very similar.

But even in the app segment, we have a waiting line and we're analyzing the quality of the drivers in that line, especially their credit score so we can allocate there. Obviously, the economics of an app driver is tighter when they have to pay more in financing or in rental. So, the price of an older used car is even higher than the seminovo and higher than the new cars.

So that's very important. And in 2021 we continue to invest in that product, not only lowering the cost to serve with dedicated agencies and technology. So, we're lowering our cost to serve drivers, we're increasing telemetry to decrease theft, fraud and losses. So, we've been absorbing some of that transfer and we believe that the segment would be the leisure segment.

[Anna Branco]: Next question is from Josh Milberg from Morgan Stanley. Josh, go ahead.

[Josh Milberg]: Good afternoon, everyone. Can you hear me?

[Nora Lanari]: Yes, we can, Josh.

[Josh Millberg]: Okay, perfect. Nora, thank you very much for the event. I'd like to take this opportunity to ask about the mobility ecosystem opportunity in about other initiatives that go beyond that score. And as part of that, could you revisit some of the specific opportunities that you see, or that you are already developing and also discussed the timing and relevance as possible. And as part of that question, there was recent news about Kavak expanding, and any perspectives in relation to that would be great.

[Bruno Lasansky]: Thank you very much, Josh, for your question. This is Bruno speaking. When we talk about the mobility ecosystem, in fact, where we see that Localiza has the scale, technology and knowledge in many different lengths of our value chain. So, we have pilots in different segments that and huge addressable markets where there's a potential to generate value in the long term because there's a dynamic, very interesting economic dynamics and Localiza has a competitive edge that really reinforces our main business. We're looking at the different lengths of that chain.

So, in the second half, we will communicate, we will inform to the market in an organized manner. We'd like to remind you that we're going through the merger with Unidas. And then second half, we could give me more of you, more visibility and specificity about those parts. So, we are doing that in a very disciplined manner.

In our main business, we have to fund that transformation. Therefore, we're being very selective and very active doing those pilots and picking the ones where we increase the investments and the ones that based on customer feedback, we will find out that they don't make that much sense. In addition to that discipline, technology is fundamental to see those segments.

In relation to the specific points, like you mentioned, the purchase and sale of used cars that segment is very close to our main business and we believe that we could eventually get important competitive edge, but we won't give it disclosure of anything specific. We'll do that in a structured manner to the market in the upcoming months.

[Josh Millberg]: Okay, perfect. Thank you very much for your answer. I imagine that it wouldn't be possible for you to elaborate on that question at this time.

[Bruno Lasansky]: Yes, thank you, Josh.

[Anna Branco]: Next question is from Andre Ferreira from Bradesco BBI. Andre, go ahead.

[Andre Ferreira]: Good afternoon, everyone. First of all, thank you for taking my question. I have a couple questions. Going back to the PIS COFINS tax credits. First of all, I'd like to know if that could be a recurring level looking there going forward in second, if that was positively impacted by the purchase of new cars in December. But then by using the tax credits for 12 months. And lastly, how are you going to book that in 2022.

[Nora Lanari]: Thank you, Andre, for the question. The first report for the company had an impact of 300 million of the EBITDA had a cutoff date of February. So, the second report will include the cars bought from February to now. I can't say it's recurring, but we may be simplified math to do is considering the 2019 base or even 2020 and double the speed of the credits given which the reduction of the use is shelf life went from 18 to 24 months.

The problem is they look in the rearview mirror, so the car price is now 70,000. You'd have to consider that adjustment. So, there's space in margin for the company, it should be four or five points to the margin and we have to look for initiatives to increase the revenues to absorb some of those credits going forward. So, I'd say that the challenge here in saying that it's recurring is that we're going back to the fleet of end of February, which was the cut off for the first report.

The company objective will be to get these reports in a more intense manner so that we don't have so much volatility to our margins and issues to the market.

[Rodrigo Tavares]: I'd like to add, there are two effects. When you spend more time from February to now, you have a higher one-off component. But the cars that were in the report now they depreciate faster going forward. So, you'll have a greater component of speeding up for the cars that have already been reported, but a lower effect and when you consider the global effect, considering the pace in the cars that you buy, it's like Nora said, you'd double the amount of PIS and COFINS credits that you have during the year, so, it's a very relevant benefit.

[Andre Ferreira]: Thank you.

[Anna Branco]: Next question is from Pedro from Grow Capital.

[Pedro]: Actually, there are two questions. Could you give us an idea of deadline expectation to approve the merger? And what do you expect in the average dynamic rate of RAC going forward? Could we expect a drop in the rate when you can increase the volume?

[Rodrigo Tavares]: Thank you. Pedro, Let's go back to the process of the merger. So, we do have a deadline. It's not public. We have to present a proposal about the buyer to the antitrust agency. When we offer that the the antitrust agency has 30 days to approve that. When they approve it, our merger will, in fact, be approved. And then there's a process to carve out that to sell that part of you, need us to the buyer so it's hard to precise a date.

But we do have to follow all those processes and rituals so that we complete our merger with Unidas, and then complete that sale to the potential buyer.

[Nora Lanari]: To answer your second question, Pedro, about the RAC dynamic, RAC rate dynamics. Is that obviously in the fourth quarter we had lower supply and it was the peak in summer vacation. So, prices go up a lot. What we should see in the second half of January is the prices should settle. We still do have Carnival, but that should settle and we still have a transfer in the long-term monthly segment and even apps as they are longer term contracts. So, as they come due or as they mature, they are affected by new prices.

And we will have that effect and for individuals in that. And when we consider an increase, especially in the second half, we would obviously have an impact of the mix. So strong, heavier in monthly. And in fact, that pulled down the average monthly rate. But the car prices are at a different level. So, we don't imagine that the average daily rate would drop for this year because of increase in car prices.

[Anna Branco]: Next question is from Isabella Lamas from UBS. Go ahead, Isabella.

[Isabella Lamas]: Good afternoon. Can you hear me?

[Nora Lanari]: Yes, we can. Go ahead.

[Isabela Lamas]: Thank you, Nora. thank you, Rodrigo, for taking my question. My question is about the PIS and COFINS credit. So, what about GTF, what do you expect for the reports for the segments and also about Localiza Meoo? Will we see an increase in interest rates plus a hike in new car prices? And according to our mount, we see that that's even more positive for the rental service.

It's more appealing because you suffer less with the increase. The end user is going to have a cost that's much higher with those two combined effects. So, I'd like to know if you see any impact in that and the demand and an increase in customer perception about that product. And also, if you can give us some color on how it's been evolving in terms of customer profile type of car product mix. What can you tell us about how that product evolves? You mentioned a lot of expenses in marketing in that. So, what strategy can you use to increase the perception of that type of Car Rental? Thank you.

[Nora Lanari]: Thank you, Isabella. I'll start off with the report. So, at the end of the year, we were working on the Rent A Car report for the cars and to February until now. And now we're discussing with the agency the methodology for Fleet Management. But we still don't have any deadlines for that. And we're looking to have one for that as well. But in Fleet Management, we expect a lower impact given the fact that these cars have a contract on average of two or three years. So, the reduction of 48 to 36 months, maybe an average in the age. About car prices, about sorry, Meoo and interest rates and car prices, we see a lot of people trying to enter that segment traditional players and Fleet Management, even automakers and car rental companies.

So, the knowledge about the product is more spread out. So, our challenge was to increase the relevance of our brands. That's why we've expedited marketing investments that affected the margins in the third and especially fourth quarter. So, we do see a resilient demand. The new car prices will take people to consider the subscription. It's a cultural, generational change, but we do see an adoption curve that's speeding up significantly in most diverse profiles. But in general, we see an initial demand with more value-added value.

[Isabela Lamas]: Thank you very much.

[Anna Branco]: Next question is from Antonio from Taruá Capital. He has a follow up about Rodrigo’s answer on the Unidas asset sales.

[Antônio]: What's the impact of the Cosan and Porto Seguro giving up on their joint venture.

[Rodrigo Tavares]: Thank you for that question. Yeah, that would be a candidate for the purchase that given the interest in the process, we believe that the impact of them leaving would be limited.

[Anna Branco]: Next question is from Rodrigo Faria from Sulamérica. He would like some color about reservations in carnival. How is that behaving? Because some carnival events have been canceled. Has no show increased? And are you charging for no show?

[Nora Lanari]: Thank you. Rodrigo. We see a good level for Carnival Rentals. We know that the pandemic effect has affected some of the festivities. We still expect a good event, though. We haven't seen an increase and no show quiet. On the contrary. We have implemented some new things and were able to lower No-Show rates.

We have one last question here from Ivan. And given the time, it's the last one that we can answer. But I'd like to stress that investor relations couldn't answer your questions later. So good morning. Could you give us some idea of what we could expect in Seminovos margins in 2022? and connecting that to the sales speed in the first and second half?

I'll begin and Rodrigo add if I forget anything. So, we've been slowing down sales in fourth quarter. We lowered the number of cars sold and that affects more dilution of the cost in sales. So, SGA is heavier, but we have a long-term vision. We believe that as of the second half we have a more robust recovery in purchase levels we will speed up sales. So, we're maintaining our structure prepared to speed that up. It's worth noting, Ivan, that retail has shown some increase for new cars. So, we'd like to decommission our fleet at fair prices during this year. And within the context of slowing down the sales, we have an effect of gross profit that's strong with the sales prices going up.

So, we're selling cars that have low book value. But on the other side, SG&A affects the margins. So, you've seen Seminovos margins that are tighter. During the year as we speed up renewal my gross profit should go back to normal levels because the book value of sold cars will go up the used car prices will follow new car prices. The book value will be tighter. And on the other hand, sales rate will increase. And SG&A will maintain, we shouldn't change much of that level, but with different margin components.

[Anna Branco]: Now to conclude, I'd like to hand over to Rodrigo Tavares.

[Rodrigo Tavares]: Thank you everyone for your presence. Our IR team will be available for any further clarification. Have a great day!