

# MOODY'S

## RATINGS

### Rating Action: Moody's Ratings upgrades Localiza to Ba1, stable outlook

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03 Oct 2024

New York, October 03, 2024 -- Moody's Ratings (Moody's) upgraded Localiza Rent a Car S.A.'s (Localiza) corporate family rating to Ba1 from Ba2. The outlook changed to stable from positive.

The action on Localiza follows the upgrade of Government of Brazil to Ba1 from Ba2 and maintenance of the positive outlook. The change in outlook to stable represents our view that the Ba1 rating reflects Localiza's fundamental credit quality. The action on Brazil's rating reflects the material credit improvements which we expect to continue, including a more robust growth performance than previously assessed and a growing track record of economic and fiscal reforms that lend resilience to the credit profile, although the credibility of Brazil's fiscal framework is still moderate, as reflected in a relatively high cost of debt. For further information, refer to the rating action press release: <https://ratings.moodys.com/ratings-news/429722>.

#### RATINGS RATIONALE

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

Conversely, Localiza's rating is constrained by the capital-intensive nature of the car rental business and its lack of a significant international footprint, with most of its revenue generated in Brazil.

The stable outlook reflects our expectation that Localiza will continue to grow while maintaining solid profitability, adequate liquidity, leverage and cash generation, prudently managing expansion capex through economic cycles.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

The rating could be upgraded if Localiza improves its geographic diversification, while maintaining strong credit metrics on a sustained basis. The ratings could be upgraded if pre-tax income margin is expected to remain above 15% and gross leverage approaches 2.75x.

The rating could be downgraded if liquidity deteriorates or the car rental utilization rate declines below 70% , with gross debt/EBITDA exceeding 3.5x and pre-tax income remaining below 10% without prospects of an improvement; if Brazil's sovereign rating is downgraded.

Founded in 1973 and headquartered in Belo Horizonte, Minas Gerais, Brazil, Localiza operates car rental and fleet rental businesses, and has a used-car sales business that facilitates renewal its fleet in Brazil. The company also franchises rental car operations in Brazil and in five countries in South America. As of June 2024, the company had a total fleet of 631,639 cars in Brazil and four other countries. The company is the market leader in Brazil in terms of car rental, with the largest number of car rental locations and presence in all main Brazilian airports. In the 12 months that ended June 2024, the company reported net revenue of BRL33.0 billion (\$6.6 billion) and Moody's-adjusted EBITDA of BRL12.7 billion.

The principal methodology used in this rating was Equipment and Transportation Rental published in February 2022 and available at <https://ratings.moodys.com/rmc-documents/379526>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Erick Rodrigues  
Vice President - Senior Analyst  
Corporate Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Marcos Schmidt  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007

U.S.A.

JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

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