

Nora Lanari:

Welcome to the earnings disclosure for the 2Q24. We have with us Bruno Lasansky, our CEO, and our Rodrigo Tavares, our CFO.

Before we begin, I would like to inform you that this is being recorded and will be available at ri.localiza.com where we have all the material for the earnings release. The presentation is also available for download on the IR website.

We would like to inform you that the amounts in this presentation are in millions of Brazilian 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 to 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 as they involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur.

After the end of the presentation, we will have a Q&A session. Please post your questions with the QR code shown during the presentation. Online participant questions should also be asked through the QR code that you will see on the screen.

Today, we will address important points about the Company's performance and perspectives. Given the challenge to settle the Seminovo car prices, we have reviewed our estimates for net prices in sales. The review has the purpose of reflecting the current reality of the market and increasing the predictability regarding the convergence of the depreciation cycle.

Therefore, we will begin our agenda today with depreciation, next we will present the results for 2Q24, and end with our CEO, who will address our priorities to replenish the ROIC spread.

Thank you for participating. And to begin the presentation, I would like to call to the stage our CFO, Rodrigo Tavares.

Rodrigo Tavares:

Thank you, Nora. Good morning, everyone. Good morning to those who are present here with us. Welcome to Localiza.

I will begin the presentation talking about depreciation. First of all, I would like to talk about the concepts of depreciation briefly, and then talk about the history of the dynamic of prices in the country and talk about the factors that have affected our results, the review of the residual value and the reduction of the life cycle from 18 to 15 months at Rent-a-Car. And lastly, talk about our expectation of depreciation for the upcoming quarters.

So what is accounting depreciation in its essence? It's the difference between the purchase price and the expected selling price net of selling costs. So all the costs that I need to sell the cars, people, commissions and so on have to be deducted from the sale price. And you divide that difference by the useful cycle of the vehicle, and when you multiply that by 12, you would have annualized depreciation.

The depreciation is based on expectations. In this example, we buy a car that costs R\$100,000 and expect to sell it for R\$96,000. The costs associated to that sale would be 5,000 in this example for an 18-month cycle. As you can see, we can see a devaluation of R\$4,000 plus a cost of

R\$5,000, which gives us R\$9,000 in total depreciation or R\$500 per month. In the case of a year, it would be R\$6,000.

It's important to mention that when you sell the car, we may have 2 different situations. The first one is that the net prices and assumptions are exactly the same to the original assumptions. In that case, the sales revenue was R\$96,000, just like the sale price, the book value, R\$91,000, which is the 100% minus the R\$9,000 of depreciation which leads to gross profit of R\$5,000 and a cost of R\$5,000, giving us a 0 EBITDA margin.

In the other case, when the net selling price and the costs are different than the original assumption. In this example, the sale price is R\$97,440. Book value is still the same because depreciation was the same. Therefore, the gross profit was higher, R\$6,440. The cost was slightly lower than expected, and that led to an EBITDA margin in Seminovos in R\$1,940 or 2%.

So the used car margin depends on this ratio of the sale price with the book value and the depreciation that was allocated in that period.

To understand the dynamics of car prices and the track record, let's go back to the pre-pandemic period and talk specifically about car rental. As you can see on the right, we have always had high stability in the life cycle. So the car and car rentals was sold between 14 and 15 months. That was the life cycle of the car in Rent-a-Car. And the sale was at 30,000 to 35,000 kilometers. And the other indicator, which is the average selling price, that's not the net of selling price, and the average purchase price in a long series; you can also see how this average is consistently greater than 100%.

But that was the period before the pandemic. And then what happened during the pandemic? The first point is strong restriction in production inputs. That leads to a drop in production and a drop in the availability of cars to under 2 million cars. Consequently, we had a change and an increase in the life cycle of cars that went from 14 to 15 months, achieving 28 months.

Another effect that happened during that period was a strong increase in car prices. They went from R\$74,800 in 2019 to R\$133,600 in 2022, 78% car price increase where you can see these figures come from Fenabrave from car licensing. And we also had other impacts.

So with the price, the affordability changed. And you can see here, based on the minimum wage necessary to buy a new car. Before the pandemic, it was 33 to 35. It went up to 54 and then went under 50, but still at high levels. Another effect is that during the pandemic, we had very low interest rates and high availability of credit, which supported that demand even at higher prices.

At the end of the pandemic and with the increase of the interest rate, we saw the opposite. We had a strong restriction of credit during the period at the end of 2022, beginning of 2023. And based on that context, the government issues the provisional measure 1175 in June 2023.

I would like to remind you that this provisional measure gave discounts of 2,000 to 8,000 cars for the entry-level cars. That means cars up to R\$120,000. At the time, the Company accounted for R\$631 million in depreciation and adjustment to the recoverable value in part of the fleet in 2Q23, equal to 1.4%, which is the value of the fleet at that quarter.

And how did that affect prices? I would like to highlight that this chart is a mix of Localiza for 1-, 2- and 3-year old cars. So that's the mix of Localiza, and we are also following the evolution of FIPE in Brazil.

So here, we expect a drop. And why did we expect to drop. When we have a fixed mix, as time goes by, that mix grows older, so a car in February is 1 month older than January, on March 2 months older and so on and so forth. The price drop is expected.

And when you go back to the track record before the pandemic and which is typically affected by other factors such as inflation and others, that's from 0.3 to 0.5 monthly decrease in car prices. And that's a factor that we expect and normalized.

In the beginning of 1Q23, we found 0.45. So that's at the high end of the range, but still at a normal level that we expect. Then the provisional measure discussion comes up. So even before it was enacted, there were many conversations going on in the market. So the curve would change. Clearly, it drops 1% per month. And after the measure, it continues to drop 0.83 per month, meaning almost double than what we had before 1Q23.

So then we start the year of 2024, and we see stabilization. EBIT a drop that was expected, we see that the decrease becomes stable. And then in the beginning of 2Q, you probably remember the announcement, we had a very swift drop and then continued to drop a little less moving forward.

So what was the effect of that decrease, which was higher than what we saw according to historical levels? The difference between the price of 1-, 2- and 3-year-old cars compared to new cars increased.

Before the pandemic, on average, a 1-year-old car was sold at 19.7% lower than a brand-new car, 2 year, 25% and 3-year 30%. In the pandemic, we saw the restriction of the supply and access to credit. And even these differences became smaller. So 18%, 23% and 28%. And with the dynamic that I just showed you, today, the difference between the 1-, 2- and 3-year-old cars and new cars is from 3 to 4 p.p. greater than it was before the pre-pandemic period. So we decided to review our residual value of our cars as a result of this.

I also mentioned that there was a second factor that impacted that quarter, which was the change in the life cycle in Rent-a-Car from 18 to 15 months. So the first point, why did we make this change?

In the beginning of the presentation, you saw that the life cycle before the pandemic was 15 months. And the Company has been very vocal and believes that, that is the cycle that we should consider. And we have been taking consistent steps to reach the 15 months of the useful life. So every quarter, you have seen a decrease in the life or age of the car that was sold. So what is the impact of that reduction?

When you look at the entry cars, the impact in most part, is positive. So it does not have a negative impact because it's a fact that we have less time for depreciation. But at the same time, we expect that the price that the cars sold should be higher because you are selling a newer car with lower mileage and in this specific example, depreciation was the same in both cases with clear benefits though. You have less maintenance, higher availability of the car, preparation costs, that's better. So clearly, it is a cycle that we believe benefits the business.

If we look at the other end, a car that has been with the fleet for 12 months, that's a bit different. In that case, when a car is 12 months in an 18-month cycle, it still had 6 months of depreciation. When moving to 15 months, there's an increase from 3 to 6 months. So in the short term, in 3 months, we have a strong increase in the depreciation quota, which pretty much doubles that here.

The change from 18 to 15 months, despite we have seen it as positive, working on a 15-month cycle in the short term for the next quarters, especially these cars that are in the fleet for longer have an impact in their depreciation.

Let's go into details on the effect of these changes in our results. First, I would like to qualify these effects. There are 3 of them. The first is depreciation itself, which affects EBIT of our business,

both at Rent-a-Car and fleet management. When I compare it to the 1Q, the additional depreciation impacts by R\$1.386 billion.

There's also another effect, which is the cars that are available to be sold as Seminovos. They do not depreciate. So we have an impairment in this case of R\$171 million. This impacts the margin of Seminovos.

And lastly, we also have specific vehicles that are still in the fleet, but are crashed cars or of heavy use. And the present value of the benefit of this car, including rent and selling this car is lower than the book value. In this case, we adjust the recovery value of the fleet. And unlike these effects, it affects the EBITDA margin of the products.

So depreciation affects the EBIT margin, impairment of available cars to be sold affects the EBITDA of Seminovos and the adjustment of recoverable value of these cars, of the fleet of heavy used and crash cars, affects the EBITDA margin of the business.

And just remembering the factors that led to this depreciation, reduction of the preowned cars, widening of the price difference between used and new cars, reduction of the depreciable useful life cycle of the car, reduction of expectations of net selling price of the heavy use vehicles, and lastly, normalization of margins on used car sales.

We would also like to provide future outlook for the depreciation for the next quarters. Looking at the next 3 quarters, for Rent-a-Car, our expectation is that depreciation will stay between 6,700 7,700 in the 3Q, 6,500 to 7,500 in the 4Q and 6,300 to 7,300 for the 1Q25.

In fleet management, and here specifying that we are talking about light used vehicles, this depreciation is expected to be between 7,500 to 8,500 in the 3Q, 7,200 to 8,200 in the 4Q, 6,800 to 7,800 in the 1Q25.

What is behind this? As I said, this reduction from 18 to 15 months of the car rental, the widening of the price difference between preowned to new cars, and normalization of margins in the sales of used cars.

These levels of depreciation are above the levels of the 1Q. But there is an expectation for this to normalize in the margin of the Seminovos. That's why we talk about gross depreciation. The net depreciation would include that margin of the Seminovos. The idea here is to provide more information and a better understanding of depreciation, how it works, the factors that led to this impact and our expectation for the future.

To continue our presentation, I would like to invite Nora.

Nora Lanari:

Continuing with the results of the 2Q24, we start with the car rental division. The chart on the top, you see the evolution of net revenue, and on the bottom, the rental days. In the 2Q, the Company showed 16.1% growth in rental, and with the effect of 3% increase, even with the impact of the floods in Rio Grande do Sul.

Going to the next slide, we see the evolution of the average daily rate and the effect of the usage in the Company. The daily rate in the quarter was R\$119, and now we have R\$133, an expressive increase of 12.9% year-over-year with a 1.2 p.p. increase in the utilization rate despite the flood in the Rio Grande do Sul state. This shows the resilience of demand of cars in the process of recovering prices.

Now going to the office branches. We closed the quarter with 681 branches, 17 agencies, branches in Mexico and 157 franchises in Brazil.

Going to the next slide, in fleet management, we see the evolution of the revenues and the rental days on the bottom. We can also see an expressive increase on the top line of the Company, adding R\$2 billion, 27.2% increase year-over-year with 12.2% in the daily rental rates. We are going through a rationalization process in fleet management, and we still see this increase, which shows a healthy management of new contracts.

Following to the next slide, we can see the evolution of the utilization rate and the rental rate, which was affected in 0.5 p.p. by the rationalization process of fleet management contracts. And these include cars and deactivation, which includes the utilization rate. The average daily rent is still increasing. We have these seasons contract, and we closed the quarter with R\$92.5.

When we go to the next slide, we look at the Seminovos. This increased not only the sales volume, but the price. Before I go forward, I would like to show the 2Q24 with 69,316 cars sold with an impact of 1,000 cars that were not sold due to the floods in Rio Grande do Sul state. And we are talking about a 31.5% increase year-over-year.

When we look at the average selling price on the right of the slide, we see a price of 68.1% with a 9.2% increase, showing improvement of the mix of cars sold. We closed the quarter with 216 Seminovos stores, and increase that we will highlight further in the presentation.

Now page 21. This is the net investment in fleet. On the left, we see cars purchased, on the right sold cars, the chart on the top, the amount, and on the bottom, the value. The Company bought the 73,946 cars and sold 69,316 with a net of 4,630 cars, close to last year. But the net investment was R\$1.763 billion, better than last year, even if we did sell less cars. And this is important to replace the CAPEX of the Company, rejuvenating our fleet and investments compared of the quality of the cars that are being sold.

On the next page, we see this evolution of the replenishment CAPEX. The dark bars are the purchase price and the light bars are the selling price. The average price of purchase added R\$81,000 and a net CAPEX of R\$14,800 per car recovered. When we compare year-over-year, with a CAPEX of R\$-23,900. This reduction of the replenishment CAPEX is even better visible because of the effect of the light vehicle mix, and that resulted in a CAPEX of R\$23,900 per car. When we compare year-over-year, was R\$36,300.

Going to the next slide, the end of period fleet. When we closed the half year, 631,000 cars in the fleet, an increase of 7.5% year-over-year, strengthened by 5% of end-of-period fleet in the car rental division, 9.6% in fleet management, added to this number 1,746 vehicles from Mexico.

On page 24, the consolidated net revenues with great events. 32.2% year-over-year, adding totaling to R\$9 billion. A 21.6% increase in rentals and fleet management and 43.7% in revenues from used car sales.

Before we go to the margins, just to remind you, Rodrigo already mentioned the impact of the review of the net value of the vehicles. And here going into detail, the provision to adjustment of recoverable value of assets and impairment and also the rentals, we have provisioned for adjustment and recoverable value assets in used cars of 171 and additional depreciation compared to what was reported in the 1Q24 of R\$1,386 billion.

So with this revision, we have a total of R\$1,669 billion. We also show the impact of the floods in Rio Grande do Sul. So, we lost about 2,000 vehicles, 8 branches and 2 Seminovo car branches. These values are still partial. But this effect adds R\$103 million with a total impact of R\$172 million.

These effects that I mentioned in the margin, the EBITDA margin are summarized here. The impacts of the 2Q24, that added R\$2.349 billion are almost the same as last year's impact. The comparison that we are showing, the data of 2Q23 was adjusted for the effect of the provisional measure of entry-level cars.

The results that we are showing are the accounting results of these comparisons of 2Q24 to show more the highlights of the margins. We had this effect in car rentals, fleet management and Seminovos efficiency. The reported margin of 54.1% with the EBITDA of R\$2,500. Excluding the effects of adjustment of recovery of valuables at the fleet. And the Rio Grande do Sul flood, we have R\$1.230 billion in the EBITDA.

A sidebar we have been expanding our capacity to support the rejuvenation process. And we expect this to be diluted when we have a number of cars comparable in Seminovos sales. This reflects the margin and is not reported. And we also have about 3 points of EBITDA margin because of the costs of the integration of the systems and integration of back office and also the adjustment of use of our personnel.

So when we move on to fleet management, we can see an EBITDA of R\$1.67 billion. So excluding the net prices, net selling prices, and we are going to do R\$103 million, EBITDA is R\$1.3 billion, a margin of 63.7%. Here, I would like to stress the effects of the investment in the capability of decommissioning, but we had 2 points in the margin, given the business combination spent with the integration, adjusting staff and the earn-out of one of the companies that we invest in.

Moving on to Seminovos. The reported margin .8% negative. If we consider the effects to the recoverable value, and we are going to do so of R\$172 million, we would have in the Seminovos EBITDA of R\$132 million at a margin of 2.8%.

Moving on to depreciation, Rodrigo has already explained the effect of the net selling price, but we can see a quarter 4 the quarter that's annualized of R\$19,776 in car rental and light vehicles, R\$11,780. The difference is its heavy vehicle in total annualized quota of R\$12,209 in fleet management. Given all the previous effects mentioned, the Company has a negative EBIT of R\$112 million.

Moving on to the net income, we see the impact shown before, so a negative result of R\$570 million. When we compare year-over-year, EBITDA is practically stable given the impairment and the adjustment to the recoverable value of the fleet, increase in depreciation, partially offset given the lower financial expenses and income tax.

Moving on to the cash flow slide. I would like to stress the increase in operating cash in the past years. With rental, we have R\$4.2 billion that added to the CAPEX of R\$1.7 billion for renewal, this has to do with rejuvenation of the fleet and reducing accounts payable to automakers in R\$1.5 billion and R\$1.2 billion. So a total of R\$2.7 billion in reducing the accounts payable to automakers in the half year. So we have net cash before interest of R\$566 billion.

So the Company starts off with R\$30.7 billion of debt, and we end at R\$30.6 billion given the renewal effect of the fleet. But in addition, the payment of R\$1.3 billion in interest, R\$703 million in payment of interest on equity and the capital increase of R\$120 million.

So going on to the debt profile, we see strong cash position and a comfortable debt profile for the next year. So currently, in cash, R\$12.600 billion. The debt ratios are very solid net debt fleet value of 0.61x net debt over EBITDA 12.33 and net debt over equity, 1.21. And the last chart on the right, EBITDA LTM, net over net financial expenses 2.86x.

To conclude the earnings presentation, I am going to show you the ROIC spread chart. On the bottom, from 2019 to 2024, the Company has increased its capital base in a relevant manner. In

the 1Q24, the Company delivered a ROIC of 12.7% with the cost of debt of 8.7% in a spread of 4 p.p.. In that quarter, we didn't make any adjustments to the results. So we see a negative spread by 7.2 p.p.

I would like to call Bruno Lasansky to the stage now to talk about the priorities to replenish our ROIC spread.

Bruno Lasansky:

Thank you, Nora. Good morning. To continue, I would like to present Company priorities to replenish our ROIC spread. So we have 5 main fronts. The first one is to expand the Seminovos sales capacity so we can continue rejuvenating our fleet in this 2Q24 moving towards our target of 15 months.

Next, rental pricing to restore return levels in the context of higher depreciation and interest rates. Third is to optimize the segment's portfolio and prioritize the segments that have a higher potential and return in lieu of these segments that have severe use and lower return. Fourth, efficient fleet cost and productivity management for its entire cycle from the maintenance and up to maintenance and sales and continue to innovate to further expand the intent of our customers to have a premium price in the market.

Today, I would like to focus on these 2 first items. So Seminovos. On page 41, we can see what we believe is the addressable market for the Seminovos customers. On the third and fourth line, you can see the brand new line, except rentals and used from 1 to 4 years from 2019 to the 1Q24.

In the 1Q24, we are talking about 1,388,000 units from 0 to 40 units, years that were sale, except the purchase from rentals. So we went from 4.2% share to 9.7% share in this market. Although there's a consistent increase of the Company's share in this market, given that it's extremely fragmented, we believe that we have a number of opportunities to continue to increase our share in this addressable market.

For that, we believe there are 3 main points. The first one, is brand awareness; second, preference; and third, capillarity, and I will show that in the next slide.

On the left, we asked customers that are going to buy a car in the next 12 months, what they prefer. So as you can see, 64% of the customers that would buy a car in the next 12 months would buy a used car and 37%, 1 out of 3 a car from a rental company.

So we have room to increase this consideration. But when we ask about the brand or a chain that would be considered, you can see Localiza in a differentiated place as a spontaneous recognition, 19%, together with the main country brands and very distant and well positioned than any other Seminovos chain or rental company. Even in this position, we can see that there's still a lot of potential to increase brand awareness.

On the right, we can see the percentage of customers at the base, Localiza base in the Rent-a-Car division that know that there's a possibility to buy used cars from Localiza. In October 2023, only 40% of those customers. Our customers base is 15 million taxpayer numbers that have transacted. Only 40% knew there was a possibility to buy from Localiza Seminovos. And in June 2024, that went up to 57% based on the brand and CRM initiatives. And still, you can see that there's a huge potential to increase the brand awareness even in our own customer bases and Rent-a-Cars.

So when customers know us, what we can see is that the value proposition for Localiza Seminovos is unique in this market. Based on the NPS, which is greater than 80% and consistent, as well as winning for the seventh consecutive year the Época Reclame Aqui award, we have 47% of customers that are recurring.

And why do we have a winning value proposition? First of all, it's the quality of the cars because of how we care for them during the rental cycle and the unique process in preparing the car for sale. The second one is brand reputation, where it's very important to trust in a market where one of the main factors is distrust. So in the past years, we have built a very strong advantage in that lever. And third, the benefit of buying a used car, and then a variable mix, starting off with entry-level cars up to premium cars.

In addition, in terms of geography, we have 216 stores in 115 cities, and even so, we can see that 92 municipalities with over 150,000 inhabitants, with relevant sales volume that have the people and income that could have a Localiza presence and the densification that have potential for 15 new stores at a potential to open other stores in that region. That's why we expect to open 15 to 20 stores in the 2H24 in addition to continuing the pipeline for expansion.

In addition to increase seeing the chain of Localiza Seminovos aspect is increasing the sales in same stores through commercial excellence and growing the sales force. So I will mention that big lever of growth, which is same-store sales growth.

And the third point, in addition to geographic expansion, increasing same-store sales, new sales channel and new sales formats, such as direct sales at the end of the life cycle of the rental or new store formats that are efficient in shopping centers that have been very successful for us.

On the next slide, we can see the Localiza Seminovos' sales evolution. In 4Q annualized, approximately 188,000 cars, accounting for 60,000 more cars year-over-year. And another important point that I mentioned in same-store sales growth is that you can see that in 2019, we had 112 stores that are still open. And the 112 stores sold 49 cars per month. Those same 112 stores in 2Q24 sold 55 cars per point of sale, 10% more.

But there's another important point behind that. As Rodrigo showed you, in 2019, there were 15-month-old cars on average and in retail, 35,000 in mileage. In 2024, 23 months with over 40,000 kilometers. So we believe that the same-store sales will continue to increase as we make our fleet younger.

Moving on to rental pricing, here, in a directional way we have net revenues, the daily rates, an average rate of rental and fleet management from 1Q17 to 1Q24. As you can see on the right, the Company has been consistently increasing and been giving traction to its prices. So on the left, we have a consistent increase in revenues, not only in car rental, but also in fleet management. And on the next page, I would like to qualify that growth.

So here, you can see the CAGR for 3 different periods for car rental and fleet management, not only net revenue, volume, but also the average rate. In car rental, in the pre-pandemic period from 2015 to 2019, we had compression of the average rate of 4% with a strong increase in volume. And after the pandemic, the Company has consistently been successful in replenishing rental prices.

Therefore, we captured a robust and consistent annualized increase of net revenues of 25% in the period of 2021 to 1Q24. I would like to remind you that the syndicate of the 2Q of this year is 16% year-over-year.

In fleet management, you can also see a consistent evolution in increased prices that reflects the outlook of greater interest rates and depreciation. And at the same time, even with these increases of the average rate, the Company achieved accelerated and robust increase of revenue. Reminding you that the last quarter, it was 27% year-over-year.

A relevant question is about competitiveness or affordability of car rentals compared to alternatives. On this slide, we show you the evolution in book value of the average car rental from R\$82 in 2012 to R\$133 in 2024, compared to the bars that represent a percentage of the financing of an entry-level vehicle going from R\$509 to R\$1,426 in 2024.

On this slide, it's important to show that the ratio between the rental rate to financing went from 10.3% in 2019 to 9.4% in 2024. This means that actually, we are recomposing the rental rate and a substantial part of car rental has the alternative of purchasing or monthly rental for corporates. And to conclude this slide, we still see a favorable environment for the Company to continue this trend of recomposing the rental price.

So these were the highlights that we have. And before we go to the Q&A, I would like to highlight 3 points about the recent cycle of the Company. The first is, after the pandemic, this cycle of readjustment of Seminovo prices. Second is substantial growth of the Company that went from R\$9.8 billion of invested capital in 2019 to R\$48 billion now in the 2Q24, a 4x growth. And also, the business coming through with Locamerica. These issues brought challenges for the Company recently. And at the same time, they brought scale and a competitive position that stands us apart.

In regards to the first depreciation point, we understand that from now on, we have a clear path of what we will see in the future. And just to conclude, restating that the Company is confident in our capacity of executing these 5 priorities that I mentioned to recompose our ROIC spread for the next quarters.

I would like to call Nora and Rodrigo to answer our Q&A session.

Lucas Marquiori, BTG (via webcast):

What motivated the decision of shortening the depreciation cycle from 18 to 15 months at the moment? Is the Company comfortable in returning to that level of cycle given the Seminovos market?

The assumption of increase of gap between new car and used car prices, could you mention the reason for that increase? Is it coming from some specific component, or do you see any worsening, with the price of used car dropping even more?

Rodrigo Tavares:

Lucas, thank you for your question. The useful life of the car, when we look at the car that we buy today, the expectation is that the car will be deactivated close to these 15 months. So depreciation has a prospective factor, and the expectation of the Company is that throughout the 2Q25, it will be very close to the normalized cycle.

To have a 15-month cycle, you should renew 80% of your fleet for Rent-a-Car, which is basically 12 divided by 15. The evolution that we have been doing in Seminovos when we annualized the last quarter and the recent results shows that we are going in the right direction to achieve that level of renewal. So the decision was to use the car's life cycle that is going in depreciation today.

This has an effect. You advance the depreciation of the cars that are in the fleet today. This effect takes place especially in 2 to 3 quarters. Considering the marginal vehicle, we thought it was necessary to make the change.

In regards to opening the increase of the gap, an important clarification is that to increase that gap, you need a different variation between the prices of new and used cars, not necessarily a drop in the prices of the used car. If you are thinking 15 months in advance, you have to believe that the price variation of new car will be necessarily greater than the price variation of the used cars.

Victor Mizusaki, Bradesco (via webcast):

How does the depreciation guidance talk to the spread of buying and selling new cars for Rent-a-Car? And how is the sales mix of used car between retail and wholesale? And how will this vary in the following months?

Rodrigo Tavares:

Thank you, Victor. Looking at the expectation of depreciation. If you use some assumptions about purchase price in terms of Seminovo costs and a margin of Seminovo that is normalized, you will see that the spread will be between 96% and 98%, the ratio between the purchase and sales price.

So with these assumptions, especially if you talk about the 1Q25, looking at the assumptions for next year, we can simulate, and it will achieve a result of 96% to 98%.

Nora Lanari:

I would like to remind you, Victor, that the cycle that you saw in the first slide had maintained inflation of the price of cars. We just like the cycle in which the price increased 78%, and the expectation of inflation changes in the current phase of the cycle.

Rodrigo Tavares:

Yes, great point. When we show this cycle before the panic, that ratio between new and used car was constant. And when you had inflation of new cars, you also had inflation on used cars. So when you look at the car that you bought today and the car that you will sell at 15 months, there is a 15-month inflation that would affect the spread of purchase and sale. And in the recent market, that has changed. That's why we do not have the expectation, at least in the short term of going back to the spreads from before the pandemic.

Nora Lanari:

And about the mix between wholesale and retail, we saw an increase last year of a little bit above 40% in the past 2 quarters. We are in 40% in retail. One of the reasons of expanding our capacity of deactivation, when we have more cars being prepared, we are still in the phase of ramp-up, and that will affect the quality of the cars in Seminovos and also hopefully.

Bruno Amorim, Goldman Sachs (via webcast):

What is the rate of drop that was used in the depreciation calculation? For the past 2 months, from what you have been showing, the drop level went back to the levels of 2023.

Rodrigo Tavares:

As we mentioned, not necessarily we have to go back to that drop rate. But 96% to 98% difference, it's very transparent, all the assumptions that we are using for new cars and used cars.

Bruno Lasansky:

If I could add, I would like to give you an outlook of how we see this end of July. And what we see in July, it's a very high traction and increase of volume of cars sold by Seminovos. And about price, in July, we see a drop marginally above the normalized rate of 0.3% to 0.5% per month. On the other hand, Localiza Seminovos has been more effective in managing price that more than offset

this drop in the market. This is just the beginning of the quarter, but we continue to be confident in the Company's capacity of scale up and continue to rejuvenate the fleet with efficiency.

Nora Lanari:

And Bruno, I reiterate that with this expectation of opening the gap, we have the expectation of normalize the margins for Seminovos.

Lucas Barbosa, Santander (via webcast):

About the change in the assumption of the useful life cycle of the car from 18 to 15 months, was this applied to the entire RAC? Why didn't you already depreciate it using the 15 months since it gave more visibility to shortening the cycle? Thank you.

Rodrigo Tavares:

Yes, the RAC was 18 months, and in fleet management, the depreciation time is by contract. For Rent-a-Car, the cars do not have a predetermined useful life for each car. In this case, you have one useful life, which was 18 months, and given that the expectation of this marginal car will be deactivated with 15 months, we decided to change that.

Nora Lanari:

The peak of average life was 30 months, we were depreciating in 24 months. We had already shortened that cycle last year, and now we are doing another shortening of the cycle given the advance of rejuvenating the fleet, increasing the capacity of deactivation, the used car and also the ramp up of what we expect to happen in the next cycle.

Bruno Amorim, Goldman Sachs (via webcast):

What is the drive for impairment now? The rate of drop in cars went back to normal, and from now on, it will not be necessary for impairments.

Participant (via webcast):

What is the effect of the reduction of 18 to 15 months cycle on that math?

Rodrigo Tavares:

When we talk about the provisional measure, it really sped up this drop. In the 1Q, we had an adjustment, but we had a very strong drop at the beginning. So clearly, we expect stabilization that didn't happen in that period.

Added to that, we saw this increase of the distance between new cars to used cars. Therefore, we decided to review the residual value of the car, and we decided to recognize these two changes, one of the useful life cycle for the reasons I just mentioned and this return of the drop of price that had stabilized in the 1Q.

About the effect, once again it's a temporary effect. It impacts most of the cars. About 30% of our cars from Rent-a-Car today have more than 14 months of useful life in the fleet. And as time goes by, this effect increases. So it's greater in the 3Q, and then in the 4Q and the 1Q of next year, it will basically not exist anymore. So in fact, you have a short-term effect, so a higher depreciation, specifically in the cars that are older, but afterwards, this becomes normalized.

Participant:

And to add, the fleet rental volume grew only 1%. Is that a one-off result, or is that the potential of the segment and is it annualized?

Bruno Lasansky:

Thank you for your question. About growth, I think it's worth talking about the long series. First of all, we have to highlight that, that gives the effect of working with the third priority that I mentioned, which is managing the optimization of the portfolio where we are prioritizing high potential and profitability segments in lieu of severe use, which obviously would increase the churn and the end of those contracts, and that has an impact on growth. Therefore, as Nora mentioned, the origination is healthy. We had back or return of car higher than we expected because of the severe used cars, and we continue to originate new contracts in a healthy manner. And here, I would like to highlight the Company's strong priority to replenish prices, focusing on our target of ROIC spread. As I showed you, and you can see on that page in the longer cycle of the previous CAGRs, we show the consistency in growth in fleet management as well. with the effect of optimizing the portfolio in this quarter.

Jens Spiess, Morgan Stanley (via webcast):

How much of the R\$1.4 billion quarter-over-quarter of depreciation increase is a result of the change in the useful life cycle.

Nora Lanari:

We already mentioned that one.

Jens Spiess:

About marginal yield and fleet management, should it be reasonably higher than the average yield? And what path are we on for the replenishment to achieve the historical level?

Rodrigo Tavares:

In fleet management, each car is priced individually. So every new car comes in with the target we are spread of the Company. And obviously, with the assumptions, be it interest rate or residual value or maintenance and whatnot. So from the end of the previous year, we have already originated a volume of cars that's very healthy based on the ROIC spread point of view and fleet management.

About the yield, it's a positive metric to measure outside in, but it does have some imperfections because. Let me give you an example. A car, let's say, that was kindly used, so to speak, a subscription car does not necessarily have a higher yield than a severe used car. A severe used car, you have to have a higher price to offset the higher depreciation and higher maintenance.

That said, the yields that comes from the new contracts are in line with the target ROIC spread of the Company. We just have to be careful because when you change the portfolio and increase the share of subscription cars with lower devaluation, lower maintenance, higher number of cars going into retail, you do not need the same yield as a car that's going to run 50,000 kilometers that's going to be sold in wholesale and has high maintenance.

That said, the entire new generation of fleet management given the current assumptions are already within the Company's new ROIC spread target.

Filipe Nielsen, Citi (via webcast):

What's the level of conservatism that's expected in the depreciation rates published? Do you think that the post-pandemic gap will normalize? And how long will that take?

Rodrigo Tavares:

That's a great question, Filipe. Thank you. Our expectation is very clear. It's to increase the distance between the new car to the used car. We do that by shortening the cycle. And an important point is that we have been talking a lot about gross depreciation, but there's also net depreciation that at the end of the day, we have to consider the Seminovos margin. So that's a normalization of that margin.

Very hard to be accurate in terms of if we are going back to pre-pandemic levels and when. We believe that for the next 3 quarter cycle, our expectation in this forecast is an increase in the gap of the difference between the new car prices and used car prices.

Rodrigo Faria, SulAmérica (via webcast):

Good morning, and thank you for taking my question. Given the current scenario of uncertainty and depreciation, how slower is the RAC depreciation process than you would wish? Would it make more sense for the Company to expedite allocation in capital and fleet management until you normalize depreciation in the 2H? And what is the quality of the fleet management contracts in agro? Would it be worth mentioning any bad debt issues that you are having?

Bruno Lasansky:

Thank you for your question. About the evolution of the renewal process, we have shown relevant growth in practically annualizing to almost 60,000 vehicles, which is expressive, and we should consider that gradually, where we scale up our capability of preparing our vehicles. We have centers dedicated to that and to the time that we increase the sales.

So this process is happening consistently. We have dropped down to the level of 23 months, and that process should continue in the upcoming months. So I do not see a necessary connection between the depreciation levels and the renewal with capital allocation. I believe that's a separate discussion. So to answer the first part of your question, we see a consistent process in advancing our fleet renewal process. And as Rodrigo mentioned, should be normalized in to 2825 to get to the levels that we wish. That's about the RAC renewal.

Rodrigo Tavares:

I would like to add, as Bruno mentioned, that depends on the sales price position, it depends on sales prices. And to get to 15 months, we have to renew 80% of the RAC fleet. And fleet renewal of 1/3, if you do the math and compare it to the annualized sale of this quarter and the next quarter, you will see that most of the path has already been taken. Obviously, we saw to grow a lot, but a relevant part of that path has already been done, and that will enable us to continue renewing.

About the agrobusiness contracts, bad debt is more relevant in heavy duty. In light vehicles, we have not seen an effect. In some of the contracts, be it Agro or other segments that have a higher use. In fact, given the context of higher devaluation of the vehicle, heavy-duty cars, severe used cars even worse. And bad debt is mainly related at Localiza in the heavyweight vehicles.

Lucas Barbosa, Santander (via webcast):

Good morning. Could you give us more flavor about the margin dynamic in Rent-a-Car and fleet management? Even though these rates have been up in both segments, we see some pressure to

margins even ruling out the one-off effects. Should we expect any improvements in the next quarters? Any one-offs in the 2Q that's worth mentioning in car rental?

Nora Lanari:

When we see the margins broken down per division, I think some clarification is valid. But before moving on to margin, I would like to stress the effect to marking the net selling price and then the recoverable price. The effects of Rio Grande do Sul will affect the notes for that.

And let me talk about preparation costs. When we look at fleet management in a year-over-year comparison, so you can understand the scale, increase the volume of cars prepared by 35.8% in fleet management, not only the number, of course, prepared, but also the intensity of preparation to remind you that we are having early termination of severe use contracts. With that in early termination, it has given us 40 million in fleet renewal.

And to talk about sequential comparison, I think a lot of people look at the EBITDA margin in fleet in the 1Q. So from the 1Q to the 2Q, fleet management prepared 25% more cars. When we look at car rental, the volume of cars rented increases 18% year-over-year and 10% quarter-over-quarter, so the preparation costs impacted us in many different ways, not just more expenses with parts, obviously, labor, and once again, that permeates the entire expenses line. But we also have OPEX that's connected to the deactivation centers, or decommissioning centers, as I mentioned before.

To talk a little bit more about business margin, and going through RAC, I mentioned the effects associated to the integration. So here, we have a number of effects associated to that. But we are going through a moment, and I think Bruno can mention that, where we have already integrated the front. Bruno, would you like to answer?

Bruno Lasansky:

We have already integrated front office. In the customer's vision, it's just one operation, but we are still integrating the back office. And one example is operations. In fleet management, for instance, we are still running with 2 separate systems. And as we integrate the systems, we believe that we can capture synergies related to the variable fleet costs. In addition, we have the integration of the back-office systems in finance and implementing the ERP.

Just to answer about the margin, on page 27, for those who are online, we have 58.5 million in addition to 3 points related to the integration process and termination of employees, and to qualify that topic in integration, what we have already done is, we have already completed the integration of all the car rental systems, unification of brands in rental, fleet management and Seminovos; with advanced and integrating front office for Seminovos. All of that maintaining and even increasing the level of service to customers, maintaining the robust growth of revenues, as I showed you.

Moving forward, first of all, during the year, in the back office systems and finance, we will finalize the integration of our ERP, even with a migration to a more modern environment that will simplify things. Instead of operating in 2 systems, we will operate in just one system.

In addition, the other one that I would like to highlight is the integration of fleet management systems, which will make it feasible to capture the synergies regarding the variable cost given the capacity of reducing the maintenance costs.

The first one that I mentioned as well about ERP and the simplification of the partnership structure should enable us next year to capture synergies related to the premium. So in the next 12 to 18 months until the end of next year, we will advance a lot in concluding the integration process.

Nora Lanari:

And to add to that answer, going more into margin, the Rio Grande do Sul on RAC are R\$50 million, and we have approximately R\$34 million more in maintenance costs and preparation costs for cars. We had the effect of the staff adjustment in Rent-a-Car.

When we look at the expenses in a consolidated way, we should consider consolidation costs. We are opening up and ramping up agencies in Mexico. So we see that the explanatory note for the investments in Mexico when we look at the consolidated figures. Those are the main factors that have impacted the margin. It's worth noting the expenses in intraoperation and those are long lasting until we scale up the preparation volume.

Bruno Lasansky:

Nora, can I just say something regarding preparation? It's important to say this. This is a cost that comes upfront. We have to create our deactivation centers. They have a ramp-up, a process of 3 to 6 months where you add the shifts, training people. So first, you have to prepare the vehicles for them to be available to the Seminovos. So there is this advance of this infrastructure.

On the other hand, in the future, the advantage is that we will have a scale-up of these preparation centers that will dilute the cost per unit of deactivated cars. When I opened our center of Brazil, I scaled up the number of deactivated cars that are prepared. And what should happen in the next quarters is a reduction of the cost per unit. We also have the reduction of cost per unit by rejuvenating the fleet.

And the third factor that is more difficult to conciliate outside in is the fact that you capture a much better efficiency when you sell the vehicle, and that's not that tangible. So according to our figures, our efficiency regarding market price in used cars is much higher than other players in the market. So this should also be profitable in the next quarters.

Guilherme Mendes, JPMorgan (via webcast):

Can you quantify the expectation of passing the prices in car management, fleet management? And how is it different from other segments? With the depreciation guidance and what Bruno presented, what is the expectation for ROIC spread for the end of this year and 2025?

Bruno Lasansky:

Thank you for your question. In regards to price, this is an interesting question. I would like to show the dynamic as we learned in the consistent process. On page 47 on the right side, you can see the CAGR, the increase of average daily rate, -4% from 2015 to 2019, and then 2021 to 2024, 15%, maintaining the 2 digits even when we compare with the last quarter.

The first thing is that, more than increasing price, how we remake this price compared to other alternatives for the client? It was 10.3% of the daily rate for financing, and it's below what was pre-pandemic. A part of our customer for car rental have the alternative between buying and renting. So we understand that, yes, there is space, a favorable landscape for us to continue this process.

And the way to conduct this process. This process, as you see, is consistent and gradual since 2021, so that it allows the corporate customers, for example, to adjust to these new levels of prices. Our customers understand that there is a cost basis, either depreciation, the price of the car and interest rates, which justifies this. And our teams explain why the increase of daily rates is higher than inflation.

So this gradual process is favorable because you avoid discontinuity in the customers' trust when you just bring out of proportion increase at once. So we will continue with this trend to increase.

In fleet management, it's a direct comparison between the possibility of buying the asset or outsourcing the asset. This comparison that I am making here with PMT, this is the corporate customer, or the subscription car customer. So that makes the competitiveness of the Company to still be appealing. That's why we can continue to grow in these segments.

Rodrigo Tavares:

In Fleet Management, the price is to profitalize each contract. So it depends on several assumptions like interest rates, et cetera.

About the question about spreads, with the outlook of depreciation that we have for the next quarters, we understand that we will have a normalization little by of the ROIC spread in the next quarter.

Alberto (via webcast):

Is there an outlook of ROIC spread, 4.5%, advancing in the following years?

Nora Lanari:

Just to reiterate this point, the Company always says that we like to work 5 p.p. to 8 p.p. of ROIC spread. We imagine that this will be gradually because we still have an integration process that is taking place. We still have a change in the fleet basis that was affected by the Seminovos. So I think we will reach that range this year, but it's a gradual movement of composing the ROC spread. We want to go back to normalized because of rejuvenating the Rent-a-Car fleet.

Bruno Lasansky:

Nora, just another comment to complement that. Can you pull up the depreciation table, just for us to look at the slide again? On page 13, I think together with that question, the Company's capacity of generating the ROIC spread at the level that we are communicating, and our belief is, as we conclude, we will already be in this normalized process in the middle of next year.

We think we can put the ROIC spread in the target level of the Company. How we are going to do that? Continuing the rejuvenation process, and also working on the price, cost and portfolio. So this is an important point about our confidence in delivering this ROIC spread at this depreciation level, which brings these variables that Rodrigo mentioned about the spread of purchasing and selling below what is the Company's track record. So in addition to normalizing the margins, this is our expectations about the ROIC spread.

Alberto (via webcast):

How is the negotiation with car markers terms of discounts, deadlines compared to year-over-year?

Bruno Lasansky:

This is an important point. I am going to mention our competitive position. We understand that throughout this period, we were able to end the Company's competitive position. Our relationship with the carmakers is excellent.

We have proven during the cycle, the value and long-term relationship of the Company with the carmakers, and this places the Company in a unique position to negotiate and acquire fleets. Today, being specific about your question, we have a better position than we had last year.

Daniel Gasparete, Itaú (via webcast):

Could you comment about the competitive environment for RAC? How does this impact your strategy?

Bruno Lasansky:

One of the consequences of the Company being able to capture robust growth in all our businesses in this expansion of the invested capital, as I mentioned before and after the combination of businesses, which puts us in a position of scale and strength, goes towards that scenario.

We understand that this achievement that we can see with depreciation, is an effect of the market overall because of the price reduction cycle, not only in Brazil, but if you look at Europe and United States, we have the exact same effect.

In this landscape for the balance sheet and our relationship with the carmakers, quality of service, strategy, we are very well positioned to navigate in this environment. So if we are recomposing price, in regards to car rental costs, this is a need of the whole market. So it's a favorable environment to continue to evolve our prices.

Daniel Gasparete:

Just to confirm my understanding, are you using the purchase and sale spread of 96% to 97%? If yes, can we use the SG&A of 5% on the sales revenue and EBITDA margin? And how does this mean in an annualized depreciation? How much do you have to adjust the rate for that ROIC spread?

Rodrigo Tavares:

That's a good question. The depreciation outlook was not the range that we showed here for the next 3 quarters. What I said is that using that range and with some assumptions with the margin of used cars and the cost of used cars and the purchase price, you can achieve a rationale between purchase and selling price between 96% and 98%. This is the depreciation target. You do not need that to use those for pricing the daily rates.

So not necessarily, this assumption of depreciation is the same that is guiding our pricing. We like to be careful with this marginal capital since we have to optimize our capital. We usually are very careful with our capital.

Daniel Gasparete:

And also, could you help us understand the Company's vision for the price of new cars for the next quarters? As they said, the affordability is still an issue, and we see a record margin on the OEMs and pressure from the Chinese cars. How do you think the market will behave in terms of prices? And how much would that be used in the depreciation calculation.

Bruno Lasansky:

As Rodrigo showed, our relationships of the minimum wage and entry-level cars is more than 50%. It's now stable, 49% in 2023. And you have 2 options here. Either is thinking that you will have a reduction in the public price of vehicles, or a gradual maintenance below inflation, and in time you have a catch-up of this relation.

Based on our talks with the OEMs, for the exchange rate and the costs from shipping, transportation, we see an increase of the public price and the practice price below inflation, but still going up. And we do not see a landscape in which the OEM have appetite to reduce prices.

In fact, after this new exchange rate that we have seen recently, there were increases informed by the OEM of their prices for the public. And they have been maintaining a consistent level for the year, for the incentives. The incentives that they provided in the 1Q should continue the same.

So that means an evolution both in public prices and prices practiced below inflation, but with nominal growth so that we have the space for the cost that they have been seeing.

And as Rodrigo mentioned, within our expectation of depreciation, we are adding this increase of new cars and used cars. So the best way to calculate depreciation is exactly using the expectation range that we provided on page 13.

Rodrigo Faria, SulAmérica (via webcast):

How do you expand the stores of Seminovos to renew your fleet? Will we see a reduction for a later ramp up, or will you continue with that rate?

Rodrigo Tavares:

I am going to talk about the margin of used cars. The point is exactly the opposite. Our idea in reviewing the residual values and the change of the cycle of 18 to 15 months of this expectation of depreciation range that we informed, this includes a normalization of the margins in used cars. So it's in our rejuvenation plan. With the stores being expanded, the idea is still to normalize these margins of Seminovos.

Bruno Lasansky:

About expanding, we see an option to open where we have a store, and we have the option for that. So you open the store and you have 6 months for maturity. To offset that effect, you have the same stores that have showed a consistent increase in same-store sales. And even with the cars that has an average age in kilometers, that's higher than the upcoming quarters.

And as we continue to expand faster, there might be other months where the variables will be a bit higher, but that's not our intention. Our intention is to be efficient in expansion. I would like to add with an existential point. As we have been showing a strong increase in 41,000 cars in 2022 to 280,000 annualized in this quarter. It's not necessary to maintain that rate next year beyond the market in 2024 because we reached the point that Rodrigo mentioned.

When you get to the run rate of Seminovos to hold on to the turnover that you have, you have to grow with the rental growth and not catching up. That's an important aspect. So during next year, we will have less openings. But as we mature the stores that have already been opened, and our need to expand Seminovos would be lower compared to the last year and comparing 2023 to 2022.

Marco (via webcast):

How should we consider the EBITDA margins from RAC and fleet management in the long term? More and more line with 1Q24? Or should we consider 2Q24 as the reference.

Rodrigo Tavares:

Like Nora mentioned, we had some effects in the 2Q that we do not expect to happen. And moving forward, the point of investment because we talk about preparation costs, but it's actually an investment in preparation, and that should continue, at least in the short term, at a higher level when we increase the fleet turnover. And when we do not consider that investment, the preparation, the effects that took place in the 2Q, according to our best information should not continue to through to the next quarters.

Nora Lanari:

Yes, because replenishing ROIC spread with the depreciation and taken by normalizing Seminovo margin, it should have an assumption of more robust margins in rental and fleet management. We continue to replenish prices and rental and fleet management and also rejuvenating RAC, and that should reduce maintenance costs when the cycle is completely adjusted.

Rodrigo Tavares:

Exactly. I am talking about the short term. So when we consider that the expectation in 2H of next year at a cycle of 15 months, that would be a relevant impact, a positive impact to the margin. And the impact of preparation, preparing a 15-month year old car is completely different than a 23- or 28-month old car. So in the short term and specifically in that comparison, we do not expect those costs. But yes, if you consider next year, then we have a positive trend about fleet rejuvenation.

Victor Vasconcelos, AlphaKey (via webcast):

By changing the useful life, and you were considering marginal cars, can you give us some more details about the dynamic of cars in the fleet today that will be sold with more than 15 months? So a car at 14 months that will depreciate everything in 1 month, does it have 0 depreciation until it's actually sold, or 18 or 20 months?

Rodrigo Tavares:

Thank you for your question. That's a very technical question, and I believe many people have doubts about that. So this is how it goes. After you are through, the useful cycle that can be depreciated. So let's say, it's a 15-month cycle. This is how it works. So every month, we have the review of the expected price sale price. If the sale price is greater than book value. In fact, the car will no longer depreciate. If for any reason, in that review, the expected selling price is lower than the book value, that difference will be depreciated immediately in that month.

So we no longer defer the depreciation because it no longer has useful life that can be depreciated, and we adjust at that moment in terms of depreciation for the car. So it really depends on the expectation of the selling price and the book value of the car. Some cars will probably not depreciate anymore. And depending on the movements may have one-off depreciations after that period.

Bruno Amorim, Goldman Sachs (via webcast):

You have showed the CAGR for revenues in the past years that were similar to the pre-pandemic period. But most of that increase came from a price increase and we will continue at that rate given the circumstances to offset higher costs in the recent years. That said, moving forward, can we assume that there will be a slowdown in price increases in the next years? Do you expect volumes to go up to double digits? Or will revenues grow less than the historical levels in recent years?

Bruno Lasansky:

Thank you for your question. It's important to highlight in this case that our priority in replenishing prices is to recover the levels of return that are our objectives. And here, we have seen that what we have as our compass is growing the EVA. So the page that I showed you shows that in some moments where we had a drop in interest and a favorable environment of depreciation with price compression, we had a high growth of volume, and that gave us 2-digit growth in revenue. In more recent periods, we have inverted that.

And actually, in the pandemic, we had volume compression and a lot of increase in revenues. In the more short-term period, we will continue to drive traction price. And when you look at the medium term, it will depend on the context of interest rates and depreciation that we will face. Based on that concept, it's important to understand that not only in rental, but also fleet management, the existing addressable market allows us to believe that we will have growth with value generation.

But in the short-term, I would like to highlight to recover company pricing. When we assess how the variables move interest rate and depreciation, so we would focus it differently. But at this time, I would like to reiterate the pricing.

Rogério Araújo, Bank of America:

Good morning. Thank you for taking my question, and for the event. I have 2 on my side. First of all, I would like to explore that part of our depreciation. You mentioned the spread purchase and sale, 96% to 97% in RAC. I would like to understand what the fleet expectation is, and if that amount already considers the scenario of a price increase, cars under inflation, as you mentioned or are there any implicit expectations of incremental worsening? Or maybe, in other words, if the car prices dropped again, would you have to review depreciation upwards? Or do you have some leeway? That's the first point.

And the second one is very specific. It's about the PIS/COFINS credit, at 7.7% of gross revenues under the rate of 9.25%. Those are 2 things that are relevant in RAC. So what happened in this quarter? What do you expect moving forward?

Rodrigo Tavares:

About the assumptions in depreciation, if you do reverse engineering, you will get close to the 96% to 98% that I mentioned. As Bruno mentioned, we do not expect that cars would go up more than inflation, the brand-new cars, and that the gap would continue to increase. According to the best information available, that's the depreciation, and that's the outlook.

In terms of car prices going down, it's hard to talk about that. It depends on how much it would decrease. That's not our expectation. What we have seen from automakers is actually the opposite with exchange rate pressure, cost pressure, not only in their yards and the incumbents and the new entrants that depend on the exchange rate and also growing import rates growth in the future. We do not see any outlook in that terms in next quarters of seeing those prices drop.

About PIS/COFINS that vary every quarter, we have a technical schedule for the reports. And this quarter, it's a bit lower than our historical average. The Company has accrued credit. So we are not talking about a cash expense. So there's the technical schedule to have the reports for the fleet depending on the quarters.

Felipe, Citi:

Thank you for taking my question. Still on depreciation, talking about fleet management, you were talking about light-weight expectations. So what's your mindset for the heavy duty cars? Can they

also impact depreciation looking at the upcoming quarters? And how is that based on your expectation?

Rodrigo Tavares:

On the heavy cars, heavy-duty cars, they have a longer cycle. So that effect takes longer to show our renewal cycle has been very careful in invested capital. So that's lower. We do not have any expectation to impact the heavy vehicles depending on the model, but that longer cycle dilutes the effect in the heavy cars.

João:

Two questions. About depreciation, I think this question came up before, but of the R\$1.4 billion, if you can break that down from 18 to what? Was it 18 to 15? And what was the prices gap? That's the first question, and then I will go into the next one.

Rodrigo Tavares:

We break down the 2 effects because actually, it's a combination. The decision from 15 to 18 months because of the marginal aspects does have an anticipated or an earlier depreciation. And in the last 3 months, practically does not exist. I can give you more details about that later on, but I do not have the breakdown of the 2 effects separately.

Nora Lanari:

To clarify, João, the expectation of depreciation for the next 3 quarters still has an important effect of the cycle reduction and then we should go back to the normal regimen.

João:

Why wasn't it 15 months before? Because the average expected life cycle should be closer to 15 and not 18.

Participant:

What was it? 18?

Rodrigo Tavares:

It was even more than 18, actually. We sold cars that were 30 months old. And as Bruno mentioned, in 2023, 140,000 cars were sold. So the cycle of the cars that we are entering the fleet in 2023 was much higher than 15 months. This cycle of the 23-month old car. We are not even selling it now. We are selling it at 23, 24 months.

So back then, the marginal car did not have an expectation of a 15-month old life cycle. The life expectation was 18 months. And as Seminovos gains traction, as we renew the fleet in a faster way, the life cycle perspective goes down. That's why at the time the decision of a marginal car would be greater than 15 months.

Nora Lanari:

Just to make this clear, and we can see this on page 7, throughout 2021, we started seeing this aging of the fleet, and we were using 15 months of depreciation. But in 2022, the average age of the car sold was 30 months for an 18-month average throughout this useful life cycle. At the beginning of last year, we started reducing the cycle to 18 months. We still started this year with 24

months, and now we are at 23.5%. So we are doing the second movement to reduce the cycle to 15 months.

João:

Okay. So before it was 15 months.

Rodrigo Tavares:

Yes. Before the pandemic, the depreciation was 15 months. When the pandemic started, and this is a technical criteria for auditing, we have to show the life cycle of the car. Throughout the pandemic, this cycle expanded, and as we were able to increase our capacity to sell and reduce, we reduce the cycle again.

João:

One last question, the ROIC spread, you mentioned the gradual recomposition of it. Can we think that the 1H25 will be better than the 2H? Can we think of that evolution in the range that you are aiming, 5 to 8?

Bruno Lasansky:

Yes. We have to take into account car rental aspects, but our intention is to gradually recompose the ROIC spread in our target, as Nora mentioned. The only caveat is that you have seasonality. So compare half year to half year, but the trend is what you just mentioned.

We also said that we understand, based on our expectations of scaling up the Seminovos and Rent-a-Car, the 2H25 is when we will come back to the age of the fleet, as we mentioned in page 6, within the 15 months.

Bruno:

Just a follow-up on your assumptions. What is the rationale for this range of 96% to 98%? Why not 92% or 100%. What is the rationale? Because that's the main driver for your guideline.

Rodrigo Tavares:

The Company does not have an assumption of for sales and purchase. It's how much the new cars will vary, and how much is this distant from the practice price? And for 1 year, for 15 months, and the practice price and an assumption of the cost of used cars. so the rationale for purchase and sale spread is a consequence of these assumptions and not an input for these assumptions.

What I mean is that given the information that are public for the cost of used cars at the margin of used cars, and assumption of variation of price of public price compared to practice prices, you will reach the spread of 96% to 98%, very consistently.

Bruno Lasansky:

If I could add, if you have to attribute it, it's not on the purchase side. When you look at the track record in the long term, you had certain inflation of vehicles in the 15-month period and more careful expectation about this dynamic that we are embedding in our assumptions. So that's the main factor. There are others, but that's the main one. So there's an assumption that new cars will evolve their prices and used cars will reduce their prices.

Bruno:

Is that what you used?

Rodrigo Tavares:

What we said was that the increase of used cars will be lower than the increase of new cars. That opening that happened in our assumptions is happening in the difference of new cars to used cars.

Nora Lanari:

Looking at this slide, we see the track record of 19% to 20%. Now it's 24%. So we still have an open gap in our depreciation assumptions looking forward, and also recomposing the EBITDA margins for used cars.

Bruno:

Can I ask a follow-up question on that slide. That delta of 3 p.p. to 4 point p.p., 19 to 24, does it make sense to think that depreciation as a percentage has to increase 3 to 4 points? Because it seems like it's already there, right?

Bruno Lasansky:

It always depends on the purchase price, on your discount when purchasing and the distance between the public price and practice price, and also the cost of used cars. One thing that happened is that car prices went up too much. So the cost of used cars when you compare before the pandemic was diluted on the cost.

So of course, if all the others remain static, it would be in the cycle of 15 months. So it would be 80% of this variation. But you have to assume that all the other variables will stay the same.

Marcelo Inoue, Perfin (via webcast):

This assumption of increase of new cars below inflation, is it based on list price or the practice price? If the competition increases between the OEM and they increased incentive bonus, could the practice price not go up as much as expected?

Bruno Lasansky:

It's not the landscape that we are seeing, but it can happen. Our expectation about the incentives about the list price and practice prices of the 2H is to be maintained compared to the 1H. That's why we see the list price increasing. It was recently announced by several OEMs, and we see the public price increase, but our assumptions for depreciation were assuming that there might be an increase of the gap between new and used cars, as you can see.

So, just to conclude, we are not seeing this nominal reduction, be it because of the exchange rate or other costs for operations and logistics or the import taxes that will be implemented January this year, that is around 18% to 25% depending on the combustion, and it should go to 35% in July 2026. So that's our expectation.

Nora Lanari:

To make it clear, it is worth saying that this assumption of gap opening is independent. We are assuming that used cars will open that gap.

Lucas Barbosa:

Thank you for taking my question. On the previous slide, you show a worsening from March and April in your mix of prices. I would like to explore what you think is behind that worsening. Is credit improving in this time window? What explains this worsening in margins? Maybe you said it worsened from June forward. Why do we still see this pressure?

Rodrigo Tavares:

I do not know if you all heard his question. After March and April, the worsening of the market. When we talk about our cars, it's from the market with the mix of our cars. We want to gain efficiency compared to the market consistently.

Just to qualify what we are showing, this is the market, not necessarily the prices of Localiza at our stores. It's a mix of everything that you mentioned. We still lose affordability, interest rates are impacting it. It impacts a little bit more because we have a greater spread of used cars to new cars, so that impacts used cars more than new cars.

So in our vision, those are the 2 main drivers that have impacted this normalization, which was stronger since the provisional measure, and now we see stabilization in the 1Q. It's not a normalized level, but a bit closer, like Bruno said, marginally above what we had before the pandemic.

Daniel Gasparete, Itaú (via webcast):

Thank you for answering my question. Can you help us think depreciation for the next quarters after the 1Q25? Is it fair to think about the continuous reduction of this number? If everything stays constant, shouldn't things be better in the 2H25 compared to the 1H25? There still seems to be an impact in the reduction of the cycle of the asset. Could there be a reduction to 12 months in the future?

Rodrigo Tavares:

Thank you, Gasparete. Let's start by the last part of your question. We didn't see that depreciation in 12 months before the dynamic. It has a 12-month cycle. I need to renew 100% of my fleet. So it would be a 25% increase on the level of 15 months. So it's a very relevant growth. We understand that most of the benefits were already being obtained in the 15-month cycle.

Of course, that car price dynamics, we cannot say much about the long term, but the expectations considering that this dynamic continues, as the cars reach 15 years of age, we will have our depreciation very close to the marginal depreciation of the vehicle, and the variation should be exclusively of market variables.

So we gave visibility to 3 quarters, and throughout the 2H25, we start going into the 15-month cycle. And from there on, this depreciation is very close to the marginal vehicle depreciation.

Nora Lanari:

In addition to the purchase and sale prices, we have the cost per sale. We showed an SG&A for used car close to 5.5% and the price a little bit higher. We show advance in productivity per store in 55, but we still have a large number of our stores in the ramping phase. So when you create scale and create structure in the platform, we can optimize these costs and efficiencies in productivity, both in deactivation and used cars.

Pedro Soares:

Good morning. I would like to go about 2 fronts. If you could give us more details in Mexico, and how is your expectation and excitement, what is taking more of your energy?

Bruno Lasansky:

Thank you for your questions. These are 2 roads that we see as potential maturity in the mid- and long term, especially Mexico. What I can say about Mexico is that this year, we are building the platform of all the operations, system and team needed to potentially speed up the market in future years.

And in this quarter, we achieved 17 points of service, which could help us with the corporate accounts that require a presence in the country. We also reach a very high NPS level, comparable to what we have here in Brazil in a very short period of time with a huge differential compared to the competitors. So we start to see customers coming back because of the level of service we provide.

It's a year that we are building this national competitiveness, and in the following years, we potentially can think about speeding up. But the base of the operation has to be built very carefully. That's what we are doing.

About the heavy vehicles, if we look at the mid and long term, it's a very different asset cycle from the light vehicles. The concept is to build all the fronts to ensure growth generating value by acquiring customers in a ROIC spread level. We are all trying to acquire new clients. We have 50,000 assets in the clients that receive every month an invoice from Localiza. So we have this pool to fish in, and we are achieving that in our ROIC spread levels, and also enchantment, maintaining the operations, and that's very important for us to close the cycle.

So we are developing well, and we work focused and understand that this cycle is unique, so we can have that in the mid and long-term.

Alberto:

Thank you for taking another question of mine. Since you are here, I would like to hear your long-term vision. You have always had a vision of growing volumes mid-single for RAC and double-digit or mid-teens for fleet. Now I see that you have a concern to reach that ROIC spread target earlier. Can I assume that growth would be more cautious until you get to that ideal profitability?

Another thing, with the tax reform, you are going to be able to use the credits of the cars that were bought before the reform and after. But it's split into 2, and I feel that the second part is much worse for car rentals. So the first one, you take away the IPI and ICMS and the second part, ICMS and ISS. So in the second part, you are already paying taxes, and it will be less of a burden than the second part because today, ICMS is not in the map and you do not have ISS. Can you expedite growth by 2029, because of the first part of the tax reform, and after 2029, maybe something, a company older than growth, which is Localiza story up to this date? Just thinking further into the future.

Bruno Lasansky:

About the first part of the question, that's very clear. We have a vector to replenish the ROIC spread, and obviously, there are dimensioned economic growth, interest rates and the price dynamics that will determine our perspectives as soon as we replenish the ROIC spread because that is our priority, as you mentioned.

And obviously, if we adopt a mid- to long-term vision, when we look at the addressable market, not only in rental, but also in expanding Seminovos, which is a consequence of rental; it's not an

objective, it's efficiency. So based on Seminovos, we have less than 10% of the addressable market, so there's room to grow rental.

So the question is, is there a potential? And just to give you an example, you see that we have approximately more than 1 million cars. And if you consider 2019 normalized year, 1.3 million cars sold in retail per year. If you just get a small portion of that for subscription cars, then if you consider 1.5 million and 3%, 45,000 cars originated.

So it's hard to think of that for Localiza Meoo. So our service level has been increasing, and we have been consistent in that segment. So you see a clue of allocating capital that's profitable in a segment. And Localiza Meoo also services self-employed and small companies, 2.2 million companies in self-employed and small companies that have less than 10 cars, and 0.5% is third-party or subscription. So that's a big clue. And we see the same thing in the app drivers segment, over 1 million drivers, and just a small part of them are renting with any rental company, and a relevant part of that with us.

So in other words, first, we want to replenish ROIC spread, but we do see a very constructive scenario for the addressable market in rental.

Rodrigo Tavares:

I will talk about the reform. I will split the reform question into 3 parts. First, the end game, so after the entire reform is completed. In our preliminary evaluation, what would be our biggest option today on the car, be it fleet management or a great portion of RAC? We believe that our competitiveness in terms of ownership after the reform, that does not change. We will still be competitive with ownership. And that's the main driver of growth in our long-term business. So first, very long term after the reform was implemented.

And now, about the discussions that were held in the House of Representatives, the fact that our industry is multiyear, it's an asset cycle that's greater than a year, it also has interesting things that unfold guaranteeing a smoother transition.

Obviously, there are still some details that we have to understand. And as you mentioned, it may create an opportunity to grow a little more or a little less in those years of transition. But the direction is that in the long term, our competitiveness in terms of ownership seems to be preserved. And in the transition period, the matters that were discussed have also guaranteed a smoother transition that will enable Localiza to prepare itself and adjust the operation. And after a while, we will understand the details of potentially changing our growth cycles depending on the opportunities.

Pedro Soares:

Perfect. Can I follow up on that? 10 years ago, 8 years ago, we were saying that Localiza had a target of being 2x bigger than second place, because then second place wouldn't reach it and would have more competitive advantages in buying cars, operations, interest rates and car sales. Maybe after this moment of higher depreciation and a more volatile market in Seminovos, would you be able to get close to that by many small- and medium-sized players that failed, that have not changed the cars and will have to change the older ones now and do not have capital for that? Would it still be a market share of 66%? Or do you see that less than that is okay? And where do you see you are at today?

Bruno Lasansky:

The market share that you mentioned is not what we see in our internal measurements, and we do not have a target for relative size because that could change across time. Our target is growth with generation of value, and that's what we observed.

When you look at the competitive environment, as I mentioned, the depreciation effect and the higher level of interest rates affect not only our competition, the small and the big ones in Brazil, but also outside Brazil. So there's a constructive environment for Localiza to get out of that cycle even stronger.

Miguel:

Thank you for taking my question. I have a strategic long-term question, but I also have a doubt about something that's not clear in depreciation, impacting the life cycle of the car and depreciation. So my question is about selling price expectation in 15 months in cars that are already 9 or 12 months. Why isn't the expectation higher as it is in new cars, as the depreciation does not change in the different scenarios?

Rodrigo Tavares:

That's a great question. In this example, we changed the price of the car that's coming in now, but not necessarily the car that's been there for 12 months because that car is not going to be sold at 15 months. It's going to have a cycle that's going to be greater than 15 months.

So we are not saying that there's going to be a price benefit in that sense for the car that's already been in the fleet for 12 months. So the effect that we have is that you increase depreciation, it's earlier in shortening the useful life cycle of that car.

And as I mentioned before, on a monthly basis, we will analyze or will mark to market, and depending on the expectation compared to the book value, you may have additional depreciation for those cars. That's why we have not changed in the conceptual example.

Participant (via webcast):

If you are marking on a monthly basis, why the impairment now? And why was depreciation in the 1Q lower than the depreciation that we see in the guidance?

Rodrigo Tavares:

As I mentioned, our expectations changed in this quarter. We were seeing stabilization in 1Q that did not take place. That's why there's a change in the expectation. And that, together with the reduction of the cycle, has a stronger effect in depreciation in the 2Q and that will gradually converge towards that.

That's the first part. I missed the second one.

Participant:

Why was 1Q depreciation lower?

Rodrigo Tavares:

In 1Q, we saw stabilization. When we announced it, the stabilization hasn't occurred yet, but in 1Q, we saw stabilization in the market prices, and that didn't take place actually.

Nora Lanari:

And cost assumptions vis-à-vis last year. Last year, we sold a little bit over 30% cars in retail, and we are advancing and rejuvenating the fleet as Bruno and Rodrigo mentioned. That should be concluded during the 2H25, but we are already selling cars that are younger than they were before, and that should contribute to a higher mix in retail vis-à-vis last year and a reduction in fixed costs related to that.

Rodrigo Tavares:

And you can see that even though there's a drop in the market, the average price of cars sold at Seminovos is going up, and that's already showing a change in the mix, model, year, channel and mileage.

So even with that decrease, you can see that the rejuvenation changes the mix a little. We are selling cars that are younger, less mileage, and that's why, apparently, you have an effect of our price sequentially increasing and the market prices are not.

Miguel:

I have a second question, if you allow me. You also mentioned that the increase in depreciation in the quarter can normalize the margins of Seminovos moving forward. I would like to understand better what assumption and expectations you are using for Seminovos margin so we can interpret that depreciation better.

Rodrigo Tavares:

When we talk about normalization and historical levels, we see a Seminovos margin in RAC in low-single digit, and in fleet, a bit higher than that level.

Nora Lanari:

Miguel, the margin is based on the inflation in the period. Remember what Rodrigo mentioned, our expectation of depreciation assumes a selling price. If inflation increases, that unfolds into margin. So we have to consider all of that. And since we are seeing a spread that's lower between the sale and purchase, it includes the inflation, at least in a shorter cycle.

Jander:

My question is about depreciation as well. Can you go back to the slide about car prices, how it was dropping? I am thinking at the beginning of the year, and you had assumptions for many things, and even that one. I see that chart, I see the average for the 6 months of the year, which is 0.4%, pretty similar to pre-pandemic levels. So that leads me to assume that, in the beginning of the year, you assumed a price trend that would be better than before the pandemic, but actually, it was the same in the average of the period of pandemic, and then you had to review the depreciation. Is that understanding correct?

Nora Lanari:

That's the beginning of the year of 2023.

Jander:

No, 2024.

Rodrigo Tavares:

I understand his question. You are correct when you are considering the average, and we also have to remember that, after the provisional measure, when you look at the historical levels and the past provisional measures, we always have a drop that was temporary and then it stabilized.

We believe that in the 1Q, which showed a stabilization, when you see the impact of the measure, well, R\$2,000 to R\$8,000 per car, there was an impact that was going to take place. And when you look at 2008, 2009 and, if I am not mistaken, 2012, you had an effect after the price stabilized and the prices would go back to what they were, and it seems like what was going to happen in the 1Q. And after the 2Q, we understood that the dynamic was different this time.

Jander:

Thank you. It's clear. My second question is to better understand the deactivation centers. I think this topic has been going around the Company for some time, and I didn't know that the business would grow now. I imagine that there's something there that is unclear to me about how it was done in the past vis-à-vis how it's done today. If it's a consequence of today, if it's a bit different vision today vis-à-vis to the past.

Bruno Lasansky:

We are always looking at ways to optimize cost throughout the entire asset life cycle. And the Company identifies that there is improvement of productivity, quality and cost when we work this way with our deactivation centers.

So in the scaling up of the sales process and rejuvenation, we adopt the strategy of preparing the vehicles in our preparation centers. In the short term, you have the infrastructure. Obviously, the distribution center, the team, you have to ramp up. But throughout the process, as these distribution centers reach scale, they start having a cost per prepared unit lower than with other strategies that we did in the past.

At the same time, another thing I said, looking towards the future, we will have an increase in the number of deactivated vehicles in the Company, as Nora said, for the Seminovos, but we will have 2 factors. On one hand, the maturity of each of these distribution centers, and our fleet will be rejuvenated. And the time and cost that you have to prepare a car of 14, 15 months, it's much different when the car is 24, 25 months. And especially next year, this will help us in efficiency in the preparation costs.

And it's not that noticeable. Imagine when you sell a used car that is prepared with the quality we offer, that ensures not only that the customer will come back 2, 3x. So you have a very high NPS and you also capture a much higher value, both in retail and wholesale.

So we expect, not only rejuvenating, but this preparation strategy that we are investing in by 2025, with a normalized Seminovos for the cycle, we will also capture these advantages in price, which is already being captured when we compare our price with the market.

Victor Mizusaki, Bradesco BBI:

I have 2 questions. When we think about RAC pricing, and you talked about the 15 months, there's another variable that you just mentioned, which is mileage. So my question is, how do you see the product in this context going forward, if it makes sense to increase or reduce, how do you address this?

And the second question that Bruno just mentioned, and I think you mentioned about pressure of margin on RAC to prepare the used cars, so we should probably have an increase of sales in used cars. And how does that impact the Company's leverage for the next 12 months?

Rodrigo Tavares:

About the used cars, we always look at the marginal rental of the car. So you are right, the car runs for longer, so you have a greater depreciation than an equivalent car. However, we are talking about contracts that the driver stays several months with that contract.

You also have a store structure that is much simpler. The cost of service when the cars are rented at the store, where is the store? Your cost is a fraction of what we have, for example, for the daily rentals.

So for Zarp, the depreciation is higher. Other components are lower, and the capital basis is lower when you compare it to other segments as well. And we weigh all this in when we allocate capital. And it's also a segment that allows more flexibility, especially for peaks of demand in which you can do this.

So rejuvenating the fleet will benefit especially the Zarp, because if you work with the cycle of 18 to 20 months, you will have cars with very high mileage. When you reduce this mileage, we also bring benefits, and in this case, it's very high.

About the leverage, we should probably see very comfortable levels of leverage. We are reducing the cost of rejuvenating the fleet. The Company increased the usage and generated cash to pay interest, and we had high reduction in the balance of the OEMs this half year. So when you grow, you have a better working capital.

So these are 2 metrics that the market looks at. Even the net debt over fleet is better with these levels of leverage from here to the end of the year.

Bruno Lasansky:

Just to add, Victor, it's important to mention that the price that the segment needs has to include all the aspects that were mentioned, but also has to recognize a higher mileage that impacts the expected depreciation, and also higher maintenance costs that are for smaller cycles and lower mileage.

In this specific segment, despite the consistent increase in price, Localiza's market share has been maintained and even expanded, because not only do we have a dedicated way to service that customer with dedicated agencies, but we also have onboard technology and differentials, so that the driver stays with Localiza.

So we are working on this front to work with the mobility platforms so that they can also follow the price of the passenger to increase, to match the increase of prices for the driver, either renting from Localiza or financing the car in any other way..

Rogério Araújo, Bank of America:

I have three follow-ups that are more specific. First is about the level of depreciation after the 2Q25. Since the vehicles will already be normalized in the 15-month cycle, should we expect a drop?

And also, the frustration of expectation of Localiza's selling price of the cars. Of the cars signed under GTF, was there a frustration in the ROIC expectation? And to normalize the segment, should we wait for the entire cycle to turn?

And then, the last point, I have some questions just to wrap up these one-off costs that are not for preparation purposes. If you could tell us which they are and the size of those we have clear, what is the benefit from the 2Q?

Rodrigo Tavares:

Could you put the slide of the expectation of depreciation? There are several variables for us to give an outlook for the 3 quarters, especially for Rent-a-Car. The evaluation is gradual and not that large, R\$200 per quarter, R\$600, R\$700. So I would assume that this trend will continue. It will depend on several other factors, but this depreciation of the 1Q seems to be at a reasonable level for the Company. But we have to advance in the next quarters to understand if this dynamics of pricing will change or not.

Bruno Lasansky:

First, GTF. Of course, contracts that were priced at the beginning of 2023, before the provisional measure, the expectation of sales price didn't come through. In this case, the assumptions we use in the profitability of those contracts is lower than the profitability that was expected. That's why marginal rent, the assumptions are very cautious. So for those contracts priced before, we have a lower profitability, and it will normalize as the cycle ends.

Nora Lanari:

Rogério, about the margins, obviously, the associated effects of Rio Grande do Sul in this case are one-off. And with everything else remaining constant, we do not expect that to happen again.

When we look at other costs, we are still in the process of integration of systems, rationalizing the crisis portfolio. So we still expect some associated costs. This only in the 2H25, but we have the incorporation of smaller companies, writing off of some fiscal costs. So it's a process of integration costs.

Lucas Marquiori, BTG Pactual:

I have 2 questions. Still in the preparation cost that affects the margin in RAC, when you change the cost of preparation for Seminovos in RAC, were you seeing those comparison figures that you showed us?

Rodrigo Tavares:

It's the cost of business. The business has to prepare the car. And this was widely discussed both with auditing and internally to make that decision. Let's separate 2 effects here. First effect, as I sell more cars, I prepare more cars. So when I speed up the rejuvenation of the fleet per car rented, I prepare more cars. I do not know if that's clear. But the change has nothing to do with that. The rejuvenation per se increases the turnover of prepared cars, and that makes the total cost to prepare increase.

The second point is, in 2023, we still have many cars that weren't prepared. We had 2 different methodologies regarding Localiza's car, and now we have a procedure that most of these cars are prepared. So at first, you have a double effect of increased volume, of course, it has to be prepared, and a higher number of cars prepared for those who were not prepared before. So we have an increase of the volume.

Most of the process already happened. We still have some things happening, but it's not that much. And now we have the benefit of preparing a younger car. The volume increases, but the cost of preparation per car drops consistently. And we will see this drop already this year and continue this drop next year.

Nora Lanari:

Just to add about fleet management, when we look at the total amount of preparation, it increases relevantly, but the number also increases. But we are receiving cars from heavy use contracts that require a higher cost, and we receiving those beforehand.

Lucas Marquiori:

And the second point, when I look at the 0.8% of used cars in the 2Q, I compare it to the market that you showed for 1 to 4 years. How much does the 2H is biased more for 4-year car than 1-, 2-year old cars? How much does the effect of those older cars make the spread higher?

Rodrigo Tavares:

Great question, showing how much of that is the cause of the sales volume. For some specific models, they may be more relevant. But what we have been seeing is that month after month, Localiza is getting closer to the market. So if we had to influence, it would probably be positive, because Localiza's cars are selling gradually and the evaluation has been lower than the market.

It's hard to be accurate, but for some models, especially the lower volume models, where eventually participation or share is lower in 1-year-old cars, or some cars with the market, we have not observed that, and we have been gradually inconsistently observing that varying less than the market in general in all the categories, in all our models.

João:

First of all, on the slide, just to confirm if my understanding is correct, here on the right, the more recent average that has a gap increase, you are saying that the assumption of depreciation moving forward is considering that there's an additional increase. So the average of 24, 29, 33 would be a bit more than that. Is that correct?

Rodrigo Tavares:

Yes, you are correct.

João:

And then we see a drop. Two things. First of all, we do not see pre-pandemic levels. We see 2023. If we look at 2019, that 0.4 drop, was that normal in the market?

Rodrigo Tavares:

Let me clarify that. As I mentioned, there are many factors, even higher inflation. There were years that it was 0.25 years, a monthly drop, and depending on the model, higher or lower. When you look at a longer series, the negative monthly variation between 0.3 and 0.5 is most of the years. And that's expected because the car is growing older.

And the 2 curves that we showed are different. One of them is a 15-month this year compared to a brand-new car, and a 15-month compared to the brand-new car in a year from now. That's one

thing. The other thing, I have a 15-month old car. Next month, it will be 16 months. That's the curve. And that's where we expect a drop from 0.3 to 0.5. And typically, the difference remains constant because the brand new is going up, the used cars were going up and recently, they are detaching. And we do expect that, that detachment will continue for another period for depreciation.

João:

Can I see the chart again? When we look at the last 6 months, so the 1H, I see 5 months, or 3 months that were very good, that was normalizing. 1 month was awful, it was April, and 2 months were okay, 0.4. Was it a decision based on a very awful month? August is kind of okay. So that I can understand that a little better.

Rodrigo Tavares:

Like I explained, to Jander, it's a provisional measure. When we look back to the past measures, there's always a normalization, or even a comeback, and we believe that, that could happen in the 1Q24, and that did not happen. So it's a dynamic that we believed it would be one way, and it was the other. So that's one of the main reasons for our decision.

Guilherme Mendes, JPMorgan:

Thank you for taking my follow-up. About electric vehicles, a lot of people are talking about the dynamic in car pricing. But what about rental? When will there be a moment in the future when electric vehicles will be relevant in your fleet? And how does that change your business? Obviously, there will be an effect on depreciation, but thinking of using it, it has to be charged for hours instead of using regular fuel.

Bruno Lasansky:

Thank you for your question. I think that the last recent cycle enabled us to understand that here in Brazil, the adoption of electric vehicles is for the mid and long-term, for many different reasons. First of all, obviously, the need for infrastructure for the charging. It's a huge country.

And as I mentioned before, the import rates and the possibility of having electrical vehicles coming from other geographies with an aggressive course to change, given that Brazil has decided to have a hub for manufacturing, just like other markets have; the U.S. having 100% on the import tariff. And the main aspect is that Brazil has an advantage of having flex fuel vehicles. So our CO2 matrix for each kilometer driven is very competitive compared to electric vehicles.

So when we consider all those factors, we believe that the next step when we consider the next years, it's more about electrifying the flex fuel vehicles than actually leaping directly to an electric vehicle for the reasons that I mentioned, with some exceptions, especially in major cities. In São Paulo, for instance, where you have incentives like the license plate rotation and there's different commutes.

But when we leave out that effect, the adoption would be in the long-term. And even in the global scenario, we have seen a continuity of the electrification process. but at a pace, given what's been happening in the past 12 to 18 months, that is very different. Even the automakers in the U.S., they are selling their electric vehicles even at a loss in some cases. So customers are more cautious.

And when you look at growth, hybrid vehicles are growing faster. So the perspective is a gradual evolution here in Brazil given the reasons we mentioned.

João (via webcast):

In case new cars devalue in a significant way, such as 10%, 15%, what would be Localiza's plan to handle that?

Rodrigo Tavares:

Clearly, that would be an extreme scenario, devaluation of 15% in that case. Once again, we would have to be doing what we are doing right now in higher intensity, increased tariffs to replenish higher depreciation.

We have to be even more cautious in capital allocation, looking at our cost efficiencies, streamlining our portfolio. But that is a very extreme scenario, and the elements in our priority would not change. We would probably change the intensity of the priorities.

Bruno Lasansky:

I would like to add. First of all, as Rodrigo and Nora have mentioned, our assumption of depreciation quotas consider a detachment of that, an increase of the spread from new cars to used cars, in addition to what we have shown in the beginning of the presentation in depreciation.

And the second to add is the Company's importance of, first of all, replenishing the ROIC spread, always maintaining a robust balance sheet. So we are continuously looking at the relationship between our net debt and fleet value, and we see Localiza's consistency to be ready for any scenario. That's not a scenario we are seeing, but we do have a robust balance sheet to handle and to deal with any type of scenario, including that very extreme one.

Nora Lanari:

To Rodrigo's point, when a new car price drops, the next capital that will be allocated would be lower. So returning invested capital and the affordability for rental, so it will take off the pressure in car rental prices.

Pedro Soares:

Nora, do you mind going back to slide 8, if I am not mistaken, the percentages? For what reason should we expect that the average of 19.7 to 23.8 should still increase? And why should we believe that in the future, the 23.8 should no longer be the 19.7? Because structurally, you may have a higher number, if there's a reason.

Rodrigo Tavares:

Excellent question. separating short and medium term, in the short term, why should we expect to believe that this average would be even greater. You would have inflation in used cars that's lower to the inflation of new cars. That's basically the idea that we have to understand.

So new cars would still continue to go up more or less compared to inflation, but used cars wouldn't go up as much as the new cars, for instance. So we believe that, that factor should happen a little bit because of the affordability of the cars. In new cars, you can make more adjustments in terms of production. In a used car, there's more elasticity and it makes it difficult for it to follow the variation of brand new cars.

Your point is very interesting because at some point, you will have income going up and the appealingness of a used car is higher, and then you see an inflection of the curve. When you have a used car that's more affordable, be it because income caught up, there's no reason why it would not go back to the pre-pandemic levels thinking of the long term.

So the thing here is how long that would take. Since we are talking about a 3-quarter perspective, which is embedded in that perspective, in that assumption, we would still see used car prices that are not following the new car prices.

Bruno Lasansky:

Just to add, in addition to affordability that we showed here, and that has some time to settle, there's another factor, which is the interest rate. There is a spread between the interest rates for a new car compared to the used car. Even for the same car price, considering a different model, so the used car being greater than the new one, the interest rate is higher in the used car, because usually, the risk profile is lower and there's more uncertainty in terms of the price of that asset that the bank would consider.

And the other factor, when we look at this, as the interest rate is higher, the spread would be heavier, jeopardizing the used cars more than the new cars. So when we look at a period of 2016 and towards the future, lower interest rate, that favors that. So if the interest rate goes down, it could contribute to closing the gap.

Pedro Soares:

As a follow-up, I keep thinking on the supply and demand of that market. If we have an affordability problem, we should have a growing demand to trade down, so customers wanting to go to a used car instead of a new car. In terms of supply, we should have a lower supply because we went through the bottlenecks of the semiconductors, and we produced less; 1, 2 or 3 years ago, we produced less. So the used car market today that we have is lower for a higher demand. That's why I am surprised. And obviously, the numbers are contradicting what I am saying, the increase. But if we suppose that 23 would go up to 26, it's not being conservative. I do not see a reason for the spread to increase. That's what I am saying.

Rodrigo Tavares:

Perfect. If what you are saying happens, I understand. In the past, we even said, well, we had a few cars that were purchased from 1 and 2 years, so we would have less supply of 1- and 2-year old cars. And on the other hand, you extended its life. And when you look at the used car market, the most used cars, the older cars, the number of them increased a lot. We see that.

One of the hypotheses that we have though is that we can see that production today is still lower than 2019 for new cars, and the price increase for new cars, they were adjusted according to supply in used cars. The need was higher. So there was a stronger increase in the price. The total number of used cars increased, but not the almost-brand new cars as much.

There's another lower effect in the longer term that helps. Even a 1-year old car, they have more mileage on them. So a 1-year old car is not the same as a 1-year old car back in 2019, that's a secondary effect. So I hope that, that's the dynamic. I believe that there are elements for us to believe that it could come back. But at least in the short term, in the next 9 months, our assumption is that, that will still increase a little.

Bruno Lasansky:

I would just like to add this key point. What we have seen in practice. On a brand-new car, there's discipline, and you see a level below pre-pandemic in terms of volume. So there's a discipline in price and volume. On the other hand, for a used car, what is happening? It's increasing 8% to 10% year-over-year, but there is a requirement of a lower price for this volume to happen because the supply is given. So to have that volume, that price is required.

Part of that is because of affordability, and part of that is the differential of the interest rates that I mentioned, but there's another point of truth in what you said. When we see the behavior of 2- to 3-year car, what was missing in the pandemic, the price behavior is a little bit better than the 1-year car.

So just to add, the new car seems to have more discipline in price managing and the used car is a much greater market. The consumers are requiring more flexibility, and this does not mean that it cannot go back in the future, but there is uncertainty in terms of that.

Participant:

Once we look at the auto industry, it seems that the OEMs are more focused on more premium cars, prioritizing margin and profitability. If we look at the principles, what are the implications of that? For you, how does this change structurally that you have to work with more premium assets? Cars had certain features and now they have others.

Bruno Lasansky:

First, the mix that Localiza buys reflects the segments that we operate in. So for example, in some segments for subscription cars, the segment is naturally with a higher average price, so we do have the capacity of cater to these segments that need different types of vehicles.

The second point is that in our talks with the OEMs, we look more at the complete mix that they can provide that will give us profitability with the full mix of vehicles. So, you will have some moments that you will have higher margins and others that you have lower margins. But at the end of the day, it's the mix of the profitability that gives us that ratio.

And another thing you mentioned, we are not seeing a skill in terms of different offers to cover us. It's not that we are missing entry-level cars, this has not happened.

And the third point, Seminovos always has to respond to deactivation of cars from rental. So they tell us what cars we are going to sell and what kind of value proposal we have to give our customers to be appealing in this segment.

In all of these models, we have to be careful, so we are not disproportionately big for certain models or types. So we do not see any specific restriction in any model.

Stephen (via webcast):

Does depreciation already embed lower productivity in the Seminovos stores?

Rodrigo Tavares:

When we do the assumption for depreciation, we have the cost of the used cars. So if the stores are selling more, you reduce your costs for used cars, and we consider that in our depreciation assumptions.

Specifically for the used car costs, we consider the approved budget. We do a half year budget. We just approved that. It has a certain volume and cost of all the lines, and that's based on the used car assumption costs.

Bruno Amorim, Goldman Sachs:

Thank you for taking my questions. I have 2 follow-ups. About the trade-off of new to used car, the person who used to buy a used car, 5 years, might buy a newer car. So I do not know how you measure that.

And if possible, that chart of the car price evolution that was mentioned before, looking at the 1H, clearly, the price of cars on average dropped what we had in the beginning of 2023. If you could comment the trend of new car prices and what happened in this last half, was it flat and then it started going up? I do not know if you could give us an idea of how car prices are behaving under the point of view of Localiza, not just resell, but your discount. If you could tell us what was the evolution of new cars before and how it is now? Because the used card started dropping pretty much in line as it did before.

Rodrigo Tavares:

For new cars, we have been seeing the listing price and the practice prices going up. We have not seen any change. Recently, we had an increase, like Bruno said, about exchange rate costs. And during this time, there were no big changes in the behavior of new cars in the listed price and practice price. That's why during these acceleration periods, we see a detachment from 1- to 3-year-old car compared to new cars.

Bruno Amorim:

Was that the behavior before the pandemic?

Rodrigo Tavares:

Before the pandemic, if we look at a wider view, new car prices were very close to inflation. Used cars had more competition, and we saw during some time, the prices of used cars growing more than inflation. But in a long period, we see them close to inflation price.

Bruno Amorim:

Closer to what is happening now?

Rodrigo Tavares:

Yes.

Bruno Amorim:

So if we see used cars dropping it was before and new cars going up like it did before, what are your assumptions?

Rodrigo Tavares:

First, it's still dropping more like Bruno said, but the issue that is embedded here is that used cars cannot go up with the same inflation as new cars. This is something that we have been seeing with certain consistency in the last cycles.

Nora Lanari:

Your closing comments Bruno?

Bruno Lasansky:

Thank you, Nora. Just to conclude and comment before we close, I have the privilege of being in the Company for about 10 years, with our founders and employees. And when we look at these 51 years, we see the Company going through favorable cycles, but we also had cycles in which we had very high inflation rate, cycles in which we had credit restrictions like 2008, 2009, and the Company at the time had to reduce the size of its fleet, and cycles similar to what we are experiencing now, of price accommodation for industrial products taxes like 2008.

So the common point that we see at Localiza, without exception, it comes out stronger from these cycles where we had this adversities. So I would like to reiterate our confidence in the Company's capacity to work on those 5 points that we mentioned, rejuvenating, ROIC, prices, streamlining our portfolio, working on cost and productivity of the fleet, and continue to provide differentiated service, so that in the next quarter, we can go back to the Company's ROIC spread.

Thank you very much for being here in person and for those who are with us online. Thank you, and have a great day.

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