



## 1Q24 Webinar Transcription

Operator:

Good afternoon. Before we begin, for those who need translation, the tool is available on the platform. Please click the "interpretation button" using the globe icon on the bottom of the screen and choose your language of preference. You may also choose to mute or unmute the original audio by clicking the "unmute original audio" button.

Good afternoon, and welcome to the Localiza&Co webinar on the results of the 1st quarter and the year 2024. Present with us are Rodrigo Tavares, CFO, and Nora Lanari, Director of Investor Relations of the Company.

We inform you that this webinar is being recorded and will be made available at [ri.localiza.com](http://ri.localiza.com), where the complete Disclosure of Results material is available. The presentation is also available for download on the IR website.

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

To submit questions in writing, use the Q&A icon on the bottom button of your screens, and fill in with your NAME and INSTITUTION before the question.

We inform you that the values in 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 video conference regarding Localiza's business prospects, projections, and operational and financial targets, constitute beliefs and assumptions of the Company's Management, as well as information currently available. Future considerations are not performance guarantees. 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 pass the word to Rodrigo Tavares, CFO of the Company, to begin the presentation.

RODRIGO TAVARES:

Reinforcing our commitments to generating value, in the last Annual Letter we presented our priorities for 2024: i) adjusting rental pricing to restore return levels; ii) portfolio optimization and discipline in capital allocation; iii) efficient cost management and increasing fleet productivity; iv) expansion of the pre-owned car sales capacity of Seminovos to support fleet renewal process; and v) fostering innovation to further strengthen our value proposition and enchantment of our customers..

After the significant purchase of cars made in 4Q23 to support the high season and take advantage of year-end opportunities, we reduced the pace of purchases and accelerated car sales, improving the overall utilization of the fleet.

We maintain our consistent growth trajectory in both Car and Fleet Rental. In the quarter, rental revenues grew 27.1% in comparison to 1Q23.

In Fleet Rental, specifically, the new contract generation remains strong. We've grown more than 5 thousand cars in the rented fleet, sequentially, but we are reducing our exposition to severe usage segments, reason why the growth rhythm was impacted in the quarter. This adjustment should contribute to a higher level of return.

Seminovos begins to reap the benefits of the maturation of the stores opened last year, the gradual improvement in the sales mix and greater credit availability, accelerating sales turnover, which contributed to a stable depreciation on a sequential basis. However, in the months of April and May, we observed a reoccurring reduction in used car prices, which should reflect in depreciation adjustments in the second quarter.

We ended the quarter with a net revenue of R\$8.7 billion, EBIT of R\$1.9 billion, and net income of R\$733 million, a 40.6% growth compared to the accounting profit of 1Q23. From a balance sheet perspective, we maintained the net debt-to-fleet value ratio virtually stable compared to the end of the year, even with the reduction in Accounts Payable to automakers after the strong purchases of 4Q23, and we recorded an annualized ROIC spread of 4.0p.p. in the quarter.

Cultivating a highly reputable brand is one of the Company's priorities. In this sense, Localiza was recognized by Kantar's BrandZ ranking, as one of the 10 most valuable brands in Brazil. Another highlight of the quarter, in line with the construction of competitive differences based on technology, was the completion of the migration of applications and systems to cloud computing, which will further accelerate the Company's pace of innovation.

Finally, I would like to express our solidarity with the population of Rio Grande do Sul in light of the unprecedented tragedy. We will spare no effort to support our employees, their families, our customers, and the affected community.

To present the quarterly results, I will now hand over to our IR Director, Nora.

NORA LANARI:

Thank you, Rodrigo, and good morning, everyone.

On page 2, with the advancement on the integration process, we inform that in 1Q24, we are disclosing the accounting numbers, without the goodwill adjustments resulting from the business combination.

Although we do not adjust the results for the quarter, we highlight the effect of R\$14.5 million on EBIT, resulting from goodwill, as well as the negative EBIT of R\$34.7 million from operations in Mexico, which continue the expansion and maturation process.

We will make quarterly information comparisons considering the accounting numbers, without adjustments.

Starting with the highlights of the quarter on slide 3, at the top, we see the robust revenue growth in both rental divisions, as well as in pre-owned Cars. Net revenue from Car Rental advances 20.2%, Fleet Management presents a growth of 35.4%, and pre-owned Cars 27.4% year-over-year.

At the bottom, we see that EBIT totaled R\$1.9 billion, a growth of 12.9% year-over-year. Net income totaled R\$733.5 million, a growth of 40.6%. Additionally, we show an improvement in the net debt/fleet value ratio, which ended the quarter at 0.59x, compared to 0.65x in 1Q23.

Moving on to the details of the result, on page 4, we will start with the Car Rental division in Brazil. In 1Q24, the net revenue of this division reached R\$2.4 billion, a growth of 20.2% year-over-year, resulting from commercial excellence and efficient management of prices and mix.

On page 5, we show a 13.7% increase in the average rental rate, which reached R\$132 in the quarter. The utilization rate displays a 0.5p.p. growth year-over-year, reaching 78.5%, demonstrating demand resilience.

Moving to page 6, we see the evolution of the Car Rental network. From 2021 to 2022, we had the effect of the carve-out, with the sale of 180 branches in the context of restrictions imposed by CADE. In 2023, we resumed selective expansion of the corporate branches network, but we saw opportunities for reduction in overlaps, improvement in coverage levels, occupancy costs, and productivity.

In this context, during 1Q24, 6 Car Rental owned branches were closed, with no impact on the average rented fleet compared to the previous quarter. We ended the quarter with 702 branches, with 608 in Brazil, 12 in Mexico, and 82 in other 5 countries in South America.

Moving to page 7, in the Fleet Rental division, we continue to present a robust growth pace, with net revenue reaching R\$2.0 billion, a 35.4% increase compared to 1Q23, reflecting a 15.4% growth in the number of daily rentals and an increase in the average daily rate.

Moving to page 8, we present the average rate of R\$90.7, which increased by 17.2% in the quarter, reflecting the pricing of new contracts in a context of higher interest rates, car prices, and depreciation. The utilization rate showed a 1.3p.p. reduction compared to 1Q23, due to a greater number of cars in deactivation, given the rationalization process of the portfolio of contracts of more severe use.

Moving to page 9, we show the balances of car purchases and sales. After the peak season, we reduced purchases and accelerated car sales in the Car Rental division. In 1Q24, 34,679 cars were purchased for the company's operation in Brazil, with 13,150 in RAC and 21,529 in Fleet Rental, and 64,962 cars were sold, resulting in a reduction of 30,283 cars.

Moving to page 10, we present the pre-owned cars network, which ended the quarter with 225 sales points. From the maturity process of stores opened last year, we began to observe advances in the productivity indicator per store; nevertheless, we maintain our agenda to expand sales capacity, which includes the opening of new stores throughout 2024.

Continuing on page 11, we present the average purchase and divestment price. In 1Q24, the average purchase price was R\$82.9 thousand in the Car Rental division, and the sale price reached R\$66.8 thousand. The fleet renewal process is expected to continue contributing to the increase in retail sales and consequent reduction in renewal capex.

In Fleet Rental, the average purchase price was R\$96.1 thousand in 1Q24, more concentrated in light vehicles and reflecting the growth of car subscriptions. The average demobilization price remains stable at around R\$66.9 thousand.

The mix of cars sold, and channels begins to show improvement in both divisions, from the gradual renewal of the fleet and channel mix.

On page 12, we show the fleet's end-of-period growth, which reached 627,127 cars in the first quarter of the year, a net addition of 7.5% year-over-year, with a 14.5% growth in the Fleet Rental division and 1.1% in the Car Rental division. After the strong car purchases in 4Q23 and past the peak demand of the summer vacation, the Company reduced the fleet by about 30 thousand cars in 1Q23, with no impact on the average car rental rented fleet.

Moving to page 13, we see that year-over-year, rental net revenue reached R\$4.3 billion, a growth of 27.1%, with 20.2% in the Car Rental division and 35.4% in the Fleet Rental division. Pre-owned cars revenue totaled R\$4.3 billion in the quarter, a 27.4% increase compared to the same period last year, resulting from the increase in volume and selling price of pre-owned cars year-over-year.

On page 14, we present EBITDA of R\$2.9 billion in 1Q24, an 11.3% increase compared to 1Q23. In 4Q23, we started allocating the vehicle preparation costs for fleet demobilization in the rental divisions. These preparation costs were previously allocated in pre-owned Cars, a Company efficiency area; however, with the centralization of the operations area, the management of car preparation for sale became the responsibility

of the Car Rental and Fleet Rental Divisions. This change brought a negative effect on rental margins, offset by a positive effect on pre-owned Cars margins. In 1Q24, the EBITDA margin of the Car Rental division was 63.3%. A reduction of 2.8p.p. compared to the margin of 1Q23 is explained by the preparation costs effect. In Fleet Rental, the margin was 69.2%, a 7.0p.p. reduction compared to the margin of the same period last year, mainly explained by the effect of the accelerated depreciation for tax purposes in 1Q23, which positively impacted the margin of that quarter by 5.5p.p.. New mobility and telematics initiatives brought revenues of R\$41.9 million but negatively impacted the EBITDA margin of this division by 2.0p.p. in the quarter. Throughout the quarter, we also observed a reduction in used car selling prices, evidenced by market indicators, negatively impacting the margins of cars sold. As a result, in 1Q24, the pre-owned cars margin was 1.9%.

On page 15, we see the evolution of the average annualized depreciation per car. In RAC, the average annualized depreciation of R\$6,022.4 per car incorporates the assumptions of channels and sales mix, the lower relative participation of cars with higher depreciation rates in the fleet mix, and purchases negotiated on better terms from 4Q23, as well as channel and sales mix assumptions.

In Fleet Rental, the average depreciation per car of R\$6,563.3 in 1Q24 reflects car purchases in better conditions from 4Q23.

We also saw price accommodation of used cars in the months of April and May, which may affect depreciation in the coming quarters.

Moving to page 16, we see that EBIT reached R\$1.9 billion in the quarter, a 12.9% increase compared to the EBIT of 1Q23. In 1Q24, the EBIT margin was 40.8% in Car Rental and 46.8% in Fleet Rental. The margin of both divisions reflects the lower result of Used Cars.

On page 17, we present the accounting profit of R\$733.5 million, a 40.6% increase compared to the same period of the previous year, reflecting the increase of R\$297.4 million in EBITDA and a reduction of R\$85.3 million in financial results, partially offset by negative effects of R\$86 million, resulting from the increase in depreciation, net of goodwill, and an increase of R\$84.8 million in income tax and social contribution.

We bring on page 18, the Free Cash Flow. In the quarter, R\$1.9 billion was generated by the rental operation and R\$2.0 billion from fleet reduction, totaling R\$3.9 billion. R\$980.6 million were consumed by the fleet renewal process and another R\$2.6 billion by the reduction in accounts payable to automakers.

On page 19, we see that the Company ended the quarter with a net debt of R\$30.1 billion, an increase of R\$853.6 million compared to the year-end debt.

Moving to page 20, we present the debt profile and cash position of R\$11.7 billion at the end of the quarter. Including the announced issuances and settlements up to April 30, 2024, the Company would have approximately R\$14.9 billion in cash.

On slide 21, we present solid debt ratios, mainly evidenced by the net debt to fleet value ratio at 0.59x and net debt to EBITDA ratio at 2.78x.

On page 22, we present in 1Q24, an ROIC of 12.7%, with a spread of 4.0p.p. to the post-tax debt cost, reflecting the adverse car sales market, interest rates still at high levels, in addition to the capital base coming from the business combination priced at lower spreads.

The adjustment in new contracts pricing, combined with fleet rejuvenation and operational efficiency initiatives, should contribute to the gradual expansion of ROIC spread.

We are now available to answer your 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.

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< Live Questions >

Our first live question is from NOME. We will open the audio so you can ask the question: Please NAME, you may proceed.

The next question is from NAME, we will open the audio so you can ask the question: Please NAME, you can proceed.

ENCERRAMENTO

Operator: In closing, I would like to turn the floor over to Mr. Rodrigo Tavares.

RODRIGO: Thank you all for the presence. Our IR team will be at your disposal for further clarification. A great day everyone!

**Victor Mizusaki, Bradesco BBI:**

Good afternoon. I have two questions. You mentioned a more difficult scenario for used cars in April and May. But on the other hand, when we look at the Localiza earnings release, you also mentioned that during the 1Q, you reduced the discount for the used car sales, the seminovos.

So if we consider the decrease in the discount for used cars, improvement in the mix in the sales channel and potential efficiency gains in the seminovos network, if we consider all of that, does that mean that the depreciation in the 2Q could remain stable, go up a little, drop? Could you give us some information on that, on how you see that scenario in those factors.

And the second question is a bit about the number of Localiza stores, about closing some of the stores. Could you mention what the adjustment was? If we may be talking about an attempt at a different store model and you are changing that. So could you mention something about that as well? Thank you.

**Company:**

Hi, Victor. Thank you for your question. About the seminovos, in fact, we have not many factors happening. First of all, I will talk about the positive ones that you mentioned. First is credit coming back. We see financing levels that are even better than pre-pandemic levels. In fact, an improvement in the mix and the renewal of that mix, about the channel that has been changing and the marginal dilution of costs as the volume has grown.

That said, we still see and we have been seeing, especially in the past two months, if we look at the market indicators, be it Webmotors or the FIPE, there is a more expressive drop that happened recently. So there is a delay, but obviously there is always an impact on the market. When we consider all those different factors, the improvements that we have been seeing are not sufficient to offset the issue of the recent changes in market prices.

So in that sense, we have an expectation that depreciation will be adjusted upwards, giving the price changes that have been happening in seminovos.

You are also correct in terms of efficiency, the Company has improved. We have been closer to the price sold, compared to the market price. But the market price still dropped and dropped more, recently.

About RAC stores, it is just a small number of stores, and that is pretty natural in streamlining the portfolio, the footprint, considering the context of integration, nothing that really changes our model and no specific tests about that. It is just a specific one-off adjustment in our footprint in the number of stores. Nothing more than that. Thank you.

**Alberto Valerio, UBS:**

Good morning. Thank you, Rodrigo and Nora and Localiza team. I know that you mentioned in the past call, about doing the accounting change in the impact of the year. So we are estimating and we saw the difference between the margins year over year. So could we consider those differences in RAC and fleet margins 100% for the accounting? That is my first question.

And the other one is selective taxes. Do you have any visions about how that tax could be applied to tax reform? Is there lobbying to not apply that tax in the tax reform, with the last review that they had in the capital with the House of Representatives? Thank you.

**Rodrigo Tavares:**

Thank you, Alberto. About the first question, when you look at RAC, the explanation pretty much explains the difference in margins. We have some gains, especially in variable costs and other efficiency expenses. In the fleet, in 1Q last year, we had a report that was stronger. So the tax credits explained the other part of the difference.

In addition, I do not know if you remember, but in 1Q23 we had zero litigation, and that impacted not only costs, but especially G&A, so it has a positive effect. So when you factor the three main items, they highly explained the margin variation and lower items and a couple of aspects in terms of bad debt, but those are the main points.

About the selective tax, we are still following that closely. There are no specific unfoldings in that sense. We are monitoring many aspects of the tax reform. There are still many aspects that have to be determined, and the Company has been looking into that to understand all of that, but no major repercussions so far regarding the selective tax.

**Guilherme Mendes, JP Morgan:**

Hi. Good afternoon, Rodrigo, Nora, thank you for taking my question. The first thing is about RAC. We saw a price increase that was significant in the 1Q. So I would like to hear about what you believe in elasticity and demand in the sub segments of RAC. So how much can this Company still use the price lever to offset the depreciation variables and seminovos.

Second, about the avenues for growth, the new avenues for growth. We saw the impact of two points in fleet. How can we consider this effect for the next quarter and the contribution of revenues for that sub segment?

**Rodrigo Tavares:**

Thank you, Guilherme. About RAC, we have seen resilience and that is very positive. There is a strategy of increasing prices in RAC that has been happening. We have been very successful in that strategy. And in the different segments we have different elasticities. So, the price increase trend continues. We are adjusting the fleet according to demand, but we have still been seeing a growing demand.

I would only like to stress, Guilherme, that we have a 2Q that is seasonally different. We leave the high season summer vacation and then we go into a more normalized scenario. So we do see the resilience in demand. Yes. Very well. That is correct.

About fleet management, we have to separate the effects. When we look at light, weekly and car subscriptions, we see a new cycle, an inflow of contracts that is very healthy, very positive, with a healthy ROIC spread, growth in the demand and we still see a huge potential.

As we had mentioned, one of our targets is streamlining the portfolio and that requires us to deliberately reduce our appetite in capital allocation segments with a more severe use. When we put that into practice, that leads to short term inefficiency, you have more cars being decommissioned, more cars being prepared, you have less utilization of the

fleet, and that affects these short term results. So we should see that getting better during the year.

**Fernanda Recchia, BTG Pactual:**

Hi everyone, Rodrigo and Nora. Thank you for taking my question. I would like to explore two things. First of all, about the situation in the state of Rio Grande do Sul. You mentioned that you have 20 points and 21.000 cars in the affected region, but can you give us more details about your points of service? Did you have to interrupt the operations 100% or are you still able to operate? And do you see any impacts in that first week of May?

And the second one, about Mexico operations. Could you mention the operations in Mexico. We can see that you already have 1500 cars. How should we consider capital allocation in that segment? And if you could mention if the results are coming in line with what you expected or not. Those are the two points. Thank you.

**Company:**

Thank you, Fernanda. About the state of Rio Grande do Sul. First of all, I would like to mention that all of our actions right now are focused on the community, on our employees, on our customers and the population in general.

We are talking about unprecedented tragedy in the region and obviously there will be losses. But at this time, a Company as big as Localiza, what we have to do is use our structure, use our power to offer and understand all the solidarity that we have seen there.

That said, in fact, we have approximately 20.000 vehicles in the region. Most of them were not affected. But there are still many regions that are flooded, and we still have to understand the extent of damage that was caused by the flooding, so we can give the market more visibility of any potential material losses that we have had.

The operations are gradually resuming in the region. It will rain again, with stronger wind and intense cold weather. So we are still waiting on further information, and as soon as we are able to estimate that, we can give you more information.

Today, for information purposes, we have six RAC stores closed, three seminovo stores, one distribution center and one ZARP store. And nine RAC stores are open and three seminovo stores are open. So half of the total of 24 establishments that we have, are closed and half are open.

About Mexico, we have 12 stores here in Mexico, approximately 1500 cars. Positive things are coming in, growing levels of service and the Localiza brand is expanding. Obviously, at this scale and operation, we will have operational losses. We have also started testing seminovos, so we can understand the seminovos dynamic in this market, and more store openings. So for me it is still marginal capital allocation.

So we have operational investments that are basically associated to the operations with the small scale, and G&A, that is not proportional to the size of operations. So we should continue with close to 20 stores and still car allocation that is still marginal for Mexico.

**Felipe:**

Good morning, Nora and Rodrigo. Thank you for taking my question. I have two. So first of all, about the evolution of the fleet size. We have seen a drop in fleet size, more cars sold than purchased and that is a result of a strong purchase in 4Q. So I would like to understand that, given that you have the plan to continue to expand and increase the size of the seminovos operations and sales should continue to grow during the year, I would like to understand what you think about car purchases increases during the year.

Will we still see a fleet that is marginally dropping and then increase and then ramp that up? So how do you see that in that progression?

And the second question is about the seminovo store. So what has been your strategy to maintain or even increase productivity per store while you expand. So there are two movements in parallel. I would like to understand how that strategy is working.

**Company:**

Thank you, Felipe, for your question. The first part had an expressive increase in the 4Q, and the 1Q is traditionally a quarter that we adjust fleet. The first one a bit higher, given the fact that we had many purchases in the 4Q. So we should not expect sequential fleet reduction.

Now we need to focus on renewing the fleet. So, increasing seminovo sales is a significant lever to increase the renewal and capital allocation that will be done with a lot of caution. We see a good demand for our products, but the focus on selling seminovos, partly has to do with the fleet renewal at the Company.

About the seminovo stores, we continue to increase the number of stores. We have to continue to increase the number of cars sold. And to increase productivity, there are many different matters.

First of all, the mix. When you sell a better quality mix, a mix of cars that have lower mileage on them, that is an enabler, that is a catalyst in the store productivity. And even hiring more salespeople per store, you increase the sale per store, but we will continue to open more stores. And in the beginning, that could decrease the sales per store while these new stores are ramping up.

**Daniel Gasparete, Itaú BBA:**

Good morning everyone. Thank you for taking my questions. I also have two. So the first one, if possible, Rodrigo, I would like to learn more about your comments about the used car prices that were dropping more in April and May. So I would like to understand from you, in your opinion, why is that happening, given the context that you mentioned, financing levels, the mix and so on. I would like to understand that a little more. So what is causing that?

And if you believe that is mainly because used car prices, compared to new car prices, are dropping more than the new car, or new car prices are lower than the used car prices? So I would like to confirm the trend.

So the average age of cars sold has consistently dropped for two quarters in 29 months, 26 in the 4Q and now 24. So my impression is that it is the older cars that are in the RAC, fleet, all of them left? The average age of RAC has not changed much, but have you cleaned out that older vintage? So those are my two questions.

**Company:**

Thank you, Daniel. About price, we are talking about many different factors. So I will give you some examples. When we look at the two and three year old car prices, we already see a more stable dynamic. So that is one thing that has been dropping. And we have seen a stronger drop from April to May, especially according to the FIPE table. But there is always a delay. So that shows a drop that probably happened in a couple of months before that.

In 2 or 3 year cars, you have more stability. One year old cars, you see a higher drop of their prices. About the products, in 1.0 cars, 1000 cylinder cars, you see a more stable dynamic. And the credit side particularly helps a lot in the entry level cars, mainstream cars, and that has contributed positively. SUVs you have seen higher competition, so that has been driving a higher drop in that segment.

About some of the drivers. There are some incentives that we see for new cars, so even though it is a list price, even though they do not drop, we see some incentives on the automakers side that do encourage the drop in new car prices.

About the average car price, you are right. That is a strategic focus of the Company, renew the fleet, we have to decrease. And we have to remind you that the pre-pandemic was decommissioning 14 to 15 month old cars. And then from 29 we went down to 26, and now we are a little under 25. We are still very distant from that situation we had before the pandemic, where we were selling most of our cars in retail with 30,000 km on them, 14, 15 months old cars.

So that is why there is an effort to increase the seminovo cars. But that is a progressive effort and it has been increasing.

The age of operational cars, given the fact that we bought less cars in the 1Q, given the math, it drops less because there are less brand new cars in there, so they weighted average. By buying the cars in the 2Q and accelerating the renewal process, we should see a drop in the average operational age of our fleet.

**Rogério Araujo, Bank of America:**

Good afternoon, Rodrigo and Nora. Thank you for this opportunity. I have two. First of all, could you give us some more details about the exposure to the more severe used vehicles? So what is the relevance in Localiza fleet rental? And as far as I understood, in the upcoming quarters the contracts will terminate and you will not be a part of that again.

So my idea is, I am wondering how much that could affect your volume growth in the upcoming quarters. If you can answer that and then I can ask the next question.

**Company:**

Thank you, Rogerio. Obviously, it is not a big relevance when we consider the entire fleet context, but not something we can ignore. So you are right. We do not necessarily stop originating, we have more careful origination. And in renewal, some of these cars are in fact decommissioned and we lower the volume. So our expectation is that the drop in the volume of that segment is more than offset by the other segments moving forward.

So that said, our current focus is to allocate that capital in a very conscientious manner. So in the other segments the drop is higher than the severe used segments and that should still take place in the upcoming quarters.

**Rogerio Araujo:**

Thank you, Rodrigo. Can you give us an idea of range, how much fleet rental can continue to grow? In the whole market there is a consensus, 15% to 20% per year. Was that severely affected, given the Company's decision, or not?

**Company:**

Well, Rogerio. We do not give guidance in terms of our forecasts, but what I can say is that the trends, like the potential, the market potential, have not changed. We have grown at a huge rate in the past years, especially after the merger. So right now, we have to use a lot of criteria in the way we allocate capital, and that will determine the growth rate.

We see a demand, the product is still very competitive, especially compared to ownership and there is still a huge potential in car subscriptions and smaller customers and even traditional customers. But our current focus will be to be very conscientious in allocating our capital moving forward.

I am sorry, I cannot be very specific because we do not give guidance in forecasts regarding the growth of any of our segments.

**Rogerio Araujo:**

Very clear. Thank you very much, Rodrigo. And my second question is about the preparation costs for sale. So the first point is understanding the effect of the cost of the allocation and depreciation and profit. In the past quarter it was 150, 100 million, how much was that in the 2Q? But more importantly is to try to understand the impact of that change in the depreciation rates.

So that change left a cushion, a safe cushion for the seminovos margin in Localiza's vision, or in other words, maybe you have not completely adjusted the depreciation rate for the new cost allocation. So here we calculate a reduction of three points in RAC depreciation, a little bit more than one in fleet and we do not see Localiza in that movement.

So I am trying to understand if that makes sense and if maybe, regardless of the car price dynamics, what we would be seeing, maybe a high depreciation according to the new methodology? Thank you.

**Rodrigo Tavares:**

No, thank you. Well, it is important to remember that the change is NPV zero. That is a change of EBIT zero during the useful life of the car and we did that in a more

comprehensive context, considering the hundreds of practices with absolutely technical criteria. Just so we explain the reason.

So, Rogerio, many of them coexist. So when you do not consider the preparation, you have space and you should depreciate a little less. But on the other hand, we have the car priced settling, and those two things together will lead to our level of depreciation.

And as I mentioned in the first question, given the recent drops that we have seen in some of the segments, our expectation, what we believe, is that depreciation should have an upward trend when we look at that sequentially in the quarters, especially when we look at depreciation associated to RAC

**Nora Lanari:**

And Rogerio, to add to what Rodrigo mentioned, do not forget that any lower depreciation, potential lower depreciation, is offset by the book value in the car sales. So we do not expect any directional changes to the EBIT margin in seminovos when we consider the preparation costs and depreciation. The seminovo margins for the Company is usually low digit value.

**Rodrigo Tavares:**

And just to conclude, a positive aspect as well, we have seen sequential drops, pretty much in seminovos and that could be something that we have been seeing even in them being stable, regardless of that mix that happened.

So not having that much of a stronger pressure in the seminovos margin when we look at that, so how many cars are in inventory and how many cars are going to be decommissioned, so the adjustments to come would be considering the future cycle and depreciation but we did not believe that in the seminovos margin, we apparently have achieved stability and that the pressure is lesser.

**Rogerio Araujo:**

Two follow ups on that, because that is something very important for us to understand in the upcoming quarters. So the first one is, when car prices stop going down, can we consider a depreciation rate, especially in RAC, substantially lower than what we see together? That is one follow up.

And the second one, once again about the impact in depreciation on profit for these customers so we can balance out our estimates. Thank you.

**Company:**

Well Rogerio, the answer is yes, considering the level of discount that has been very positive recently and has been improving, also given the fleet renewal, if you start to decommission a newer car at a higher percentage, when you look at depreciation and replenishment and when you look at the stabilization when that happens, yes, I do believe that the depreciation rates should be lower than what we believe is currently happening.

And about your second question, Rogerio, it is not practical to inform that eventual effect in depreciation, because we determine those assumptions on a quarterly basis based on

what we see on the market, according to price, mix channel and amount sold. So we do not have that accounting running in parallel to the previous. And given that we have excluded we cannot really give you that, we excluded the preparation costs now.

**Bruno Amorim, GS:**

Good morning. Thank you for taking my question. I have a question about capital allocation in two different perspectives. So first of all about the mix, given that in SUVs the prices are suffering a little more, I would like to know how you are handling that, if you are growing less in the SUV segment or maybe even not growing, to favor the models that have a healthier dynamic in used car prices.

And about capital allocation, I would like to explore the decision to grow more or less, given that the visibility is low based on the car price trend. The prices have been dropping for a while, so it is really hard to predict when that movement will end and that has an implication on prospective returns of the Company.

So when you are allocating the Company, you probably seeing a scenario of more uncertainty than in the past. So I would like to understand how you factor that into the decision process and allocating more or less capital. How do you handle that prospective return? Thank you.

**Company:**

Thank you Bruno. Definitely, all the decisions in purchasing and allocating capital considers many different factors from the segment, the type of use, the channel and among them, obviously, the car category. So when we make a purchasing decision and that is a joint purchase, we have an expectation of return, given the rental price of that specific car category.

And regardless, even if a car has higher depreciation, if the rates offset the depreciation, that is not necessarily a problem. So the final decision considers all of these different factors in a more comprehensive expectation of return, not just depreciation, depreciation cost, price, use, channel and so on. And that is how we make our decisions when purchasing.

About being a bit more uncertain in what we think, there is a very positive aspect of the resiliency of demand, even though we reduce the fleet, we have increased the number of cars rented and a sequential price increase that is not traditional from one quarter to another. And we see strong aspects in car subscription and lightweight vehicles. So we do not have any capital restrictions for allocation and to grow.

But in an environment, where you have more uncertainty in capital allocation, you have to be more conscientious. So the way we handle a more volatile environment where you do not know for a fact what your residual price would be, is to be more careful in allocating the incremental capital from the Company.

So that said, once again, we see some perspectives that are extremely positive, and the resilience and the demand is one of them.

And I would like to remind you, Bruno, that eventually, the effect that we feel in the sale price, we can offset that in the purchase, which could eventually lead to an opportunity.

**Bruno Amorim:**

Yes, of course. Maybe I should be a bit more specific. When you price any marginal investment, you probably have an assumption of the car sale price, because you have ROIC. So, do you think that the car prices will drop? What would happen? Or will it be stable?

**Company:**

Well, once again, we do not talk about our pricing assumptions, but within the context of uncertainty, we are very cautious in the allocation, very conscientious. So with that, we deem that the dynamic requires attention.

**Bruno Amorim:**

Okay, perfect. Very clear. And about the mix, about investing in SUVs or not, could you mention something about that, please?

**Company:**

Well, once again we see a little bit of a drop in the SUVs, but it depends on the model and they have a worse return. So when we talk about short term dynamics and seminovos, you see that, when you see the marginal capital allocation dynamics. So it is not necessarily a segment that is worse than the average.

**Pedro Bruno, XP:**

Good afternoon, everyone. Thank you for taking my question. In most part it was answered, but I have a follow up on Gasparete's question, about what is the reason for that additional drop or the additional decrease in used car prices in April and May.

What is the biggest component? Where is that coming from, mainly? So is it continuity in correcting the spread, that the used cars prices were much higher and now it is going back and difficult to understand how far that will go. Or a drop because of the drop in the new car prices, plus the discounts and bonuses and so on.

I am going back to this because I want to separate these two things in the sense that the spread, naturally, it would come back but it is concerning if it is going to a different level than the historical levels that we have seen, pre-pandemic and so on. So, on the drop in the new car prices that are also dropping, that also concerns us less, as Norah just mentioned about that decrease and the increase in purchasing and so on.

I hope you understood what I am asking. So all the points that you mentioned in Gasparete's answer seemed that it is not the second option. So the reason for the drop would also bring on more benefits for you to buy car prices? Sorry.

**Company:**

No, very clear, Pedro. There are still a lot of incentives happening for new cars. They do not affect the list price, so the correction factor is the discount. You do not see that in the public price list. But the correction factor for our industry is through a discount.

So it is a mix and there is the affordability, even though it is a very positive news, in terms of credit. Credit has been the most positive variable, we have seen expressive changes that are very positive regarding that, and that really helps, especially in the more mainstream car sales.

But there are still a number of incentives and offers from the automakers, and that affects the residual value of the used cars in the short term.

**Lucas Barbosa, Santander (via webcast):**

Good morning. Thank you for taking my question. I would like to hear what Localiza believes about the Chinese automakers in Brazil. Although their aggressive prices in new cars in the long term, would Localiza benefit from the lower use capacity in the automakers?

**Company:**

Obviously we have to separate that into the short, medium and long term. If we have new competition, new entrants and new capacity, that is absolutely positive for our industry and especially for Localiza, because we are the biggest car purchasers. So if you have an environment with more investments in the industry, that is really positive. If we were talking about automakers leaving, restrictions, closing down their plants, that would be much more negative for the industry.

And obviously in the short term, you will have a more competitive environment and that leads to new adjustments and that could take longer for price adjustments and eventually for the new car prices that curve takes longer. So more automakers in our market, we believe that is a structural positive effect for our industry, especially for us, that really depends on that production capacity in the country.

**Pedro Moreira, Trilha and Antônio Rizzo, Interação:**

How do we extend the use of the cars, would it be slow down the sale of the cars and sell them in between 2 or 3 years?

**Company:**

Well, in our vision, the fleet renewal is the path we have to follow. When we talk about extending the use of a car we have some factors that really affect the return and diluting the discount across time, you are competing more with used cars instead of new cars. And when you look at that movement, in addition to having a worse use of the vehicle, it is going to break down more, it is spending more on maintenance and operations, whereas customer satisfaction.

So the model of having these cars with more mileage, higher term of renewal, it is a model that makes more sense. So that is why we are developing our seminovos capacity and we are gradually growing the sales. We do not believe that that is an adequate strategy, at least for Localiza, to extend the use of a car.

**Nora Lanari:**

We have reached the end of the conference call. I would like to reiterate that there is still some questions that are on the list. Please send them to [ir@localiza.com](mailto:ir@localiza.com), and we can answer those questions as soon as possible. We are available for any further clarification. Have a great day everyone.

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