1Q23 Webinar Transcription

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Good afternoon, and welcome to the Localiza’s earning´s release call referring to the results for the 1st quarter of 2023. Today with us are 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. The presentation is also available for download in the Company’s IR website.

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 Rodrigo Tavares, CFO of the Company, to begin the presentation.

Rodrigo Tavares:
Good afternoon, everybody.

We begin our call to announce the results for the first quarter of 23 in a celebratory tone. Tomorrow we will celebrate Localiza&Co's 50th anniversary!

We are more than 18 thousand employees sharing a single goal: to delight our more than 15 million customers with one of the most complete portfolios of mobility solutions in the world.

With a strong culture centered on People, Customers and Results, we constantly seek to grow, generating value for our various stakeholders and positively impacting society.

We will continue to reinvent ourselves, with the agility and the unrest of a young company, expanding the use of technology and keeping the customer at the center of our decisions.

We thank all our employees, customers, partners, and investors for trusting and supporting Localiza&Co over so many years. We remain firm in the important mission of offering mobility solutions in an efficient, safe, innovative, and sustainable way. To everyone who was and is part of this journey, thank you very much and we continue together, with the same drive as in the first day!

Speaking now of the results for the quarter, we have five main messages:

- Significant improvement in the rental's operational margins, result of variable costs reduction, fixed costs dilution, both a result from the start of the fleet renewal process and synergy capture gains.
- Inflexion in financial leverage which starts downwards trajectory earlier than anticipated, having peaked in the previous quarter.
- Integration expenses were marginal this quarter, just three months after the carve-out, highlighting the company's planning and execution capability.
- Growing Seminovos' sales volume, in a context of a challenging car's market.
- Maintenance of the convergence cycle of depreciation and Seminovos margins, considering the fleet renewal and the vehicle market dynamics.

For comparison purposes, the 1Q22 numbers are proforma. In addition, the 1Q22 and 4Q22 figures were adjusted for the extraordinary effects of the business combination, to better reflect our actual performance.

Going to the highlights of the quarter, on **slide 3**, we see that the company's revenue increased more than 52% in the annual comparison, driven by the 26.7% growth in rental revenue and by the strong surge in Seminovos, which grew by more than 90%. The strong growth in Seminovos revenue in the quarter follows our strategy of increasing sales volumes and accelerating the rejuvenation of our fleet based on the strong purchase of cars at the end of last year.

The operating result is also another major highlight of the quarter. Evidencing our focus on the search for profitability and efficiency, in addition to growth, we had an increase of almost 40% in EBITDA in the annual comparison, and a robust sequential increase, of 21%, surpassing R$2.6 billion in the quarter.

The annualized ROIC for 1Q23 was 15.6%, with a spread of 5.8% in relation to the after-tax cost of debt. In a context of higher depreciation due to investments in the period of shortage of cars, added to a high level of interest, the advances in the operating result are essential for us to maintain the level of ROIC spread at healthy levels. Therefore, we will remain focused on this strategy of expanding operating results and optimizing the use of invested capital.

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.

Going into the details of the result, we will start the presentation with the Car Rental division, on **page 4.** Net revenue from this division totaled R$1.961 billion, growth of 10.2% in the annual comparison and 5.4% compared to the fourth quarter. The growth in volume and average daily rate resulted in the recomposition of revenue lost with the sale of the carve-out in just two quarters, reinforcing the commercial excellence and high quality of the solutions offered by Localiza.

On **page 5**, we show the increase in the average room rate, which reached R$116, an increase of 11.6% in the annual comparison and 0.5% in the sequential comparison, more than offsetting the seasonal effect of the high season and end-of-year festivities in the 4Q. The utilization rate remains stable both in the annual and sequential comparison.

Moving to **page 6**, in the Fleet Rental division, we continue to grow at a strong pace, with net revenue totaling R$1.459 billion, 58.6% higher than in 1Q22, based on the 29.0% growth in the number of daily rates and the increase in the average ticket compared to 1Q22. In the sequential comparison, we maintained a consistent increase in volume, also reflected in the increase in the average tariff.

As shown on **page 7**, the rate has increased by 22.8% in the annual comparison and 3.7% in the sequential comparison, reaching R$77.5 per day, due to the capture of higher prices in the new contracts, combined with the termination of old contracts, in a context of lower prices.

The utilization rate shows a slight decrease in the annual and sequential comparisons due to the strong net addition of cars in the last quarter, resulting in a greater number of vehicles being prepared for rent and decommissioned for sale.

We continue to see a positive perspective on demand and results from Fleet Rental, in the various segments. Our confidence is reinforced by the perception of the quality of our products, measured by the NPS level, but also by the operational perspective, the quality of our portfolio and asset management.

Moving on to **page 8**, we show the car purchase and sale balances. Despite the challenging context, especially due to the scarcity of credit in the market, we had a substantial increase in sales volume in the quarter. An important movement towards the rejuvenation of our fleet, with the sale of cars with the highest mileage, mainly entry-level cars that had their useful life extended during the period of lower production of new vehicles. 55,191 cars were sold in the quarter, with a purchase of 48,161 cars, after the strong purchase in 4Q22, resulting in a fleet reduction of 7,030 cars in the period. Despite the reduction in the total fleet, the Company's average operating fleet increased from 503 thousand cars in the fourth quarter to 530 thousand cars, resulting in a substantial increase in fleet productivity.

Continuing on **page 9**, our average car rental purchase price was R$76.8 thousand, reflecting a mix composed of a larger share of economy cars in more favorable commercial conditions. The sale price was R$ 59.7 thousand, reflecting the continued sale of entry-level cars with higher mileage, with the aim of rejuvenating the fleet. The highest current Capex for renovation is due to the fact that we are deactivating cars with a mix made up of these cheaper models in the sales channel. Renewal Capex tends to have a gradual reduction from the moment we reduce the mileage level of cars sold and increase the retail channel, which should start to occur in the second half.

In Fleet Rental, we had an average purchase price of R$99.0 thousand. In this division, we have a context in which the purchase mix underwent a structural change, both due to the effect of Meoo, subscription car, and the advance in the segment of heavy vehicles and special cars, while the sale price of R$66.2 thousand, reflects the mix composed mainly of light vehicles.

On **page 10**, we show the advance of the fleet at the end of the period, which reached 583,299 cars in the first quarter of the year, a net addition of 17.9% in the annual comparison, despite the carve-out. Compared to 4Q22, the 1.3% reduction in the fleet at the end of the period reflects the lower number of cars in preparation and available for sale, in the Car Rental division, after the strong shutdown in 4Q22.

Moving to **page 11**, we see that, in the annual comparison, net revenue from rentals grew by 52.2%, with a 10.2% increase in the Car Rental division and 58.6% in Fleet Retal, while Seminovos revenue rose 90.9%. As a result, net revenue totaled R$6.8 billion in 1Q23

On **page 12**, we show EBITDA of R$2.623 billion in 1Q23, an increase of 39.9% compared to 1Q22 and 21.2% in the sequential comparison. We reiterate the quality of the company's operating result, reflecting a strong increase in volumes and prices, in addition to increased efficiency and cost dilution, which had a positive impact on car rental margins and Fleet Rental. The combination of these elements is fundamental for sustaining healthy levels of return in the context of higher cost of capital, level of depreciation and interest.

In 1Q23, the Car Rental division posted a margin of 66.1%. Compared to 4Q22 EBITDA, the expansion of 5.1p.p. at the margin is due to i) lower maintenance costs due to progress in the fleet renewal process and lower mobilization costs, positive impact of nearly 0.7p.p., (ii) lower expenses with consulting and advertising, around 3.5p.p., (iii) adherence to the Zero Litigation Program, nearly 1.0p.p. (iv) in addition to an improvement in PDD, around 1.0p.p.after the equalization of practices, carried out in 4Q22.

The Fleet Rental division posted a margin of 76.2%, 9.7 percentage points higher than the margin for the fourth quarter of 2022. The margin for the quarter was positively impacted by the effect of a new fleet economic useful life report, which accelerated depreciation for tax purposes, increasing the PIS/COFINS credit taking, contributing with around 5 p.p. Excluding the tax effects caused by the report on the result for the period, of R$79.6 million and expenses with new initiatives, of R$9.1 million, the margin would be 73.3%, an increase of 6.8p.p. compared to the fourth quarter of 2022. Such progress is mainly explained by the increase in volume and average daily rate; reduction in maintenance costs, around 3.5p.p., adherence to the Zero Litigation Program, another 1 point, and reduction in PDD, around 2 points in the margin after the equalization of practices.

In Seminovos, in the sequential comparison, the EBITDA margin increased 1.2 percentage points, to 6.4% and maintains the trend of normalization in the coming quarters.

On **page 13** we see that in the RAC, the average annualized depreciation per car continues to increase sequentially, at R$5,941, due to fleet renewal. New cars have normalized depreciation while cars being sold have low or no depreciation. We remind you that we still have a portion of the fleet, acquired in a production restriction period that brings greater depreciation due to the purchase conditions in the shortage period. For the vintage purchased from 4Q22 onwards, we see a lower level of depreciation and returns in line with the Company's objectives.

In the Fleet Rental Division, average annual depreciation also accelerates due to the decommissioning of cars that do not depreciate, reaching R$5,540. We emphasize that, in Fleet Rental, the new cars have a mix with higher depreciation, due to the asset price, which now includes heavy vehicles and due to greater wear and tear, in the case of special vehicles. We reinforce that this higher depreciation is reflected in the price of new contracts.

Moving to **page 14**, we see adjusted EBIT of R$1.765 billion in the quarter, growth of 15.7% compared to 1Q22 and 18.9% compared to the fourth quarter of 2022. The EBIT margin of the Car Rental division reached 45.5% and Fleet Rental, 59.9%, advancing sequentially due to the higher EBITDA margin and higher results from Seminovos.

On **page 15**, Net income for the quarter, adjusted for the effect of the added value of the fleet and customer base, reaches R$604.6 million. The R$281.2 million increase in EBIT was more than offset by the R$321.9 million increase in financial expenses, impacted by the increase of (i) R$159.1 million due to the higher debt balance (ii) R$ 25.0 million from the negative effect of the MTM, and (iii) negative variation of R$ 110.3 million in the Adjustment to Present Value, made in the context of the business combination, due to the early settlements that occurred in 4Q22.

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

Rodrigo Tavares:

We bring on **page 16**, the free cash flow. In this quarter, cash generation from the rental operation totaled R$1.877 billion, consumed in the renovation of 55 thousand cars, in addition to the reduction of R$2 billion in the balance of accounts payable with automakers. The reduction in the fleet by 7 thousand cars reduced cash burn, resulting in consumption of R$1.2 billion in the quarter.

As can be seen on **page 17**, net debt increased by R$2.2 billion in the quarter, mainly due to the reduction in the balance of accounts payable with automakers, in addition to the investment in fleet renewal. Net debt ends the period at 28.3 billion.

On **page 18**, we can see the debt profile and a robust cash position of R$7.3 billion. Including issues announced up to May 14, 2023, the Company would have R$8.2 billion in cash.

On **slide 19**, we show our debt ratios, which remained practically stable. We highlight the Net Debt / EBITDA LTM ratio, which ended the quarter at 3.19x, a slight reduction in relation to the previous quarter. We believe that the downward trend will continue for the coming quarters, even with the continued growth of the fleet, due to the strong operating result.

On **page 20**, we present the annualized ROIC of 15.6% in 1Q23. We see a spread of 5.8p.p considering the annualized quarter. Despite the challenges we see ahead, the company is gradually re balancing the composition of results and returns, making investment decisions thinking about the car's cycle and evaluating the long-term effects, in order to further strengthen and consolidate its competitive advantages.

We are now at your disposal to answer your questions.

Guilherme Mendes, JPMorgan:

Thank you for taking my question. We have two on our side. For Seminovos, in the last release, you mentioned about 7%, 8% in January and February. In the other quarter, it was close to 6%, 6.5%. So March was a weaker month, naturally. I would like to understand what explains that trend. Is that the makes, is it the sales channel or a slowdown of the demand?

And the second point is about operating margins, very strong in RAC and Fleet, even adjusted by the report. So is there still a trend of a substantial growth quarter over quarter? That's an expectation that we had for the 2H23. Or have you achieved those objectives in a faster way? Thank you.

Rodrigo Tavares

Thank you, Guilherme, for your questions. about Seminovos, when you consider the effects of new businesses in Seminovos, the margin is 6.7%, a little bit under the 7% that we had in the 1Q.

In fact, we are decommissioning the cars that have higher mileage in the wholesale channel, and the vehicle market is more challenging, even the performance, according to the FIPE table in Brazil, and that also shows the normalization of the Seminovos margins in a faster way.

About operating margins in Rent-A-Car and Fleet management, that's already a result. We are rejuvenating the fleet in a slight increase in rates, diluting fixed costs and capturing some synergies that can still contribute towards that.

As we renew the fleet, we expect that those benefits will continue to happen. Always remembering that there's a certain seasonality associated to the 2Q comparing to the 1Q. But when we look at the year in the synergies and cost dilutions, it should still have a positive impact to our operating margins.

Nora Lanari:

Guilherme, just to add what we explained in the release, we have 1 point in the margin in Fleet this quarter that should not take place in the upcoming quarters.

Guilherme Mendes:

Very clear. Thank you very much. Good afternoon, everyone.

Rogério Araujo, Bank of America:

Thank you for taking my question. I have two. The first one is about the fleet growth speed. We have seen a small reduction in GTF segment compared to the other ones. I would like to know the perspective of demand. How do you see for individuals or corporate fleet, if it's outsourced, and the competition?

And my second question is the same for car rental. So your main competitor is reducing their fleet. So from the demand perspectives, for the upcoming quarters, do you expect to go back to growing the fleet again, with stronger rates? How is the supply and demand for car rental as well? Thank you.

Rodrigo Tavares:

Thank you, Rogério. About fleet management, we still see a very robust demand in a competitive scenario. So there's huge competition in the fleet scenario, and still strong demand in the industry. But what happened is that in the 2H, there was a huge backlog of cars because of restrictions in billing. So that backlog really accelerated our growth in the 2H, and that was gradually decreasing.

In the 1Q, we already going back to normal with a normalized backlog. So there's no longer an effect of reducing the previous backlog, but there's still a perspective of growing for fleet, and not only for subscription cars, but also corporate is very resilient, even in a macro context with some challenges.

So in Rent-a-Car, obviously there's a period of adjustment after the 4Q. In the 2H, almost 200,000 cars were purchased. We had a growth of almost 100,000 cars before the carve out. So that was extremely accelerated. And now, it enables us to focus on growing the industry that, although the total fleet has dropped, the operating fleet and rental fleet have increased, showing that we have better use of our capital.

We still have opportunities to improve that efficiency, and RAC demand has a seasonality that takes place in the 2H. So the perspective for the year is still a perspective of growth.

Rogério:

Perfect. Thank you, Rodrigo.

Regis Cardoso, Credit Suisse:

Thank you for taking my question. I have some topics that I would like to address. One is about car prices. Because prices of cars purchased in the quarter were much higher. You mentioned that part of that is structural because there's heavy vehicles, and a bit of the profile of subscription cars, but maybe we can break down that numbers somehow. What would be the contribution of a mix effect from the heavy vehicles or other segments, but inside light vehicles? Or is there a perceptive contribution of a discount when buying? Is there still an effect of nominal inflation on cars? That is the first, and then I will ask my next question.

Rodrigo Tavares:

Thank you, Regis. About price inflation and discounts, the news is positive in the fleet market, and there's a mix effect definitely, especially when you compare before the merger. We pretty much had a mix of light vehicles, and now we have various products, and agro and heavy vehicles, special vehicles that influence that. In the sale, we do not have that effect.

In subscription cars, which has been a strong market, we see a more premium mix. So it's a consumer that wants a product that has higher added value, especially sedans, turbo or small SUV, and those cars have a higher cost. So that's positive. As these cars are coming in with an adequate return, within our ROIC and spread static, you have more employed capital and that would be something positive for this segment.

Regis Cardoso:

Thank you, Rodrigo. And the other one is about profitability for the business this year. We discussed this in past conference calls, that the more difficult moment in the market would lead to depreciation and reduce Seminovos margin, and that can compress your ROIC spread across 2023, and then it would go back to normal as from 2024, because you would have the new vintage of cars that were bought with a higher discount.

So I would like an update about that dynamic. You mentioned that the leverage peak was in the past, it was a bit faster. And maybe food for thought, is the annualized profit for the 1Q, should you have 5 points of spread in the cost of debt in the current Selic rate? So I would like to understand if you imagine that there would be an increase in profitability or if that depends on the cost of debt.

Rodrigo Tavares:

Thank you again, Regis, for your question. Let's remember that after that merger, there was a capital base, the former Locamerica that had a ROIC spread level that was lower than Localiza's. So that's capital. And as we have the renewal, you have an increase in the ROIC spread of that capital. And especially in Fleet, there's still a period for maturity.

But when we look at the new capital to be employed in Fleet and Rent-A-Car, these vintages are very healthy. What has been happening in practice is a mix in positive news and other not so positive. So the convergence in depreciation and margin of Seminovos, those have been happening faster given the situation in the vehicle market in general.

On the other hand, in operating margins, we have obtained faster efficiency than planned as well. So when we think of the margin levels, not only in RAC and fleet, what had to be achieved in the 2H were already achieved in most part in the 1Q23. And to remind you, we have a fleet with an average age of over 13 months that's still in the renewal process, and we have growth that should come in to help dilute the costs in addition to the benefits of the actual synergy of the two companies.

So when we look forward, to get that spread of 5 to 7 points, which is our history here, we have to look at the operating improvements across the year.

Regis Cardoso:

Thank you, Rodrigo.

Fernanda Recchia, BTG:

Hi, everyone. I have two questions, the first one is about the report. You mentioned close to R$80 million, if I understood correctly. That's only for the 1Q, right? So moving forward, should we expect the same volume of the reports in the fleet segment in the upcoming quarters, or if that was higher in the 1Q, should we see lower levels for the next quarters?

And the second question is in heavy vehicles. You mentioned that the add on to the purchase price is because of your exposure, not only to special vehicles but also heavy vehicles. So if you can update that in that segment. The last data that we have here is a fleet close to 5,000 trucks. So if it still continues at that level or if you had a considerable evolution in that sense. Thank you.

Nora Lanari:

Thank you, Fernanda, for your questions. So the report for the 1Q only dates back to January 1st, 2023. It does not date back for previous fiscal years. That said, the cars that are older and a more advanced useful life, they do have an effect. It's nonrecurring, but it's hard to estimate, given that we have the fleet from Locamerica plus the fleets that we had for Localiza. But the run rate moving forward is a little lower, in fact.

For the heavy vehicles, Rodrigo explained that heavy is one of the reasons for the increase. But that was not the biggest one. If we rule out the heavy vehicles, it will only be 1,000 less. You have an effect of the subscription cars, special vehicles and agro. Those contribute towards the price increase. But we have been growing in a robust manner in subscription cars.

So in general, the segment has been doing well, with an obvious challenge of monetizing the Euro 6 trucks, as they can be valued in the cycle. So we have capital allocation that's very careful. It should not be relevant for this year, given that we can grow not only in RAC and also in Fleet in 2023.

Fernanda Recchia:

Thank you, Nora.

Josh Milberg, Morgan Stanley:

Good morning, everyone. Thank you for the call. I have two questions. The first one, you mentioned, about how resilient the car market has been in subscription cars. So more about the premium segment. How you are thinking about depreciation in that segment, and if there's any implications currently for that segment, based on developing the electric vehicles market where we have had much news of investment in the domestic market. That's my first question. Thank you.

Rodrigo Tavares:

Josh, thank you for your question. In a macroeconomic scenario that's more challenging, it is even positive for the demand, not only for subscription cars, but also corporate demand, because then our efficiency is especially in capital, and purchase and sale and maintenance have given us a huge incentive for an individual or a company, instead of using their own capital, using a solution that's more appealing based on the financial, operational and convenience point of view. And that's why our demand has improved a lot in the segment of subscription cars.

It's also a segment that has lower depreciation than the depreciation of corporate cars. First of all, because we are talking about cars that run 1,000, 1,500 kilometers per month in less severe use, and when they are decommissioned, most of these cars have a profile for retail where you can get a better price when selling it. That's why the subscription cars in general have better depreciation than identical cars that are used in the corporate contracts.

About electric cars, I would say that's still a niche market. The demand is still very low. We see a lot of uncertainties on the residual prices of those cars, which means that they are specific sales. Most of the sales are usually the first family cars. A sedan 1.5, 1.0 turbo or an entry level SUV car.

Josh Milberg:

Perfect. Thank you for your answer. My second question is a follow up of Fernanda’s question about the heavy vehicles. I understood that you will not grow much more in heavy vehicles than light vehicles. But still, I would like to hear your point of view about how you see that market. Last year, in Localiza Day, you were very optimistic about that opportunity. So I would like to hear if you see any changes as a result of the transition to Euro 6 or other factors, or if you can share your vision about the upside in the share for that market. And if you could also talk about how you compare the economics of the heavy vehicles and light vehicles. Thank you.

Rodrigo Tavares:

Thank you, Josh. The strategy does not really change. We like that division. It's a new track for growth, but it has to deliver the same return as light vehicles, be it fleet or subscription or any other segments that we take part in.

So in that sense, the heavy vehicle industry is more susceptible to the macroeconomic activity because it depends on the macroeconomy. And with the strong increase of the Euro 6 compared to the Euro 5, there's some difficulties in transferring the tariffs to customers and still maintain the profitability that we would like.

In that sense, our capital allocation will follow that discipline. So in fact, if there's a market, if there's a demand according to our profitability criteria, we will allocate more capital in heavy vehicles in an incremental manner. If not, we will allocate our capital focusing more on light vehicles.

But in general terms, at least based on Localiza’s point of view about ROIC and profitability, that condition is fundamental. I cannot even compare because to allocate the capital, the return has to exist. We have a macroeconomic challenge and a change in technology from Euro 5 to Euro 6, and that allocation of capital will depend on the market.

Josh Milberg:

So your perspective on that market has not really changed, then. Okay. Thank you very much for your answer.

Alberto Valerio, UBS:

Thank you for taking my question. I am going into the Seminovos area. First question is a bit more technical. So the discount that you used to give, and we had that technical discount in our model, in the cash flow, it was a higher amount than the COGS that you had for Seminovos. Since last year, that has changed. Cash flow has a lower amount than the cost of the car in Seminovos, and in the past two quarters it increased a lot. Last quarter, a little bit over R$400 million, and this one as well. Do you have any explanation for that? I know it is a bit more technical. If you want to send me the answer by email, that's fine.

Nora Lanari:

Thank you, Alberto, for your question. For some years now, we have changed the practice of the technical discount. So the differences that you see between the balance sheet and cash flow are mainly related to cars that have been robbed or lost, or the cost of preparation. In our income statement, in the revenues line for Seminovos, and then you have the cost line depreciation of the vehicles sold and cost of preparation. But we can map that out and go into the details of those figures for you later.

But the main explanation is total loss or robbed, and preparation for sale.

Alberto Valerio:

So it’s a reversal of the robbed cars. What about the ones that you recovered? Does that happen as well?

Nora Lanari:

No. The preparation will affect this the most. A robbed or stolen vehicle will not go through free cash flow. We can give me the details later on, and we will do that. It's very technical, but the main takeaway, Alberto, is that the technical discount that Localiza used to give in the past, we have not been doing that for years now. So the explanation of the difference is not a technical discount. You can show me later exactly which balance sheet line/cash flow/income statement that you would like to see and we will go into the details of each one of them.

Alberto Valerio:

Great. If you allow me another question, in Seminovos, we are trying to estimate the value of your current fleet. And with the carve out, it's harder now. So can we consider. That the cars that left were mainly Unidas or older cars? Or were they, on average, distributed according to the Localiza’s standard?

Rodrigo Tavares:

I will take that one. It’s not about more cars of Localiza or Unidas. At the end of the day, we have more Localiza cars because the fleet cycle is longer. So given the fact that the Rent-a-Car cycle is shorter, then naturally we are decommissioning more Rent-A-Car cars and Localiza had more Rent-A-Car cars. And that's what happens.

You have a margin still in the Fleet, more than you have in Rent-a-Car. And about the fleet age, in that case, most of the cars we have been decommissioning, the ones with the higher mileage, and that is explained given the fact that we are sending more of those cars to wholesale.

Most of the decommissioned cars are the cars that we extended their useful life during the pandemic and allocated them for the app drivers. So they went up to 70,000, 80,000 and sometimes even more than 100,000 kilometers. So now we are starting the rejuvenation process through those cars that have a very positive effect, because maintenance goes up unproportionally in cars over 60,000 kilometers.

It is more Localiza, but not the fact that we are directing one car of the other. Just the fact that we have more Rent-a-Car at Localiza, and the cars that had a higher mileage, that had a profile of mainly app drivers.

Alberto Valerio:

Perfect. Thank you, Rodrigo. And thank you, Nora.

Daniel Gasparete, Itaú:

Good morning. Thank you for the call. I have two questions on our side as well. First of all, about income tax rate this quarter, a bit under than we imagine and what you have been seeing in the past quarters. So I would like to understand how you see that figure, and how it should behave when it's back to normal. I would also like to explore. The effect in this quarter, if you have the same effect for the other quarters.

And the second one is just more visibility about stabilizing depreciation. You mentioned that it should be higher in the next quarter. I just want to corroborate if it's the same thing. Last quarter, you said it would be the peak in the 2Q, 3Q stable and 4Q dropping. So I just want to check if that's still what you believe or if that has changed. Thank you. Good morning.

Rodrigo Tavares:

Thank you, Daniel. About income tax, the lowest rate is because of interest on own capital. If you increase your equity, then you can use more interest on own capital, and that effect alone would take the rate to 16%. But there were other effects as well that lowered that tax rate about 3 points where we have a part of that and others some smaller aspects. So the income tax rate should be under 20%, from 18% to 20%, and obviously, depending on the performance of the Company’s profit.

About depreciation, it goes as you replace the first vintage that was depreciated with the third one. So the peak takes place when you decrease the first vintage and have not started to strongly decommission the second one. So it's the peak of depreciation. It takes place and it will start to drop when you start to replace the second vintage with the ones that we are buying right now, and that will not happen in the 2Q. That will probably take place at the end of the year. That's when we will have the peak of the second vintage compared to the proportional Localiza fleet. And as we decommission the second vintage and replace it with the third one, then we will see the depreciation starting to drop.

Nora Lanari:

Daniel, to add, if you consider the first one, we still have the 2Q and a part of the 3Q selling the first centage. In 2Q, we start selling vintage, too. That's what affects depreciation the most. That's why we think that moving forward, it will be a peak in the 2H23, probably 4Q, and then we have a higher relevance of the third vintage, because the cars are higher, but then we have ROIC spread in line with what the Company usually has, 5 to 8 points above the cost of debt.

Daniel:

That's clear. Thank you, Nora and Rodrigo. So depreciation should reach a peak approximately in the 4Q. And the second point that Rodrigo did not mention, if you could, zero litigation does not have an effect in the next quarter. Is that correct?

Rodrigo Tavares:

Yes, sorry. No effect on the next quarter's. That was just a small effect in fleet and in the margin of Rent-a-Car, no effects in the upcoming quarters. And it really depends, actually, about the Seminovos market and vehicles, to talk about depreciation. With today's data, in our perspective, the peak of vintage should be at the end of the year, and then we start to lower that depreciation.

Daniel:

Excellent. Thank you very much.

Victor Mizusaki, Bradesco:

Good afternoon. I have two questions. First one, looking at the debt profile for next year, if I am not mistaken, we see R$6.5 billion in debt amortization. And when we compare that to your track record, the Localiza debt is running in the short term. So my question is, how have you been handling that? Should we start to see a higher rollover in the 2H? And how do you see the spread and cost of debt?

And the second one is a follow-up to Daniel's question about the actual rates in the long term ROIC spread, from 5 to 8 points over the cost of capital. Is it the rate that you consider, 18% to 20%? Thank you.

Rodrigo Tavares:

Thank you, Victor. In the beginning of the year, the spreads relation to the debt went up because of the market effect. So we funded in the last quarter, when you look at the 4Q22, at five to seven years, with very competitive spreads. In the beginning of this year, we lowered that duration of debt, given the value for money relation. When you look at next year, you start seeing our debt planning, and there should still be a rollover in the short term, two or three years, in addition to longer issuances, but always looking at the value for money of the cost of debt in the short term compared to the duration here in the long term.

About actual rates, when we have ROIC and replenishment, we do not consider debt rate. It's a bit higher. We consider the effects of interest on own capital. So the rate is a bit lower, but it's higher than the rate that we see here in the 1Q.

Victor:

Great. Thank you.

Pedro Bruno, XP:

Good morning. Thank you for taking my question. Rodrigo already mentioned this partially. It's mainly a validation of a concept, about how you see this in practice, which is transferring price. When we compare RAC, or even retail and RAC with fleet allocation, and now with new products thinking of heavy vehicles and subscription cars. So in practice, can we actually see that less discretionary profile in consumption, in fleet and heavy vehicles, or even subscription cars? Because subscription cars do not have that concept. So would that give you a better pricing power, given the fact that some of these markets still have very low penetration, very low share and less competition?

I think you understand the point here. It's more about validating. So what can you share with us in terms of practical experience with these new segments and different competitive profile when pricing given the current scenario and a relevant need for a price increase? That's it.

Rodrigo Tavares:

Thank you once again for your question. Obviously, we are monitoring the competition in all different segments. And we are in a competitive market. When we look at the Fleet market, it's a car that we have not bought yet, so we need a minimum return to then order a car. So the competitive dynamics enables us to work with lower or higher spreads. So in fact, we have a bar under which we would not allocate additional capital. So that would be in general to manage fleet. So we are talking about heavy vehicles, special vehicles, agro and so on.

So that's a dynamic of pricing, competitive pricing, and it plays that role of looking in that ROIC spread level, how much we can reach in that.

When you look at the short term rental, those cars have already been contracted and they are part of our Group. So in that case, that competitive dynamics plays a more fundamental role in pricing, because in fact, you are trying to balance out the idleness in allocating your capital, and seeing how much would be allocated, working or not, versus profitability.

Obviously, across time, if we believe that there's a lower demand, or the competition is tighter, we will adjust that to the allocation in that segment.

So we do look a lot at the competitive dynamics for the pricing in RAC. We see something gradual. Especially in discretionary, there is a stronger macroeconomic effect. And in the markets where you have direct competition of a car that's bought and rented, so macro effect is something that helps me, like the replacement of Meoo, and the other one that's challenging in terms of the demand for the service. I am not sure if I answered your question.

Pedro Bruno:

Yes, you did think. Thank you, Rodrigo.

Bruno Amorim, Goldman Sachs:

Good morning, everyone, and thank you for taking my question. I have a follow up in the depreciation dynamics and financial expenses. But about depreciation, I would like some help from you to understand the dynamics in short, medium and long term. So if we look at pre-pandemic, especially in RAC, a range of 4% to 6% of the car price, and with what you reported in the 1Q, the Company would be running at 7%, which is above pre-pandemic level, and there should be deterioration of ratio of what it was pre-pandemic, but it seems that most of the adjustments in depreciation were already done.

So my question is, short or mid or long term, what would be your reference in percentage per cars, debt percentage, what do you see? Obviously, giving a discount in the purchase, so the percentage would go to R$8,000, R$9,000, R$10,000 per car, or is it just a marginal R$1,000 per car?

And then thinking of the Company after vintage too, thinking of a new normal for maybe 2025, is that 7% a good reference, close to the range pre-pandemic, or do you have another opinion? That's the first question.

Second one, more objective, you mentioned that the peak of leverage was before expected and EBITDA should continue to increase, but that does not necessarily mean that net debt will not grow any longer. So I would like to check that with you. And if it's still growing as you renew the fleet, or do we see net debt stable? And what's the implication of that moving forward? Thank you.

Rodrigo Tavares:

Thank you, Bruno. Let me start off with the second, because the first one will take longer. In fact, EBITDA grows faster than that debt, and the 2Q is relatively positive for cash generation, because in the 1Q, you have the payment of the. Costs that were very high in the 1Q. In the 1Q, we had longer terms with the automakers. So in the 2Q we paid less cars. So that has a positive effect in cash generation and net debt growth.

And by renewing the fleet, when we have an old car, we spend an amount from R$15,000 to renew a car. In that scenario for growth, net debt would still have to grow for that. But the EBITDA, most of that growth, the increase of debt that happened last year, the EBITDA of those cars was in 100%, considered that that's why the growth of EBITDA is much stronger than the net debt, contributing to a relative deleveraging and improvement in the ratio. That's the first point that I wanted to mention.

Financial expenses for this quarter had some effect and contributed negatively with R$5 million, and also part of zero litigation that increases the financial expenses. So some of these topics, increased financial expenses, and it is nonrecurring in a negative manner for that quarter.

And depreciation is a bigger topic. So there are many factors that play in here. One of them is, in the conversations, in negotiations, in purchasing cars, we have been able to have a longer terms instead of higher discounts. So if I got a higher discount, the depreciation would drop. Longer term, no. It affects the financial expenses, the capital base and so on.

So we cannot just look at depreciation alone because many things that connect to each other, and that was a simple effect in the payment terms to the automakers that could affect depreciation. And then when we compare depreciation of vintage three that we have today, it is a bit higher structurally than pre-pandemic levels. So here we are talking about 6% to 8%.

And why does that happen? In most part, because of the mix. So before the pandemic, you had a prevalence of 1.0 cars, 1000 cylinder cars that did not have many accessories with lower depreciation, and they also had a lower rate.

So today in Rent-a-Car and in fleet management, you have a premium mix given the consumer demand, or even production changes at the automakers. So there's a change that's not much structural, that's not related to discounts. It's about the mix.

So the pricing of replenishing the third vintage is higher percentage-wise than pre-pandemic levels. So 6% to 8%, and vintage two has a higher percentage rate than that. That is that's why when we look at depreciation, it has been growing because of the increase in the relevance of vintage two compared to the vintage one.

When we say that the peak would occur at the end of the year, it's thinking of that effect of emptying the first vintage that does not depreciate that much before we go into emptying the second one.

That said, the market is very sensitive and volatile. So if you think of the variations of car prices in 1% to 2%, when you have the perspective depreciation that's much higher from 10% to 20% depending on the case.

So it's very complicated to have a super stable reference of any depreciation parameter. That depends on many concept matters, be it the vehicle market or even the dynamics of choosing in between a higher payment term, longer payment terms or higher discount. So you have to consider many different factors to give you a better understanding.

Bruno Amorim:

Perfect. That helped a lot. Thank you.

Nora Lanari:

Depreciation is how we mark to market. So any estimate of prices to sell, we consider that through depreciation.

Ivan (via webcast):

Good afternoon. Could you give us more visibility in SG&A? For the 1Q, we had this line substantial under the last ones in nominal values and also net revenues. That event can be seen the three operations of Localiza and substantially contributed to margin gains. What factors had the gain in SG&A and what's the recurrence of those factors? I understand the dilution of costs across time, but the fact that the nominal values are substantially lower than the 4Q, close to R$250 million, makes us wonder how we should look at that for the next quarter's.

Nora Lanari:

I will start answering. Thank you, Ivan, for the question. So we have some factors here. The first one is that we are drastically reducing the expenses with the integration and the consulting and store rebranding and the entire integration process.

I would like to remind you that, in 4Q22, we had some detractor effects, where we had some civil provisions, the auction and the financing for investors. In the 4Q22, we adjusted the bad debt bars for Locamerica to the Localiza standards and that affected the 4Q. So when you compare that to the 1Q, we already have a significant improvement in bad debt and in theft.

The effect in bad debt and advertising drops when after the rebranding, less expenses in stores in terms of advertising and the agencies, and the new brand and the zero litigation effect. As we mentioned, that's nonrecurring. So approximately R$40 million. So that would give 1 point of margin in RAC and Fleet. So R$19 million in RAC and R$19 million, rounding it up to R$20 million in Fleet management.

So that's what we would exclude. And we also have the effect of less expenses related to the business combination.

We have a long list of questions still. Unfortunately, we will not have time to answer all of them. We will follow up here, Felipe and Alberto. We will get back to each one of you.

So now I will hand over to Rodrigo for his final remarks.

Rodrigo Tavares:

Thank you, everyone, for your presence. Our IR team is available for any further clarification. Have a great day, everyone.