Localiza&co

4Q22 and 2022 Webinar Transcription

Anna Branco

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Good afternoon, and welcome to the Localiza’s earning´s release call referring to the results for the third quarter of 2022. Today with us are present, Bruno Lasansky, CEO, Rodrigo Tavares, CFO and Nora Lanari, Investor Relations Officer.

Please be advised that this webinar is being recorded and will be made available on ri.localiza.com/en, where the complete material of our Earnings Release is available. You can also download the presentation from the chat icon.

For the Q&A session for analysts and investors, we advise you to signal your interest in participating, through the Q&A icon, on the bottom button of your screens, indicating your NAME, INSTITUTION and LANGUAGE. When called, a request to activate your microphone will appear on the screen. 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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We inform you that the values of this presentation are in millions of Reais and in IFRS. We emphasize that the information contained in this presentation and any statements that may be made during the videoconference, regarding Localiza's business prospects, operating and financial projections and goals, constitute beliefs and assumptions of the Company's Management, as well as information currently available. Forward-looking considerations are not guarantees of performance. They involve risks, uncertainties and assumptions, as they refer to future events and, therefore, depend on circumstances that may or may not occur.

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

Bruno Lasansky

Good afternoon, everyone.

In 2022, we took big steps towards our purpose of building the future of sustainable mobility. The results achieved in the year, aftermath of our long-term vision and efficient capital allocation, reinforce our DNA of growth with the creation of value and the delight of our customers.

Continuing our transformation journey, we became even more prepared to soar higher, with the conclusion of the business combination with Locamerica. We carried out a divestment

(carve-out) in just three months - which consisted of creating a company, with trained professionals, functional systems, 49 thousand cars and 200 branches - and we completed the sale of this company with the creation of value for our shareholders. Following robust planning led by our Integration Office, we concluded with agility and excellence the integration of teams, Car Rental agencies, Seminovos stores, sales and administrative teams and we continued to advance in the integration of systems, capture of synergies and initiatives of organizational culture and engagement. In addition, we equalized the accounting practices and made the necessary reclassifications. We are still moving forward with the integration, but we understand that the business combination places Localiza&Co in an admirable competitive position, with greater scale and even better positioned to capture profitable growth opportunities.

Still in the context of the combination, it was essential to reassess our business portfolio in order to rationalize and optimize the allocation of capital and the use of resources, focusing only on initiatives aligned with our strategy of growth with value creation. In this sense, we launched Localiza+, with solutions aimed at those who own a car, such as overhaul and maintenance, which already has more than 15 thousand customers. We also prioritized the Heavy Vehicles rental, a new avenue with high growth potential, leveraging the Company's skills, know-how and customers. On the other hand, we decided to discontinue the initiatives for buying and selling used cars, Acelero and Willz, taking advantage of technology and learning, but reducing investments and increasing our focus.

We have a world-class leadership team prepared for the challenges of our business, as well as an operational structure, technology stack, and portfolio of solutions built so that we continue to surprise our customers, with a lot of innovation and leadership.

The engagement of our team was recognized by the 4th best place to work in the country, by the Great Place to Work ranking. Also, the Company’s organizational climate stood in the 90th percentile, putting the Localiza&Co between the 10% best companies evaluated by Korn Ferry. We were recognized by our passion for the customer with the NPS Awards and Reclame Aqui awards in the Car Rental, Seminovos and Suscription Car categories, for several consecutive years.

We are building our future supported by very clear strategic directions: 1) accelerated growth with value creation in the main business (core); 2) transforming the customer experience; 3) and selective investments in adjacent businesses. We will achieve these goals with a high-performance team and a solid culture, investing even more in innovation and technology, expanding our competitive edge. We also have our brand as fuel, which underwent a recent rebranding to communicate in a clearer and more modern way the portfolio of solutions we offer to our customers. We also launched our corporate brand, Localiza&Co, to improve our communication with our stakeholders, such as employees, investors and partners. In 2023, we have several value creation levers to offset the effects of the normalization of Seminovos margins, higher depreciation and the high interest rate environment with lower economic growth.

The first refers to investment in the fleet: for 2023, we managed to close the purchase volumes of cars in better commercial and mix conditions, which will allow the renewal of the fleet and consequent reduction in maintenance costs. In addition, we will start to capture synergies resulting from the combination of businesses in costs and expenses, as well as several efficiency and productivity initiatives, including advances in processes associated with telemetry. Finally, we have the opportunity to generate additional revenues from mix and segment management, in addition to the new solutions developed by the Company such as subscription car, rent for application drivers (Zarp Localiza) and Localiza+, among others.

These levers, added to our diligence and discipline in the allocation of capital, will contribute to keep the ROIC-spread in line with the objectives of value creation outlined by Management.

We believe that 2022 was a historic year for Localiza&Co. We completed a business combination (still in a stage of integration) that positions us as one of the largest and most complete mobility platforms in the world; we continued to grow with value generation at high levels of return to our shareholders, even in a challenging market context; and moving forward with our ESG agenda, with deep recognition by the market and customers, leaving a legacy for future generations. In the coming years, we will reap the rewards of last year's investments and continue our journey of transformation, supported by our vision of the future, with great care, discipline in the allocation of capital and passion for our customers.

I would like to hand the floor to Rodrigo, our CFO, to talk about the results.

Rodrigo Tavares

Thank you, Bruno. Good afternoon, everyone.

Before going through the numbers, I would like to point out that the format of the results presentation follows the one used last quarter. The annual comparisons will be made over historical proforma numbers of both companies. In addition to that, considering the various effects which impacted this quarter, in addition to the 4Q22's actual results, we will bring the numbers adjusted by the business combination and the discontinuation of our car purchase and sale initiatives, which we believe better reflect our performance.

In summary, we have four main messages:

1) we grew substantially with adequate mix and purchasing conditions

2) even with impacts from the equalization of practices, not adjusted in the result, we presented robust margins in car rental and fleet management, even though we did not fully capture the benefits of fleet rejuvenation, variable expenses and synergies.

3) used car results were heavily impacted by specific issues related to the mismatch between the preparation and sale of cars through the auction channel, which we already overcame in the first quarter.

4) Leverage, as expected, ends the year at a higher level due to the strong investment in fleet growth. We believe that over the course of the year the net debt/Ebitda ratio will reverse the trend as these investments mature.

On slide 4, we present the quarter highlights.

Sustaining a purchase pace similar to last quarter's and now capturing substantially better purchasing conditions, we were able to add more than 55 thousand cars, with significant reduction of the purchase price, to R$74.9 thousand in the car rental division.

Even with the carve-out sale, we were able to grow nearly 5 thousand cars in the quarter, recomposing 60% of the car rental revenue from the carve-out within one quarter. With that, we ended the year with 591 thousand cars, a 21% growth.

In Fleet Rental, with another strong fleet addition and further capture of prices, we delivered a net revenue growth of 59% year over year, highlighting the segment's excellent momentum.

We highlight that, our competitive position allowed us to negotiate cars with a more favorable mix and commercial conditions for the last quarter and for 2023 which, combined with important comparative advantage considering synergy gains and the reduction in maintenance costs from the fleet's rejuvenation, not yet fully reflected in the rentals margins, puts the level of return for this vehicle's cohort within the Company's profitability objectives.

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

Nora Lanari

Thank you, Rodrigo. Good afternoon, everyone.

Getting into the results' details and reiterating that, as we did last quarter, the annual comparison will be made considering the 4Q21 proforma, in order to add up both companies. We start the presentation with the Car Rental Division, on page 5. In the annual comparison the net revenue grows 28.2%, with the quarter gaining 6.7% year over year, despite the carve-out divestment which reduced nearly 15% of the division's fleet. The volume, impacted by the carve-out, grew 4% in 2022 and decreased 7.3% in the 4Q22 year over year. On page 6 we bring the evolution of the average daily rental, which rose 23.6% in the year and 16.3% in the quarter, reflecting the segment mix and the prices passthrough needed in order to recompose the Company's profitability levels, in despite of a greater invested capital and higher cost of debt. Even with a higher average rental rate and a higher number of cars being prepared and decommissioned, we kept a healthy level of utilization in 77.9%, demonstrating our efficient price management and fleet allocation, in addition to highlighting the demand resiliency. We underline that this level of price attained, added to the commercial's conditions of car purchase, which reduce the expected depreciation; the efficiency initiatives for cost reduction, including maintenance costs reflecting the fleet renewal; fixed expenses dilution; and the synergies from the business combination which will be captured throughout 2023, giving us comfort for reaching the ROIC level expected for the newly acquired cars, above the Company's WACC.

Moving to page 7, in Fleet Rental division, we sustained a strong sequential and year over year growth pace, with a net revenue rise of 58.9% and the number of rental days growing 30.1% regarding the 4Q21. In this comparison, as displayed in page 8, the rental rate rose 20.6% reaching R$74.7 per daily rental, reflecting new contract prices in a context of rising new car prices and higher interest rates, in addition to a mix of segments effect.

We keep on seeing a positive perspective in the demand with Fleet Rental results in multiple segments. Our trust is underscored by the perception of our product's quality, measured by the NPS level, but also by the operational perspective, analyzing the credit risk level and the quality of our portfolio and asset management. Even in a scenario of rising default levels observed in the market, we didn't identify material effect in our sheets.

Moving on to page 9, we show the car purchase and sales balances. As mentioned, we have a favorable scenario for purchasing cars, in which we see great volume availability and diversity of models, with a gradual increase in production with greater relevance of direct sales, now underscored by two consecutive quarters of strong purchases. Were bought 97,358 cars and sold 41,493 in the quarter, resulting in an addition of 55,865 cars in the period and a net investment of 5.4 billion reais, also considering fleet renewal.

Continuing to page 10, our car rental's average price of purchase was 74.9 thousand reais, reducing sequentially 7.9 thousand reais per car, highlighting the gradual return of a mix composed by a greater share of entry level cars in more favorable commercial conditions, comparably better than those being applied. The sales price decreases sequentially 3.7 thousand reais reaching 62.6 thousand reais in Car Rental, reflex of selling entry level cars with a higher mileage to rejuvenate the fleet. The lower price decrease in the selling price compared to the purchase price allows a sequential decrease in the car replenishment capex.

In Fleet Rental we also noted a decrease in purchase prices, coming from 98.3 thousand reais to 96.5 thousand. In this division, the smaller price decrease reflects the effect of a growing trucks and special vehicles mix. Excluding trucks, the purchase price was 92.7 thousand. The division sales prices, on the other hand, were stable in comparison to the 3Q22 at 62.9 thousand reais once there is no mix effect in this division sales.

On page 11, we highlight the evolution of the total fleet throughout the year, reaching 591,041 cars at the end of the period, an addition net of theft and loss of 152 thousand cars before the carve-out, or 102 thousand after the carve-out, a 21% growth.

Moving on to page 12, we see that in the year over year comparison for the fourth quarter, the rentals net revenue presented a 23.7% growth, 6.7% being in the Car Rental and 58.9% in the Fleet Rental, while Seminovos net revenue grew 61.8%. As a result, consolidated net revenue in the quarter rose 40.3% year over year, adding up to 5.9 billion reais.

On pages 13 and 14 we show the reconciliation of accounting EBITDA with that adjusted for one-offs related to the integration and effects of the discontinuation of purchase and sale initiatives. In 4Q22, adjustments totaled R$109.1 million, of which R$77.1 million related to the integration and R$32.0 million related to the discontinuation of car purchase and sale operations. In the year, adjustments totaled R$261.2 million.

On page 15, we show the 4Q22 adjusted EBITDA evolution in comparison to the same period last year. We highlight the Company's operational results quality, reflecting strong growth in volumes and practiced prices, with a positive impact in the Car and Fleet Rental margins. The capacity to consolidate a new level of prices and cost's structure will allow a higher margin level in both car and fleet rental, tailoring the return levels to the context of higher capital cost, depreciation levels and interest rates.

In 4Q22, excluding the one-off effects related to the business combination, the Car Rental division presented an EBITDA margin of 61.0%. In comparison to the 4Q21 proforma EBITDA, the 10.3 percentage points expansion in the margin is due to rising prices and the beginning of a fleet rejuvenation process, even with higher costs of mobilization due to the strong purchase of cars and carve-out effects. In addition, not included in the adjustment, this quarter we made the equalization for the Companies' accountability practices, with a negative impact of 25.3 million reais in the Car Rental division, equivalent of 1.4 percentage point of the EBITDA.

The Fleet Rental Division presented an adjusted for the business combination expenses margin of 66.5%, 4.4 percentage points higher to the proforma margin of the same period last year. In this Division, the margin was positively impacted by the evolution of volumes and average daily rental, offsetting the increase in costs for fleet mobilization this quarter. Additionally, the evolution in the new initiatives expenses negatively impacted the EBITDA margin in this division by 0.9 percentual points. The effects of greater mobilization and new initiatives weren't adjusted in the EBITDA.

In Seminovos, year over year, the adjusted by one-offs EBITDA margin decreases 9.2 percentage points to 5.2%.

In this quarter, we had the effect of mismatching the purchase and decommissioning of cars. With the great availability of new cars in favorable conditions, we accelerated the decommissioning of cars with higher mileage, anticipating preparation costs. Were decommissioned 61 thousand cars and sold 41 thousand, with an impact of 42.0 million reais or 1.6 percentual points in the EBITDA margin, being 39.5 million in Car Rental and 2.5 in Fleet Rental. In addition, within the scope of the business combination, we had a one-off increase in the sale of Seminovos through the auction channel, with a total effect in the quarter of R$52.8 million, accounting for 2.1p.p. in the margin, of which R$27.0 million were in Car Rental and R$25.8 million in Fleet Rental. This two items are not adjusted for in the disclosed margin.

In 2023, we efficiently expanded sales volumes in the Seminovos division, ending the first two months of the year with 35 thousand cars sold and margins between 7 and 8 percent.

As a result, the consolidated EBITDA margin for 4Q22, adjusted for the business combination one-offs, hits a record level of 67.6%.

On page 16 we see that in the Rent a Car, the annualized average depreciation per car continues to progress sequentially at 4,659 reais. The purchase and fleet renewal acceleration causes the average depreciation to rise, once the new cars possess a higher depreciation level

than the older ones, which weren't being depreciated. In the Fleet Rental division, the average annualized depreciation also accelerates for the same reason, reaching 5,063 reais. We highlight that, in Fleet Rental, the new cars have a mix with higher depreciation levels, due to the asset price, which started to include heavy vehicles and for the greater wear in the special vehicles particular case.

On page 17, we display the consolidated, adjusted for business combination one-offs and discontinued operations, EBIT reconciliation of 1.5 billion for the 4Q22, representing a 9.9% growth in comparison to the same period of last year. In the EBIT, in addition to the adjusts regarding the integration costs, there is also the effect of amortization of intangibles recognized in the business combination, bringing a non-cash effect of 148.2 million reais. On page 18, we display the same reconciliation, this time regarding the adjusted EBIT for 2022, adding up to almost 6.3 billion, a growth of 22% in comparison to the previous year.

Moving on to page 19, we observe a Car Rental EBIT margin of 45.1% and a Fleet Rental of 48%, both lower than the 4Q21 due to higher depreciation and smaller Seminovos margin, as previously mentioned. We underscore that the EBIT is the utmost metric to measure our operational result, being the ROIC our main performance index.

We once again highlight that a share of the fleet, acquired between the 2Q21 and the 3Q22 brings a higher depreciation caused by the purchase conditions of the period and shortage in supply. For the cohort of vehicles bought in the 4Q22 and onwards, we observe a smaller depreciation level and return aligned with the Company goals.

The adjusted net income for the quarter, as displayed in page 20, reaches 637.7 million, bringing the effects mentioned in the EBIT and the tax loss write-off related to the discontinued operations of 23.8 million. On page 21 we bring the picture for the annual adjusted net income, which reaches 2.75 billion.

On page 22 we can see the adjusted net income for the 4Q22 of 637.7 million, impacted by financial expenses, which rose 422.9 million due to an increase in the interest rates and the average debt balance, partially offset by a smaller tax over revenue.

I would like to hand over the floor back to Rodrigo to present our cash generation, leverage and ROIC.

Rodrigo Tavares

On page 23, we display the cash generated by operations before growth of 3.5 billion in 2022, consumed by a net investment in renewal and fleet growth of 10.8 billion, resulting in the consumption of 7.7 billion. We understand that as we mature these investments in new cars, operational leverage, and synergy gains combined to the replenishment capex reduction, will contribute to a smaller cash consumption.

As seen in page 24, in the second semester, the net debt rose 7.7 billion in order to fund the fleet growth acceleration through the latter half of the year, ending the period at 26.1 billion.

On page 25, we can see that we ended the quarter with a strong debt profile and cash position. Including the issuances announced until March 14, 2023, the Company would have 10.6 billion in cash.

On slide 26, our debt ratios are a reflex of an acceleration of car purchase towards growth, ending the year with a Net Debt over EBITDA at 3.2 times.

On page 27, we present the ROIC spread evolution, excluding the write-up, goodwill and one-off effects, versus the cost of debt after taxes. We observe a spread of 6.7 percentual points considering the last twelve months. We have the confidence that, despite the challenges we see ahead, gradually, the Company is restoring the level of result and return, making the investment decision accounting for the car cycle and evaluating the long term effects, in a way to reinforce and consolidate even further its competitive differentials.

We are now at your disposal to answer questions.

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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Anna Branco

Our first live question is from Daniel Gasparette, Itaú BBA. Daniel can you activate your microphone, please?

Let's continue here. So the next question would come from Lucas Marquiori, from BTG. Is Lucas there to turn on his mic, please?

Lucas Marquiori

I'm here, yes, everyone, good morning. You're listening to me there, aren't you?

Nora Lanari

We are, Lucas.

Lucas Marquiori

Good morning, everyone. I have two questions that I want to understand better. I think it is clear that the Company after the merger. I want to talk about two specific points. You already said that the margin on Seminovos for January and February, I think that the effects of the accelerated demobilization also using the auction channel are not available for the beginning of the year.

The worsening at the Seminovos margin in 4Q changes the strategy for Seminovos for 2023? If you could comment a bit if the curve is sharper than you imagined, it would be important to know.

And the second topic, Rodrigo mentioned at the end, of capturing operating synergies. We know that most of the synergies will show more in 2024, especially in goodwill. Is there anything that we can expect for 2023? If you could mention what is more evident for 2023 so we can bridge. It would be great to have some help there.

Rodrigo Tavares

Thank you, Lucas. Thank you for your questions. Well, about Seminovos results, we already mentioned there were two one offs. One is about the divestment. Think about the context of integration and integrating the stores and systems, commissioning. We bought almost 100,000 cars in the quarter, so we had to prepare the divestment and reinforce the inventory in a temporary moment that would make sense, but that is not going to happen.

We always work with close to 30 days inventory, so we pretty much sell what is in inventory and that did not happen, same as something very specific that happened in the auction sale.

The Seminovos market is a challenging market now, and the 1Q was much better, probably because of the integration of Seminovos that has advanced and the distance of the used car price to a new car price is pretty much back to historic levels pre-pandemic and in some cases even higher than the historical level difference.

So, yes, there is a market effect, there is a faster blending than what I expected. But in the 1Q, we already see a situation that is much different than the last one.

But now we are also seeing margin replenishment in rental, and that is moving fast. So you mentioned synergy. So even without adjusting the accounting practices, we already see a sequential increase to the rental margins and we expect that to continue.

About the synergies, obviously, when you talk about a premium and others in 2024, but we expect the operating synergies to start their cycle into 2Q23. A part will be through renewing the fleet, be it because of mix or mileage. We have a strong mix and the variable costs of that renewal, but also synergy, which is diluting the fixed costs and the market that is still growing and demanding that, that will happen and be visible.

As well as the synergies of best practices among the companies in bad debt maintenance, cost effect, accidents, and all of that, that contributes to increase the margin sequentially during the year. Thank you.

Daniel Gasparete

Thank you. I also have two questions. The first one is: I would like to know the trend on depreciation, you mentioned that a bit in the release and in the call. So I would like to know what you think it is going to be during the year, an increase in depreciation, is that going to be in the second half? So we can understand that better.

And second, understand the occupancy rate. Most of the indicators that we have seen here internally, owners or not, have pointed to weaker activity. So we would like to see your opinion on the demand with a slower economy. Those two things. Thank you. And thank you for taking my question.

Rodrigo Tavares

Thank you, Daniel. About depreciation, in the 1Q, especially in the beginning of this year, you will see a stronger evolution in depreciation, especially with the change in the period. When we have a younger fleet, we depreciate in 18 months instead of 24.

And in the beginning that has an effect and I would say that it is a temporary effect. So instead of depreciation in six or seven months, it is going to depreciate in one or two months because it is closer to sell. So in the 1Q will speed up the depreciation, but then it will go back to normal. And as we start selling the vintage two and replace it with three, then we will see a decrease in the depreciation and that will only happen closer to the end of the year. So we should go up in the 1Q together with the 2Q, stabilization of depreciation and at the end of the year, depending on the conditions, we may see that settling or even it lower again.

Nora Lanari

Especially in car rental.

Rodrigo Tavares

Fleet has its own dynamics with a trend of going up because as we renew the fleet with more expensive cars, fleet renewal is slower. And that is positive for a longer period of time.

Nora Lanari

And Daniel, to your second question about the occupancy rate, we can see that 4Q is in fact affected by the Company's decision to buy earlier because of the commercial conditions. So, we have a strong addition in the fleet in the 4Q. So, we have replenishment of that carve out. But the impact is a lot of cars and commissioning and decommissioning and that affects our utilization rate.

For the 1Q we already have an operational fleet/rental that is more balanced out, so that is a trend and we see them being used in rentals. So, we still do not see an impact of demand at the end. Obviously, after the high season we see that settling in individuals, but we have room for that to grow during the year.

Daniel Gasparete

Cool. Thank you very much, Nora, Rodrigo. Good morning, everybody.

Anna Branco

Next question is from Guilherme Mendes, from JP Morgan, Guilherme can you activate your microphone, please?

Guilherme Mendes

Good morning. Thank you for taking my question. I have two points. First of all, following up on car purchases. So buying in better conditions and the ROIC spread, your message is clear on that side. But if you can explain the dynamic of the car purchases. So comparing to pre-pandemic levels in terms of the conditions and discounts, is it back to pre-pandemic levels or is it just an improvement vis a vis what we have seen in the worst moments for car purchases in 2021 and 2022? And the second question is in heavy vehicles. Will you provide more information in terms of growth levels and fleet and profitability of that segment? That would be great. Thank you.

Rodrigo Tavares

Thank you, Guilherme. First point, profitability, and discount levels, when we talk about that, we also must talk about the mix. So, discounts, especially in mix, are not at the same levels that we had pre-pandemic. And what does that mean? We had an increase in car mix. The cars became more expensive, more premium. So automatic 1.0- or 1000-cylinder cars that are sold in that segment, in the subscription car segment. The small SUV that did not even exist before the pandemic, we also had basic cars that were very basic pre-pandemic. And all of that pointed to lower depreciation, but also lower rates.

So, you see consumers appreciating those elements. That is why the conditions are not the same as pre-pandemic. And the difference between new cars and used cars are similar now and some even higher than the pre-pandemic levels.

About the heavy vehicle business, it is growing. We still have inventory of that, and it is sold at a very appealing profitability. The point is we should see the new vintage of those trucks, especially Euro six, within the context of price increase and higher rates that are going to be transferred to customers.

So, the business is evolving well. We have some significant synergies in what we call the aquarium that are our own customers that rent lightweight vehicles. So, the thing is, our supply has to fit with an adequate profitability for that business.

Nora Lanari

Marco Tullio mentioned this segment and during the Investor Day and mentioned something close to 5000 units. So just for reference, we do not give guidance on that, it is in fleet management, but just so the market can understand that better.

Guilherme Mendes

Perfect, Rodrigo, Nora, thank you, good morning.

Anna Branco

The next question is from Victor Mizusaki, from Bradesco BBI. Victor can turn on his microphone, please?

Victor Mizusaki

Hi. Good morning. I have two questions. The first one is about the income tax rate. You mentioned that the rate was lower and apparently that is somehow connected to the financial results. Can you comment on those gains in the 4Q and mark to market if that is related to the financing operation for the transaction?

And the second question is about the PIS and Cofins tax. So if in the 4Q, there were any credits or benefits that you could capture. Thank you.

Rodrigo Tavares

Thank you, Victor. Starting off with PIS and Cofins, no, we did not, just the traditional. We are always very transparent concerning getting credit. And with the new expectations of the ICMS base will no longer be considered in taking PIS and Cofins credit. We truly believe that the credits will be used in a monetized manner, which is actually our strategy.

In addition, after that change, Rent-A-Car is slightly debtor and fleet close to the break even in relation to getting PIS and Cofins credit.

About the actual rates in interest over own capital, we consider a normalized rate of 20% and that is what should be considered, especially for the benefits relating to deferred taxes and interest on own capital. And in this quarter, if I understood your question correctly, we are talking about an effect associated with loans from shareholders because of the acquisition.

Just to make it very clear, as part of the acquisition price, there was a loan to all shareholders here from the former Locamerica. And that loan is marked as if all shareholders had a loan of a full duration of five years. That is why there is a different rate compared to the market and there is a present value to that.

So in practice, some of those loans will be settled, and especially in this quarter, over 200 million was settled with an actual cash effect that takes place in the order of R$90 million that we had in this period exclusively related to settling the loans earlier. That could happen in the future or not, depending on the market conditions and the shareholder decision of remaining or not with that loan.

Victor Mizusaki

Great, thank you.

Anna Branco

The next question is from Regis Cardoso, from Credit Suisse. Regis can you activate your microphone, please?

Regis Cardoso

Good morning, everyone. Thank you for taking my question. There are some topics that I would like to ask about and maybe some quick questions. One of them is: could you mention how relevant Localiza+ has been in your results, if it affects margins? Is that something that we should take into account?

Another quick one is: we saw a decrease of 2 billion in the supplier account, and we expected an increase because of the seasonality at the end of the year. So could you mention if there were any specific strategies in negotiation that you may have used on that.

And another topic and a longer question, or actually a more objective and longer answer, about the new initiatives. Could you comment on that for 2023? If you have any measures or higher focus on the growth measures, be it internationalization, heavy vehicles or Localiza+? I think that is enough, so I do not take up too much of your time.

Rodrigo Tavares

Hi, Regis. Thank you. First of all, about Localza+, the effect is still small, and it has a negative effect on the EBITDA, but positive on financial expenses because part of the result comes from advance payments to suppliers. We provide that to suppliers. And we have that in the line under EBITDA, and there are some costs that are above the EBITDA line, but relatively small within the overall context.

What was the other question? Suppliers. So here there were some events. So in fact, you can see that we bought a similar volume, but in the 3Q specifically, we had longer terms, longer than usual, and that was active management that we did. So that would match with the incoming flow from the carve out. It was one off, but it was 10 or 15 days that part of that supply was paid in the beginning of October instead of the end of September.

So that is why the number of suppliers payable in the 3Q was higher than usual. Once again, to match that with the incoming flow from the sale and the carve out. So typically, payment terms are 60 days and in some cases we have been able to extend that directly with the automaker through the negotiation of commercial contracts. But in general, we pay in 60 days.

About the new initiatives, I will let Bruno talk about that.

Bruno Lasansky

Thank you. Just to talk about our initiatives. As we mentioned in Investor Day, we are investing in a selective manner in these adjacent businesses. But we reassessed our portfolio and decided to close the initiatives of buying and selling cars, especially Acelero. That frees up capital and time of senior management to focus on the three initiatives that we established as a priority, which are the heavy vehicles.

We see good traction with high growth, generating value in the contracts that we are closing on this season with this combination of business before the inventory that we had, had a ROIC spread strategy allied with Locamerica.

So with this new cycle, we start pricing this business in the ROIC spread target of Localiza&Co and with a very high NPS. So that initiatives of heavy vehicles also is looking for working with customers in our portfolio with several assets and that are loyal to our brands.

Localiza+, as mentioned, in addition to the financial issues, there is a relevant aspect regarding customer relations. We are talking about 40 million cars that are own cars with pain points but

potentially are Seminovos clients or subscription customers. And we can increase our cross-selling with these customers with new products we have in our platform.

And also the benefit with the relations with the car repair garages that makes that relationship even closer. And also internationalizing, especially as we have been mentioning with the market. Our focus on countries is not Localiza&Co going global, it is choosing specific markets to replicate the Brazilian success story. And the reason is that we do not have synergy of relevant revenues or relevant costs when we go into another country, and we chose Mexico as our main target market.

We are still at the early stages. We have been looking at it closely. We have a CEO who is an executive with 20 years of experience in the sector that adheres to our culture and this growth we will communicate to the market in detail throughout the year, but we will do this little by little.

We are not going to do anything different from what we consider validating our investment strategy, both with customers and getting ROIC and financial gains within our goals. Those are the avenues we are working on in our strategic planning.

Regis Cardoso

Great, thanks for the super complete answer, Bruno, Rodrigo, Nora. Have a good day, thank you.

Anna Branco

The next question is from Rogério Araújo, from Bank of America. Rogério can turn on your microphone, please?

Rogério Araújo

Good afternoon. Hi Bruno, Rodrigo and Nora. I have two questions. I want to explore the purchase and selling. I think it is a problem of the mix of the spread. You sold cars that were bought a while ago. But regardless of that, there was a relevant worsening of 17, 18 points of worsening of the purchase and selling.

Can you give us more details of what exactly was this mix in the quarter and how one off it was? And maybe any relevance of a similar mix that the fleet still has? You mentioned 20,000 vehicles ready for selling but were not sold yet. So it is a mix similar to what was sold in the 4Q22 So are we still going to see a worse spread of purchasing and selling in this quarter?

And on that topic still. Is the demand smaller? How is that compared to previous months? I want to understand if it is a problem of the fleet that is being sold, that has higher mileage, is a bit older or if the demand is worse today than it was before. I will ask the second question after.

Rodrigo Tavares

Thank you Rogerio. First thing, about the mix, yes, there is a relevant change in the mix. We are starting to deactivate faster cars that were in Zarp. We extended their useful life and they

were on Zarp. This mix is made up of 1.0 cars with high mileage that were for the wholesale market. So that is the main character of this fleet. So, something very sporadic and momentous.

The auction is momentaneous, the mix is worse because it is 1.0 with high mileage sold in a wholesale channel, and that should persist for the next quarters. Although we are already seeing some growth in the sales volume, the first two months we are experiencing 25% higher sales than the previous one. So, with the integration of new processes, we are seeing a strong increase in sales volume associated with that mix.

About the sales of the fleet, it is a positive piece of information, when I compare car by car, we are seeing more than two months of reduction of the distance of the net sales with FIPE. FIPE has a certain delay of information but for more than two months, the net sales price with the FIPE reference, the numbers are getting closer, especially in retail, but also in wholesale.

Rogério Araújo

Thank you, Rodrigo, for your answer. I have a follow up. You mentioned the auctions but just to understand what that was specifically, and it should not happen again in the next quarters.

Rodrigo Tavares

It was something very specific. We had cars sold in that channel and they are not going to happen any longer in the next quarters.

Rogério Araújo

Ok. Great. My second question is about the fleet management demand. You talked about subscription cars with competitiveness compared to ownership of the asset. So you have the potential for growth in that division. If you could give us more information about how strong the demand is for a Localiza Meu. Maybe some information on backlog if growth is increasing or if it is stable.

And if you could also give us some information about outsourcing corporate fleets compared to Localiza Meu, are they both strong? Is there a main driver for growth? And if there are bids happening, the companies did not outsource that before, they outsourced only part of their fleet, and they are increasing that there now. So two factors up for outsourcing, so I can understand better what is happening in the following quarters.

Bruno Lasansky

Thank you, Rogerio. About subscription cars, we are starting to see the results of building the competitive edge. We have a consistent increase in subscription cars sales becoming relevant in our mix of new contracts and that is because of several aspects.

First, consolidating the brand as leader of the category, but also with good pricing, be it a risk of default, operating risks and the levers of excellence of the Company with technology in which we have very sound information that our default amount is significantly lower compared to our competition. And the operating challenges are where we see our competitors having more trouble in operating.

So it is a very positive perspective. We have a very good brand. The NPS and level of digitalization evolving in the customer journey and operating excellence, which allows us to have a lower price compared to our competitors.

In fleet outsourcing, we see the first cycle of the year after vacation and carnival, that is usually when sales grow slowly and we see some increase in speed in the last month of the quarter. Our pipeline is very robust and healthy, in the return rates that we expect for ROIC spreads.

So at the moment, with high interest rates and high capital costs, the clients are also trying to outsource fleets to balance their expenses as well.

Rogério Araújo

Perfect. It was very clear, thank you, Bruno. Thank you, Rodrigo. Good afternoon, everybody.

Anna Branco

The next question comes from Pedro Bruno, from XP. Pedro can you open your mic please?

Pedro Bruno

Good morning, everyone. Thank you for allowing me to ask a question. It was already answered in a certain way, but I want some update on the levers to recompose the ROIC. Individually, it is well explained, but I wanted to see the full picture. You mentioned the bargaining power with the automakers, with discounts in the mix, and that is very important and you already mentioned this a lot, the synergies with scale. And third and last, you also put this as the last lever's price.

So that was less explored in the call. So if you could give us some idea of how you see this because of your fleet movement. In addition, you have been speeding up growth, understanding that the ROIC spread is built up again, even if it is not at the levels before the pandemic as you mentioned, but maybe this third lever of price. How could you explain that better of repassing the price and the market.

Rodrigo Tavares

Pedro, we thank you for your question. When we talk about better conditions and synergies and variable and fixed costs, those are the ideal variables for us to explain that returning to those levels are almost what they were before the pandemic.

Price is the last lever to be used because it harms the customer at the end of the day and even hurts the demand. But it has been happening, and one of the things that we could show in this quarter is that for two consecutive quarters, we grew almost 100,000 cars. We had the carve out but those cars are still in the market. And with that price pass making it robust.

The ROIC price ratio is every three points of price we have one of ROIC. So the need to repass this price is not huge and it has been happening selectively, especially in some segments in which that need was higher, especially at the in the ride sharing segment, some corporate segments corporate. So that is where we see a more relevant price increase.

So we will use this lever at the minimum possible so we can have the return that we always communicated. Of course, with the increase of cost of capital, we are always calculating the need compared to our benchmark, which is CDI plus our spread.

Pedro Bruno

Perfect thank you.

Anna Branco

The next question is from Bruno Amorim, Goldman Sachs. Bruno can activate that mic please?

Bruno Amorim

Good afternoon, everyone. I have two questions. One is more strategic and the other one is more objective. First of all, about heavy vehicles. So I would like to know about your decision to invest in a relevant matter in that segment, because historically you test new initiatives, starting small and then you grow that very fast when you feel that there is competitive edge and profitability was proven.

So I would like to know at what point are you at that decision of growing that in a more relevant manner, faster way in heavy vehicles based on that logic?

And the second one and also more strategic, and following up on Bruno's comment about the Mexico strategy, starting small, testing the initiative, you know better than anyone where in your industry scale is relevant. So I would like to understand your game plan, if you can talk about that competitive dynamics there and how you test that initiative in your small and in an industry where scale is important to buy and sell vehicles, so the store chain. Those are the two questions on the strategy side.

Rodrigo Tavares

Thank you, Bruno. I will talk about heavy vehicles and then Bruno Lasanski can talk about Mexico. For heavy vehicles we already have 5000 units and revenues about 500 million per year. So it is far from saying that it is something small that it is still testing, it is a mature decision that we are investing in heavy vehicles.

And obviously, as in all capital allocation processes, all initiatives are competing for the same capital. And to have access to capital, we have to be sure that the return is according to the return required by the organization. So here we have a big business already, in 2022 the Company was the second largest buyer of heavy vehicles in the country, even though that was not our biggest focus.

Nora Lanari

And the growth rate, the capital allocation rate, as in any other segment, depends on the capacity of return in that segment. To add to that, we have to remember that it is still a year of transition for Localiza where the car renewal CAPEX, not only for rental but also fleet, is settling. We are in a phase where we are capturing synergies and where you have operational leverage and volume.

So that business still demands a lot of capital and our capital to focus on growth was lowered during the pandemic, and that should get back to normal shortly. On the other hand, we are in a very robust competitive advantage. We have a strong balance sheet. We have the leveraging advantages to come. So that is strong for rental and fleet because of the commercial advantages that Bruno mentioned.

Bruno Lasansky

And Bruno, specifically about Mexico, we will give more details later on, but the country has over 100 million inhabitants and 5 million tourists, so it is very relevant in terms of size. At the same time, we see a very disseminated supply with very low enchantment and satisfaction level for customers and little access to capital with the current players that they have in that market.

So what are we thinking? Scale is obviously relevant, but we do have relevant scale that enables us to start off well, not only because of the knowledge that we have of the business and availability of technology and talent, but also even leveraging our relationship with automakers in Brazil and that enables us to go into the purchase expectation with some interesting advantages in that sense.

And our mindset is to validate the thesis, as we mentioned in quarterly cycles that are assessed by management and the board of directors where we decide to increase capital allocation according to the attraction or appealingness.

Obviously, first of all, we have to demonstrate that we have enchanted the customer, that we have a value proposition that is better than the competition and that we have achieved all the parts of the equation, ROIC and the unit economics of the business in that country, be it buying for a rental and purchase and sales, and finally having an efficient operation as we have here in Brazil.

We are also taking advantage of all the learnings that we have with the international players. Recently I was talking to our partner Enterprise to see what worked and did not work in the expansion in Germany and the United Kingdom. So we add on that international knowledge that Localiza has together with local management that really knows the local market to have the best of both worlds.

So we will advance and share that with the market. It is a very big market, very interesting market, and we believe we can build the competitive edge that we have in Brazil.

Rodrigo Tavares

I would like to add that because with all those initiatives, there is probably going to be a question about leverage and capital allocation. So in terms of scale, Bruno, the Mexico leader, has a scale that is equal to 15 days of purchase of Localiza. So we believe that the model is adequate in achieving an important relative scale. It is not that big of a challenge when we compare that to our benchmark.

About leverage, all of these capital initiatives, many of these investments were in the past half year, so the cars did not mature their investment yet. And what does that mean? Most

of these cars have one, two or three months of operating results. So we have the burden of an increase of indebtedness in the short term because the investment is now and the benefit is only reaped during the year.

We expect that the leverage should be a little bit more moderate in the upcoming months and as of the second half and probably the end of the 3Q, we should see operating generation growing at a faster rate compared to indebtedness and those rates start to converge and be lower and most likely achieving levels even smaller at the end of this year compared to the end of last year.

Bruno Amorim

Perfect. That is very clear. Just a quick and objective follow up on that about the potential to lower maintenance costs. Could you talk about that? How much has already been realized and how much is still yet to be realized? Any metrics that you can share with us would be great.

Rodrigo Tavares

If you consider last year, we had an impact of eight points.

Nora Lanari

That is in Rent-A-Car.

Rodrigo Tavares

In Rent a Car, sorry. So when you look at Rent-A-Car alone and compare year over year, that is eight points and we are still in the process. The previous question was about the sales mix. So the sales mix of 70, 89, 90,000 kilometers, depending on the car. So as you eliminate those cars, you will have four factors in maintenance gains.

First of all, is fleet renewal lower, less kilometers and a lower premium, and that is a positive impact on that. And the third one is taking the Locamerica maintenance processes to the same level that we have at Localiza, which is what we call the synergies in matching the best practices.

And given the new scale and this is the biggest one, we increased the level of the entire corporation. There are some examples that with the scale alone, we can control the logistics of some parts and do that on our own. And we also have a 35% reduction, for instance, in tires because we import them directly. So there is still an avenue that is at the beginning of the process to improve the maintenance costs.

Bruno Amorim

Thank you.

Anna Branco

The next question is from Lucas Barbosa, from Santander. Lucas can you open your mic please?

Lucas Barbosa

Hi. Good afternoon. Bruno, Rodrigo and Nora. Thank you for taking my question. I have two on my side. First of all, to end that conversation about Seminovos, I would like to know about the dynamics of depreciation in Seminovos margins. So the EBITDA margin of Seminovos dropped 300 bips, a little under that quarter over quarter, and depreciation increased just 7%. So you had a reasonable increment of fleet.

So in my understanding you are comfortable with the Seminovos dynamic and the margin drop was according to expected. So I would like to know if I understood that correctly, and then I will ask the second question.

Rodrigo Tavares

Like I mentioned, Seminovos had one off effects that will not happen again. So the convergence has been faster and from the depreciation period that goes from 24 to 18 speeds up depreciation. So we are comfortable with the dynamics of the depreciation relation with the Seminovos margin without any major concerns in that sense.

Lucas Barbosa

Okay. Thank you, Rodrigo. And if you allow me a second question, thinking of growth moving forward, a follow up to the last question, Bruno's question. Now that brand new car supply is no longer an issue, what do you think will determine the rate of growth in the next eight months, is it the balance, the demand within the roic-spread target, Seminovos?

Rodrigo Tavares

At the end of the day, it is the demand in the ROIC spread that should be the limiting factor. I believe that if we have a robust demand with an adequate ROIC spread, the capital restrictions should not be an issue. So Seminovos is one of the biggest targets of the organization because in the 1Q it is 25% growth and it is ramping up according to expected.

So we grew in absolute terms before the carve out with 100,000 cars, grew in fleet, grew in Rent-A-Car, and that shows the robustness of that market. So we have a favorable competitive environment and even with the decrease of fleet in the market we continue to increase. So given that there is a demand and adequate profitability, I believe that that is what will determine our appetite to allocate our capital.

Lucas Barbosa

Perfect, Rodrigo, super clear, thank you very much. Good afternoon.

Anna Branco

The next question is from Tiago Almeida, from Milestones. Tiago can open your mic please?

Tiago Almeida

Good afternoon. Thank you for taking my question. I have a follow up to Lucas's question. A while back we talked a lot about ROIC spread and that it was approximately 2%, 3%, and you

even had a strategy to postpone sales of vehicles to be able to map out the depreciation curves even better and so on.

Now, thinking that we have an interest rate curve that is high for a longer period of time or higher for a longer period of time and the competitive scenario with a bigger competitor going into fleets. When we think about 3 to 5 years from now, how do you see the biggest growth levers and what do you imagine in terms of maintenance vis a vis invested capital for Company growth?

So a very open question really to understand your vision and Bruno's vision of capital allocation with a satisfactory ROIC for the board of directors.

Nora Lanari

Tiago, let me start answering your question. Thank you for your question. So the Company has a history of ROIC spread on top of the cost of debt and after taxes from 5 to 8 p.p., and we consistently deliver that. So the figure that we are looking for reflects our competitive advantages. And at that ROIC spread level, the Company is AVA positive and it is more difficult for the competition because of purchase conditions and cost of debt and scale.

So our driver for growth is a ROIC spread at that level. We believe that there is a lot of room to grow volume not only in RAC but also in fleet management. And fleet management is more obvious for the market given that new avenue for the subscription cars. But even in a traditional fleet with the ROIC spread at that level.

And the price lever once again the Company uses that carefully because we know that at a given time the market is not inelastic to price. So we prefer to have a cushion here by improving operating efficiency in internal processes and leverage and a bit of the business combination justifies itself within that context.

So the Company sees a lot of opportunities in improving operating margins in fleet management and car rental that can offset the normalization of Seminovos and depreciation with higher interest rates and then we will direct our growth. Based on the competitive advantage we see ourselves in a robust position. We believe that there is room to grow and we have already contracted the purchase and sale volume for the year.

Anna Branco

The next question is from Guilherme Costa, AZ Quest: “Good afternoon. How Localiza&Co is following the tax reform and the change in the bracket of rate for services?”

Nora Lanari

Guilherme, thank you for your question. I think it is early to give you an answer. We have two bills being discussed and we think it has the important profile to collect taxes which will impact the Company. But it is too early to say. We are going to need laws to regulate generating factors, calculation basis.

We do not have all those details of the final bill. We have a long transition phase so the Company will have time to adjust and pull the levers that it considers relevant to maintain a ROIC spread level within the Company's objectives.

Anna Branco

Our last question here is from Isabella Lamas from UBS. Isabella, can you open your microphone, please?

Isabella Lamas

Thank you for taking my question. There are some topics that I would like to know. First is the integration cost. I would like to understand how this will unfold in the following months. Is there anything that is still going to happen? Will it be reduced in the next months.

And also about the price of the cars purchased. You have mentioned that the conditions are better, but I want to know that dynamic for the next quarters and differentiating RAC and fleet, because you highlighted that in fleet you will continue to invest in heavy vehicles with unique price. Should we see a higher impact? Will it stay at these levels? Is the mix still capable of improving? I want to see your outlook for the year.

And one last point, the CAPEX. You said that you have a robust plan to expand seminovos stores. So can you give us a little bit more information, the number of stores, how will that be distributed logistically? Thank you.

Rodrigo Tavares

Thank you for your question, Isabella. First, let me talk about integration. Most of those costs that we had in the last quarter are still associated with structuring the loan because of the merger with Locamerica.

Looking forward, these expenses should drop in a very, very relevant matter. So we expect that if we do have any expense, it is more residual in nature compared to what we had before. Of course, throughout the year, it is a relevant figure, but when you compare it to 20 million, the amount we invested in integration is very adequate. So from now forward we will have a steep reduction because those costs are associated with integration.

Purchase price also has a positive trend when you look at the short and mid-term, most of it is the mix. But we also had not only commercial conditions but the tenure is also part of that. So it is a positive trend for Rent-A-Car.

And fleet is bought after the order. So the price for fleet is less relevant. What is relevant is the guarantee that I am pricing at the right way and the correct ROI spread. So the higher the better actually because we are putting more capital in the right profitability. And the same is for heavy vehicles. We want to give more visibility as heavy vehicles grow to separate that price from the fleet so the market can have a better idea.

Nora Lanari

About the CAPEX for Seminovos, we are not highlighting that, but it was relevant. It is going to be a relevant number, we expect to open tens of stores. About the CAPEX for Seminovos, the relevant CAPEX for the Company is cars, even if it is robust. We are not going to spend a lot on that expansion plan and we are preparing it for what we are going to need in 2024.

As Rodrigo said at the call, we have been growing at the end, we have an expectation of to grow in 2023 and we are going to have to divest robustly in 2024 because we are renewing the fleet for a rental car and we have the delta to add. So we already have the city's map, we have a lot of capillarity and a lot of room for growth in Seminovos without clashing with price limit. There is a lot of market for that.

The second point about the price of the cars purchased and sold, just to link with Akshat question: how do we see the price of new cars that are sold in 2023? We still see inflation on new cars, that is an important part.

The Seminovos are not following that inflation so the spread between the new cars and the Seminovos, we have mentioned in the call, is already at the pre-pandemic levels and we are seeing stability in the spread, which is positive news since we are ramping up sales volumes now.

Isabella Lamas

Perfect, guys. Thanks.

Anna Branco

To conclude, I pass the floor to Bruno Lasansky.

Bruno Lasansky

Once again, thank you very much for your questions. Just to reiterate that after a transformation year, at the beginning of 2023 we have a very unique competitive position and we are ready to carry out our strategic plan to bring growth with value generation. Thank you very much. Our RI team as always, will be at your disposal for further explanations. I wish you all a great day.