Localiza Rent a Car 3Q21 Results
November 10, 2021

[Anna Branco]: Good afternoon, and welcome to the Localiza Rent a Car webinar referring to the results for the 3rd quarter of 2021. Today with us are Messrs. Rodrigo Tavares, CFO and Nora Lanari, Investor Relations Officer.

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

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We inform you that the values of this presentation are in millions of Reais and in IFRS. We emphasize that the information contained in this presentation and any statements that may be made during the videoconference, regarding Localiza's business prospects, operating and financial projections and goals, constitute beliefs and assumptions of the Company's Management, as well as information currently available. Forward-looking considerations are not guarantees of performance. They involve risks, uncertainties and assumptions, as they refer to future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, market conditions and other operating factors may affect the Company's future performance and lead to results that differ materially from those expressed in such forward-looking statements.

Now, I will hand the floor over to Rodrigo, the Company's CFO, to begin the presentation.

[Rodrigo Tavares]: Good afternoon everyone and welcome to the Localiza results webinar.

After the second wave of the pandemic, in the second quarter, we felt the positive effect of the advance in vaccination, which contributed to the resumption of demand in all Car Rental segments. Even in a context of rising rental prices, which is especially necessary due to the increase in the value of new cars and maintenance costs, we have noticed a gradual and consistent increase in our volumes - already higher than what we presented in 1Q21 - with the utilization rate back to historic levels.

Increases in car prices, in maintenance costs and in the basic interest rate substantially impacted the entire mobility chain, but demand resilience reinforces the position of rental as an affordable and viable transport option for the most diverse mobility needs.

The demand for long term rental, both from large companies as well as individuals and small and medium-sized companies, is currently strong, resulting in the highest ever backlog.

We continue to live in a context of limited cars' supply, caused by insufficient supply of inputs in the chain, especially semiconductors. This scenario once again impacted purchases in the quarter and it should last, with a perspective of normalization only from the second half of next year.

In this context, we are seeking a better cars' allocation by segment, according to the mileage and the needs of our customers, thus managing to maintain the NPS at levels of excellence, as well as monetize the asset, without losing sight of our long-term relationships and customer vision. In this way, we are reducing the impact of the postponement of the fleet decommissioning until purchase volumes return to higher levels.

We continue developing Localiza's journey of digital transformation and building the future of sustainable mobility. Our strategy to develop our competence in technology and data science and to look at our ecosystem has been consistently evolving through Localiza Labs. We have intensified our efforts in the pursue of innovation within the customer journey, efficient cost management and greater productivity on several fronts, and we already have some important initiatives in the experimentation and expansion phase.

We are coming close to 150,000 connected cars and, as a result, we have a daily generation of around 65 million data points and more than 9 million kilometers monitored per month, which, in addition to reducing delinquency rates, is an important tool for theft reduction and increase in rate of recovery.

We remain diligent in the allocation of capital and will take advantage of the moment to look even more broadly at new opportunities that can enhance our business, whether by strengthening our competitive advantages, increasing our growth or return prospects. Our balance sheet keeps strengthening with substantial reduction of leverage ratios. Besides that, our fleet replacement cost is the lowest in the industry, ensuring cash preservation, fundamental while going through a period of uncertainty and increase in interest rates.

This quarter we concluded a technical study that supported the review of the useful life of our cars from a tax perspective, which accelerates depreciation and tax credit, with a direct impact on results. Based on the technical report issued by a qualified entity by the Brazilian Revenue Service, the fiscal useful life of the cars was reduced from 48 or 60 months to, on average, 24 months for the cars covered by the report. As a result, we had an increase in tax depreciation and the recognition of the corresponding PIS/COFINS credits, impacting the quarter's EBITDA by about R$320 million.

Finally, on the last twelve months we reached a ROIC of 16.8% and spread over debt after taxes of 13.9 percentage points.

For the presentation of the results, we will go to page 2 of our Webcast.

In 3Q21, we show a growth of 54.1% in revenue from the car rental division year over year. The utilization rate was 81.3% and the average daily rate reached R$92.0, reflecting our pricing strategy and the mix of segments.

Revenue from the Fleet Rental division has been growing sequentially and, year-over-year, shows an increase of 14.7% against 3Q20, due to the combined effect of volume and prices, with a stable utilization rate and an average daily rate 8.4% higher.

On page 3, we show the financial highlights for 3Q21.

Compared to the same period last year, net revenue from Car Rental grew 43.3% and from Seminovos dropped 36.1%, impacted by lower car decommissioning volumes, in the context of lower purchases. As a result, consolidated revenue decreases 9,6%. EBITDA grows 83.1% year-over-year, due to the higher operating result from both rental and Seminovos. EBIT advances 112.2% in the same comparison. Finally, we see a 106.3% increase in net income for the quarter, which reached 671.4 million, surpassing the 2 billion mark in the last twelve months.

To present the details of the 3rd quarter results, I would like to give the floor to our investor relations director, Nora Lanari.

[Nora Lanari]: Good afternoon, everyone.

Starting with the Car Rental division, as you can see on page 4, in the 3rd quarter the number of daily rentals increased by 11.0% and revenue grew by 54.1% year over year. Reflection of the volumes resumption from the vaccination against Covid evolution and the higher level of fleet utilization rate. We also continue to adjust our rental rates in all segments to accommodate new car price increases and higher interest rates. We see a resilient demand with consistent growth in all segments, which reinforces our confidence in rental growth avenues for the coming years.

On page 5, we show the result of the efficient management of prices and mix. In the context of low car supply and growing demand, the Car Rental division reached a utilization rate above 81% and an average daily rate of R$92. The price increase process should continue in the upcoming months to rebalance return levels, considering the replacement cost of cars, maintenance costs and high interest rates.

On page 6, we show that the network of own branches was expanded by 9 in the last 12 months, from 442 to 451, which reinforces our confidence in growth opportunities. The Company has been increasing convenience for its customers and getting ready to accelerate volumes as car delivery returns to more robust levels.

Moving on to page 7, in the Fleet Management division, we see the average rented fleet increased by 7.5% and net revenue increased by 14.7% compared to 3Q20. In this comparison, rates have increased by 8.4%, reaching R$1,753per month, per rented car and reflecting the pricing of new contracts in a context of rising new car prices and interest rates.

We are excited about what we have seen in the demand and results of Localiza Meoo. The number of orders continues to increase and Fleet Rental has a backlog of more than 20,000 cars, but we are still being impacted by the scenario of restricted production of new cars.

Moving on to page 8, we show the balance of cars purchased and sold. The quarter was affected by lockdowns in Malaysia, which aggravated the semiconductors global crisis, resulting in further suspensions in the production of cars in Brazilian. In this context, we bought 22,437 and reduced car decommissioning, which resulted in the sale of 21,620 cars, an increase of 817 cars between purchase and sale and a net investment of R$327.5 million. Our average purchase price was R$72.7 thousand, compared to a sales price of R$60.5 thousand, resulting in a replacement effort of R$12.2 thousand per car, showing the importance of maintaining discipline when buying cars.

On page 9, we show the used car network, or Seminovos. At the end of 3Q21, we had 132 points of sale and had 21,620 cars sold, a reduction of 52.5% in volume sold year-over-year. The average price was 34.5% higher than the prices charged in the same period of the prior year and reflect the context of a sharp increase in the price of the new car, which we were able to capture in our decommissioning.

On page 10 we show the fleet at the end of 3Q compared to the prior year. In Car Rental, we ended the quarter with a fleet of 207,550 cars, a reduction of 4.1%. While in Fleet Rental, the end-of-period fleet increased 6.5%. On a consolidated basis, the fleet decreased by 1.7%, reflecting the lower number of cars being activated and decommissioned, in addition to the lower number of vehicles available for sale.

Moving on to page 11, we see that the consolidated net revenue of the quarter drops 9.6% year-over-year. Net rental revenues increased by 43.3%, with a 54.1% increase in the car rental division and 14.7% in fleet rental, while Seminovos reduced 36.1%, impacted by the lower cars decommissioning and sales volume, partially compensated by higher prices.

On page 12, we see that EBITDA grows 83.1% in 3Q21 year over year, reaching R$1,187 million, with a strong contribution from Car Rental and Used Vehicles.

The positive performance in Car Rental is due to the increase in revenue, resulted from higher volumes and rise in the rental rates, in addition to a higher margin, benefited by the greater recognition of PIS and COFINS credits, the result of a study that culminated in the reduction of the fiscal useful life of the cars object of the report issued. The average fiscal useful life of these cars approached 24 months versus 48 months previously used for obtaining PIS/COFINS credits, which is to say that the credit recovered from these cars practically doubles. The bigger credit volume should be recurring as we obtain new reports updating the fiscal useful life of new cars entering the fleet.

Despite the expansion, some effects still have a negative impact on the Car Rental EBITDA margin, especially the maintenance line, property tax, licensing, and others, which remains high as the fleet age continues, increases in the price of cars and parts and larger theft recognition. Another line impacted was profit sharing, reflecting higher increased provision due to the strong result of the Company. Finally, margins have been impacted by continued investments in the brand and in the technology and data teams, preparing the Company for the next growth cycle and a more prominent presence in the mobility ecosystem. These combined effects resulted in an advance of 22.4 p.p. in the Car Rental EBITDA margin.

Moving on to the Fleet Rental division, the EBITDA margin decreased by 12.6 percentage points, mainly due to the increase in maintenance costs due to the fleet aging, in addition to increase in expenses with team, technology and advertising for Localiza Meoo. Last year´s basis of comparison is strong because of the lower personnel cost associated with the MP 926, reduced maintenance cost due to the lower usage of the fleet and reduced expenses with marketing and consulting during the beginning of the pandemic. In the last quarter, we have seen the order backlog increase, which should contribute to the gradual acceleration of growth and cost dilution, as vehicle deliveries advance.

The tailwind continues at Seminovos and contributes to a higher EBITDA due to the strong improvement in prices, even with less volume of cars sold. In the annual comparison, the Seminovos margin goes from 6.3% in 3Q20 to 18.6% this quarter.

As a result, the consolidated EBITDA margin reaches the level of 80.9%.

On page 13 we see that in RAC, the annualized average depreciation per car advances sequentially, to R$938. In the Fleet Rental Division, the average annual depreciation per car was R$ 975. The higher renewal of RAC cars as well as the fewer cars sold, with an impact on the lower dilution of fixed costs, explain the advance in depreciation in this division. Anyhow, the depreciation at low levels in the two business divisions is a result of the increase in new cars and consequent impact on used car sales prices and tends to advance slowly while the pace of fleet renewal remains low.

On page 14, we can see that the consolidated EBIT in 3Q21 reached R$1,068.8 million, representing an increase of 112,2% year-over-year.

The EBIT margin of the Car Rental division was 72.7%, representing an increase of 31.9 percentage points compared to 3Q20, mainly explained by the effects that impacted EBITDA. In the Fleet Rental division, the EBIT margin was 73.6%, an increase of 0.2 percentage points year over year, mainly explained by the reduction in depreciation and higher margin on the sale of cars in this division.

Net income for the quarter, on page 15, grew 106.3% compared to 3Q20, reaching R$671.4 million. In addition to the EBIT variation described above, financial expenses increased 77.6%, especially due to the increase in the CDI and income taxes, which increased by 143.2% due to the higher EBT and higher rate.

On page 16, we show a cash consumption of R$208.8 million in the nine months of 2021, explained mainly by the reduction of R$851.3 million in the automakers account.

As can be seen on page 17, net debt increased by R$541.7 million, ending the quarter at R$6.7 billion.

On page 18, we can see that we ended the quarter with a strong debt profile and strong cash position. Including the issue of R$2 billion in debentures made in October, in the pro forma analysis, the Company has almost R$5.5 billion in cash. The chart below shows the cost structure of our debt. Also considering the pro forma analysis, of the total gross debt, about 16% are pre-fixed, from protection via derivatives, ensuring the profitability contracted in the Fleet Rental division. Another 28% are indexed to 109.4% of CDI and the remaining 56% are indexed to CDI + 1.68%. Additionally, as a mitigator for the rate increase, the availability of cash is fully applied to % of the CDI, which helps to protect the Company from the increase in interest rates. The efficient management of the cost of debt, maintaining protection for long-term contracts in Fleet Rental, and the prioritization of CDI+ instead of a percentage of the CDI, makes Localiza relatively well positioned for the scenario of higher interest rates.

On page 19, we can see the Net Debt / EBITDA ratio for the last twelve months at 1.9x. A level that gives us peace of mind to finance our short-term growth with third-party capital.

I would like to turn the floor over to Rodrigo to present our ROIC spread.

[Rodrigo Tavares]: Thank you Nora.

On page 20, we present the evolution of the ROIC spread versus cost of debt. In 3Q21, considering the last 12 months, we see an increasing spread, which reached 13.9p.p. We emphasize that, despite the high level of short-term returns, the current context highlights the importance of decision-making thinking about the complete rental cycle, as well as the replacement cost of the cars. That's why we maintain our austerity in capital allocation certain that we are making decisions with a long-term vision, seeking growth with value creation.

Finally, in terms of sustainability, this quarter is an important milestone in the history of Localiza. The Company launched the Localiza Institute to drive social transformation by supporting projects that facilitate young people's access to education and foster entrepreneurship in communities. With an inaugural effort, the institute developed a notice for investment of R$2.5 million in initiatives that promote a real impact in the construction of new paths for young people in a situation of socioeconomic vulnerability.

We also made progress in other important sustainability initiatives, such as the signing of the Forum for Companies with Refugees, an important step towards advancing the Company's diversity agenda. We also launched Frota Experience, an education platform aimed at fleet rental customers, with a focus on traffic safety. In the environmental pillar, we completed the greenhouse gas emission inventory, reporting for the first-time the complete scope 3, with customer emissions, which has already been audited. We are aware of the relevance of the sustainability journey and the path ahead, but we are proud of the progress we have made in recent years.

We are now available to answer your questions.

Q&A

[Anna Branco]: For Q&A, please inform that you're interested by clicking on the Q&A icon on the bottom of your screen including your name, company, and language. When you're called on a pop-up will appear to unmute. Four participants on the phone dial *9 (raise hand) and as soon as your question is announced press *6 to mute and unmute the audio. To submit your questions in writing use the Q&A icon on the bottom of your screen and fill out with your name and institution or company before the question.

[Nora Lanari]: Our first question is from Regis Cardoso. Regis, you can ask the question.

[Regis Cardoso]: Nora and Rodrigo, can everybody hear me, well?

[Rodrigo Tavares]: Yes, we can.

[Regis Cardoso]: Ok, thank you. Congratulations on your results. I'd like to touch on a couple of points that we're in doubt about here and maybe the main one is related to GTF or even margin pression in the period. So, is it seem like the margin pressure was driven by costs and expenses given that the revenues went up so is that fully a reason from maintenance and moving forward and therefore it would have to come through rate increases or am I interpreting that wrong? Is there another driver? And another topic in that sense, is that in the third quarter, quarter over quarter, there was no daily rate increase. That stood out to me there was even a slight drop and that stood out to me because I know that you have a strong backlog in this segment, so I'd like to understand that why weren't you able to increase the rates in the quarter? Is it about contracts that are that have come to an end and you can't replenish vehicles because you have a completely new product line which is Meoo that adds to that and lastly if you can comment as your peers did? The different book value from your fleet and also compared to peers do you have any understanding of lower car prices that or purchases that evolved sequentially does that have an effect on the mix effect? Thank you.

[Rodrigo Tavares]: Thank you, Regis. Let's talk about margins first. In fact, when you look at the margins first you have some non-recurring effects, when you look at the profit sharing given the record's profit, so we've increased the profit sharing that's why we have a provision for that and contingencies that gave us a margin of 41%. The main driver of that, it's in maintenance line but actually it's theft we have an increase in criminal activities and that's why we decided to significantly shorten our ruler to recognize the theft and that's what affects our margins in rent-a-car. In Fleet Rental we have robust investments not only in brand and marketing for new customers to actually for Localiza Meoo and therefore the margin in Fleet Rental in the short term is lower. In relation to the rates in Fleet Rental we have a renewal and we do have low deliveries coming from the automakers the new contracts are being priced at much higher rates than the historical rates that we have here in our portfolio so as that turnover has been a bit slower given the lack of deliveries from automakers the rate is not going up as much and there's also the mix effect for each contract of Fleet Rental and reflecting future purchases and cars commercial conditions to have a spread on the cost of debt. So, it has to do with the portfolio turnover. About the purchase price that's already part of our strategy the replenishment cost is something critical we've been working with lowest levels in the industry pretty much half when you look at the difference in the sale price and replenishment price. That's why we're affected with the less for lower production volumes from the automakers. About the book value of the fleet, we don't disclose that figure but I'd say that we have a book value that's the lowest among the entire market and our sales prices is one of the highest sales prices in all of the market. So, when you look at that ratio it's highly positive compared to market price and prices that are booked.

[Regis Cardoso]: Thank you, Rodrigo, just a quick follow-up. In the theft theme also showed up to us stood out and this quarter and last quarter. So, there's a mismatch between fleet growth and or the number of purchases and sales, right? So, the fleet is dropping more than what you would expect in purchase and sales so I'd like to know if it's related to that effect that you mentioned and if you allow me another follow-up about Fleet Rental, I was talking about more about volume than rate and that's related to the car price, car purchase price, because there's a repressed demand in Fleet Rental which is a market that from the start lets the price cars more expensively and lower discounts and contracts but in the sequential comparison there was no growth. Is that something a one-off for this quarter, or will it continue?

[Rodrigo Tavares]: About theft, as I mentioned, there was a strong shortening in that role of recognition and has to do with that purchase and sale of the fleet. What you said is correct. About fleet, I thought you were focusing on the raid, I apologize for that, so volume it's the same logic since you have less deliveries from the automakers you have a backlog like I mentioned of over 20.000 cars and that makes leads to a slower renewal not only affecting the rates, but also the volumes.

[Nora Lanari]: I'd like to add, Regis, the takeaway is, we, by taking advantage of the Seminovos tailwinds, and accelerating the PIS/COFINS credit, we've invested in brand, technology data, robustness of our team and the new ecosystem. So, what's important stood out here is theft and maintenance include licensing, vehicle tax and others. So, licensing is more expensive because of the car prices and same as fuel prices but the main detractor there was theft and in the second quarter, we had an increase in theft partially explained by the increase in criminality and also by reviewing the ruler that still affects the third quarter. So, we should see that number lowering as recovery and a unnormalized run rate and we see the amount of theft dropping, but the important takeaway is company has been increasing in speeding up investments to expand its presence and ecosystem and it affects the not only rental rates, Fleet Rental and, taking advantage of the good results of the company, and that tailwind from Seminovos. About the book value, we've seen the comparisons in relation to the FIPE or blue book list in Brazil what Rodrigo mentioned is that our book value is the lowest for two reasons because the lower price and purchase and a slower renewal of the fleet. When we compare the book value in the balance sheet to the car sold, we have an important advantage based on the replenishment cost of cars as we mentioned at approximately 12.000. It's almost relevant effort from our history but less having to consume less or burn less cash compared to other peers in the industry that's important so that we can face a year where the interest rates are considerably be increasing.

[Regis Cardoso]: Great. Thank you, Rodrigo, and Nora. Good morning good morning to you all.

[Nora Lanari]: Our next question from Bruno Amorim, Goldman Sachs. Bruno...

[Bruno Amorim]: Good morning, can you hear me?

[Nora Lanari]: Yes, we, can.

[Bruno Amorim]: Thank you, Nora. I have two questions. The first one is a follow-up about the purchase price, sale price, and the implication that that has for company profitability moving forward. Forgetting the short term, looking at 12, 18 months when these cars that are being purchased now will be sold, we see an increase of 55% of the cars purchased year over year, sold prices in of car sold increased 29 in the same period when we look at the gap between purchased price and sold at 17.000 per car. It used to be five, six thousand per car, in the past. So, first of all, I'd like to understand from you if that doesn't imply that in 12 or 18 months, you're contracting much worse Seminovos margin and depression than when we were seeing before in 20, 2019, that's the first question. And the other is the scenario for RACs, specifically, once again, imagining, a post restrictive world in new carl's new car supply, imagining that in the next 12, 18 months, new car sales will go back to normal. So, that you and your competition can put more cars into the market. Do you believe that you can grow in RAC maintaining the current price levels that in a way are higher and rewarding the higher car prices or to go back to growth that you had in the past that you would have to have that the prices in the market would have to settle down a little?

[Rodrigo Tavares]: Thank you, Bruno. So, about replenishment cost, like we mentioned, it's an increase. It's 12.000 BRL significantly lower than the market that's why we've been extremely diligent in capital allocation, we know that the rental car business is very capital intensive. Depreciation costs and the costs that I'll have in car resale highly affect the investment cycle and return cycle that's why we're truly focused on cars with a lower total cost of ownership and that's one of the reasons why we've been adopting the mentioned strategy. So, we can expect an increase in depreciation. Yes, it could take a little longer depending on the dynamics of car supply restriction. If supply grows faster, depreciation will also grow faster with replenishment and those cars, otherwise we'll still see low depreciation compared to historical levels. Same as for Seminovos margin, but that one has a lag, it takes a little longer, to feel the effect. It only feels the effect when the new car's purchased are decommissioned. So, the first effect that we should start seeing is an increase in depreciation depending on the fleet renovation rate to then talk about the drop in the Seminovos margin.

[Nora Lanari]: Bruno, I'd like to add to Rodrigo's comment, when you compare the price increase of 55% year over year of 30% for sale, it's worth mentioning that the automakers had downtime, even with the entry cars so you're comparing the price of one year ago and what you're bringing in today so there is a mix effect in addition to what Rodrigo mentioned that we can't disregard it. So, that the effect on the sale price will lag compared to the price of purchase. So, depreciation will increase, as the cars that are 100% appreciated in our fleet there will be sold and the new cars will have depreciation levels that, i would call, more back to normal.

[Bruno]: Nora just a follow-up to clarify, the number that we see here is impacted by the mix, but you mentioned 12.000 per car, I imagine that that's comparable already. Can you give us an idea of what that number was in the past, so we can understand how much it got worse?

[Nora Lanari]: The 12 that we gave you is consolidated Bruno. It's different than the 17. I don't know if you're separating RAC and fleet to get to the 17. So, we're buying at 72.200 and selling at 60.500. So that's the 12.000 that I mentioned. In consolidated, we have some mix effects. So, the first one, automakers shut down, the ones that deliver the cars that are most sold in the country. So, they were closed, and there's an effect of the 12.000 consolidated there's also the Localiza Meoo effect. It's the subscription and it's starting off with SUVs, which is what the market's telling us. SUVs, Compact's, Medium-compact's, Compact SUVs, Medium-size SUVs, and that's also part of the mix. I'm not sure if the math you did, you separated RAC from Fleet. The other question about the demand, in relation to the demand, we see that in most segments are under penetrated. So, we believe that there's still a potential to grow in most if not in all rent-a-car segments and Fleet Rental. So, with the growth of the cost of acquisition and interest rate, price transfers have already been occurring, but we still see a robust demand for those segments at those price levels. It's worth noting that when compared to the past the rates are still highly competitive. When we look at the scenario, not just one or two years, but we go back to five or six years you'll see that today's rates are still competitive and that's why there's a latent demand in our car rental segments.

[Bruno]: Yes, of course, thank you.

[Nora Lanari]: Pedro Bruno, XP, next question from you, you can unmute.

[Pedro Bruno]: Good morning, Nora. Can you hear me?

[Nora Lanari]: Yes, we can.

[Pedro Bruno]: Ok, thank you for taking my question. I'd like to know about the recent announcement of Cosan entering into Car Rental segment via ADAV and the joint venture with Porto Seguro. Can you comment how you see any potential impacts to the industry, separately by the tree potential segments. So, that it gets public about what they mentioned, about car subscription with is pretty obvious as it already exists at Porto Seguro, a potential of fleet rental and even rent a car. So, could you comment about this tree areas that would be interesting and the second question is about the same thing, do you believe that these sights could be a confirmation of your claim that this market has a low barrier to enter and even that could lead to a positive analysis from the Brazilian antitrust agency, CADE.

[Rodrigo Tavares]: Without a doubt, there's no barrier to entry, and that movement is does confirm that. So, the industry you can buy a car, the car is available to everyone, a service has a defined period, and you don't have any barriers to enter. Any new players, the market is growing that also attracts players and I believe that goes down together with Porto Seguro, reinforces that they have capital they're well managed we highly respect them as competition in that industry and in the subscription cars they should advance faster given the experience of Porto Seguro. It's still a market that's growing strongly, we believe that there are advantages there so definitely it's a market that they're going to be able to compete. In Fleet Rental that would be a natural consequence of entering the market, it's a corporate market it's more competitive. They should enter as well and become another competitor in the market that it's extremely disseminated among many players and still in profitability can support themselves. Rent a car should be the last one, the last segment that they will enter but they do have huge capillarity today. So, they could also have the ability of entering in the rental car segment confirming that there isn't an barrier to entry when you're a big player like Cosan and Porto Seguro.

[Pedro Bruno]: Ok, thank you.

[Nora Lanari]: We have a question from, Ankur Argarwal, HSBC analyst, I'll translate it and we can answer it. “Quite a resilient performance in the context of supply chain constraints I have a few questions. What was the reason for the sequential decline in EDITDA margin for the Car Rental segment? Second question, what is the reason for the higher tax rate in the quarter and, three, have you been able to retain the fleet mix amidst varying level of supply chain constraints faced by different automakers and, lastly, can you elaborate on the impact of the interest rate increase on Localiza from the perspective shift from car ownership to your subscription model?”

[Rodrigo Tavares]: Thank you, Ankur. So, the first question when you exclude the non-recurring effects especially of profit sharing in other positions, we have a slight

EDITDA margin increase that would reach 41% instead of the 37% and disregarding the tax credits because then the margin was 66% which is strong quarter over quarter. So, if I consider all these items that were so to speak, extraordinary, we're talking about a slightly higher margin, but as we mentioned the main factor was the increase in criminal activities and shortening that role of recognizing theft and which increases the expenses associated to theft that's the main reason for margin. So, even though it increased when you eliminate those aspects that i mentioned. So, income tax varies with the sale of used cars, you have book value that's depreciated, you can have a variation of income tax quarter over quarter, but there's nothing significant that we should expect for upcoming quarters. Even in the point of view of cash, accelerated tax depreciation would help us in cash. It wouldn't affect the result, but a very positive effect based on cash in the income tax item. Our mix has changed to more premium cars, SUVs reflecting automaker production but within that context I believe that we were able to sustain our mix closer to the original one, that's why our acquisition cost is much lower than the market. When we look at interest rate, so we're talking about capital intensive business, the interest rate has an effect on the business but does not have an effect on competitiveness. So, when you look at ownership versus rent the interest rate part may even help us. The spreads start going up, the cost of having a car and carrying that car goes up, not only for companies but also individuals, cost of financing for individuals goes even, increases even more, than the corporate costs so the interest rate increases. Although it affects the business, it could actually increase the appealingness and the attractiveness of the rental solution instead of actually owning a car.

[Nora Lanari]: We have the next question from Rodrigo Faria, from SulAmérica Investments which is very similar to the previous question. “Could you talk about the vehicle purchase makes in this quarter compared to first quarter, second quarter?

[Nora Lanari]: That's a mix effect, Rodrigo will talk about that, and the total cost of ownership that's worth noting as well.

[Rodrigo Tavares]: As I mentioned the mix for this quarter was a more premium mix. So, the automakers where we have a higher share suffered a little more in this quarter and that said October was the best month in the year in relation to car receipt with some of our partner important partners coming back, that's why our mix for the third quarter was richer, more expensive with the share of not only SUVs, but large pickups compared to the first and second quarter. That explains a great part of the price variation that we had in the second quarter, but that said, we were also able to maintain a competitive mix in the market related to "TCO", total cost of ownership, as Nora mentioned we're highly focused and having higher shared more competitive cars regardless their entry price obviously sometimes there is a relationship there, but not necessarily. So, we're not only focused in having a higher percentage of SUVs or mainstream cars, but also having a higher percentage in cars that will have a higher return with lower depreciation and consequently more competitive semi-novo margin.

[Nora Lanari]: Next question, Victor Mizusaki from Bradesco BBI, you can ask your question.

[Nora Lanari]: I think victor's having an issue with this audio so I’m going to move on to Lucas Barbosa from Santander. So, Lucas, go ahead.

[Lucas Barbosa]: Hi, Nora, can you hear me?

[Nora Lanari]: Yes Lucas, we can, how are you doing?

[Lucas Barbosa]: Good afternoon, Rodrigo, Nora, Guilherme. Congratulations on your results. I'd like to know about recognizing the PIS/COFINS credits, you recognized an amount that's higher than normal, but you have a positive effect on EBITDA that will shorten the term for the credits that you were recognizing you weren't able to use the entire credit, because you had 48 to 16 months to recognize that, but now at 24 months you're able to recognize a large part or if not the entire credit if you operate two years in RAC which is less likely, and that in a faster way, and you can generate a higher NPV. So, my doubt is how much in EBITDA can you generate recurringly moving forward looking at the operation removing that one off. How much can you generate in EBITDA more because of that. You also mentioned a technical study of one part of the RAC is there any other extraordinary recognitions that we can consider moving forward?

[Rodrigo Tavares]: Well, that's very technical. Let me try to explain that and give you more clarity in relation to that. So, we contracted a report by an entity that was registered with the Brazilian federal income tax service, and they considered 200 cars that were in rental car but until February 28th. All cars in the company from up to February 28th, were covered by this report. So, there are four effects that are more complex. The first one, is on the two hundred and three thousand cars you have a retroactive credit since the beginning of the year. So, for each one of the cars individually you'll ascertain how much the credit should have been and how much we had and then it's a one-off entry. In addition to the cars that weren't fully depreciated, still but 203.000, part of them were depreciated, you speed up the credit receipt once it was, one over 48 and now it's one over 24. So, a large amount of those 203.000 cars isn't fully depreciated and, on that amount, you can speed up the recovery of PIS/COFINS credits, until the 24th month. In addition, the cars purchased after February could have the same benefit provided that we have new reports, be it them cars that are already in our fleet or be them cars that we will buy in the future. If all cars that have been part of the report until today, we would have an additional recognition of 24 million BRL, but they were being newer cars and most of that speeding up would come from the future, before getting to the 24th month. In addition, you're speeding up tax depreciation which leads to a high deferral in income tax and social contribution. You don't have a reflect effect on the bottom line. It's going to lower the book value in tax terms and then when you sell it, you'll recognize the tax, but you do have enough a relevant cash effect by deferring that portion.

[Nora Lanari]: Now let's go on to Aline Gil from BTG. Aline, you can ask your question.

[Aline Gil]: Hi, everyone. Good afternoon. Can you hear me?

[Rodrigo Tavares]: Yes

[Aline Gil]: My question is about fleet growth. You mentioned that in October you had the best month in fleet supply, and we saw news in the "Valor Daily" and Veja is talking about these problems in the automakers chain going up to 2023. So, can you give us some more flavor and expectation about fleet growth and renewal for the next quarters? Thank you.

[Rodrigo Tavares]: Thank you, Aline. In fact, the supply restriction should last nobody really has the exact date for that. Most believe that as of the second half we should have an improvement, that said we always have to compare that in relative terms. One is historic levels coming back to normal, another thing is an improvement in relation to what we've been seeing in the second and third quarter. The quarter was, especially because of Malaysia, that affected the semiconductor, it was the worst quarter in the year and that wasn't expected. Fourth quarter started off, as a stronger quarter, and we still expect restrictions which shouldn't be a strong quarter yet, but we expect it to be the best quarter in the year in relation to renewal. For next year the perspectives that the automakers are giving us are more positive but still not in relation to the annuality that we had before the pandemics. So, we expect a gradual improvement, especially after the second half and completely normal in 2023.

[Nora Lanari]: Aline, to add, I think it's worth noting and we wrote that in the press release that in conversations with automakers we have signs of different volumes than we had in 2021, that already guarantees growth for next year and potentially some efforts to make our fleet younger. So, we would grow the fleet, make it younger and our escape valve would be how fast we can make the fleet younger depending on the car supply for next year.

[Aline Gil]: Ok, great. Thank you.

[Nora Lanari]: We have a question from Filipe, from City. He talked about the mix; I think that was answered. A second one: "How is the debt portion positioned which is not linked to the CDI? What is your strategy to allocate the debt in pre and post fixed rates has that strategy changed the company capital structure somehow?"

[Rodrigo Tavares]: Well, thank you, Filipe. Most of our debt is in CDI +, I mean some sort of spread, when we contract debt that is not such as issuance of a debenture in IPCA or debt in foreign currency, we swap it to transform it into CDI +. There's a relatively small portion that's in CDI, very low, 109% that if even lower than the yield that we are able to allocate our cash in the investments that we may make and that's the best hedging that we have. So, our debt is basically on the spread on a fixed CDI and, in Fleet Rental, as we price the contract with a duration of two, three or four years, already locking in the spread when what we do is, by with derivatives, I can lock up that difference and transform my floating debt into Pre. So, my CDI + debt can be transformed into prefix debt which is exactly the interest rate that we use to price that contract in for the next two or three years. So, the portion of the debt that's priced is actually hedging our contracts in Fleet Rental. That means, if interest rate goes up, we're hedged and I can guarantee that spread and yield in fleet it's not a change in strategy or capital structure because of that that's always what we've done, but now that we're having a stronger interest rate rise, we've seen the derivative instruments playing their role and protecting or hedging that variation that's why we have benefited in that short term.

[Nora Lanari]: We have another question here from Rogerio Araujo, from UBS, you can unmute.

[Rogerio Araujo]: Hi, everyone. Can you hear me?

[Nora Lanari]: Rogerio, your audio audio is chopped.

[Rogerio Araujo]: How about now?

[Nora Lanari]: No, Rogerio, Sorry. If you don't mind, set it in the chat, please.

[Nora Lanari]: Victor, we received your question. We're going to read it: "Do you want to try to unmute again, otherwise I'll read it here". So, the change in ascertaining the PIS/COFINS credit has a relevant impact to profitability, what have you done for that change is there any risk that the revenue will understand the taxes attainment in a different way?

[Rodrigo Tavares]: Well, first of all, what motivated us is the fact that our useful life for the car is not 48 months. So, in rent a car or ride sharing it's 48 months that it doesn't have an adequate useful life you're talking about cars that would have 250.000 kilometers and for those purposes so what the reason for that was a technical matter. About the revenue service we talked to an agency that's recommended by the IRS to assess the useful life of any property plant or equipment. So, it was conservative, but it did come from a characteristic of the business, because that car is not a car that was made to last 48 months and that's why according to the technical agency, they deemed that the useful life of the car in rental is 24 months and that's what motivated the getting the tax credits and 24 instead of 48 months. Obviously, they could challenge us on that but we do have the legal and tax grounds, if they challenge us.

[Victor]: I have a follow-up, Rodrigo, about that, so for instance, I think it was in the second quarter. When the supreme court judged that and there was case law in a number of companies recognized it. In this specific case there was no judgment, right? Or a formal consultation with the IRS, or an event that would give you the legal security to not have any issues with that?

[Rodrigo Tavares]: We based ourselves on article 320 of the income tax regulation it sets forth the entity or agency that will tell you about the useful life of property plant or equipment. So, once again, based on the legal opinion, we have grounds to make that change.

[Victor]: Ok, great. Thank you.

[Nora Lanari]: We have a question - Rogerio I'll get back to you - We have a question from Guilherme Mendes from J.P Morgan. "Supposing that there's the worst thing from the automakers what's the limit of fleet age and use utilization that we would consider?

[Rodrigo Tavares]: We don't have a magic number or a limit. We're going to have to do the math in relation to car replenishment and extension of its useful life what we're doing to preserve the quality of the experience of our customers is reinforcing maintenance protocols and changing how we do that and when you look at a car with 30.000 or 40.000 kilometers, it's not necessarily an old car. A well-cared for car can remain in the fleet for a pretty long period. Obviously, there's no limit or special number that we can that we can mention and in addition it's important to note that there are different limits depending on the segment. So, a ride-sharing driver, for instance, is already using and already buys used cars with over 60.000 kilometers on it. So, if i offer them a 40.000, 50.000 car kilometer car, that's actually positive in their opinion. What might be a little different when you have a premium agency right or branch. So, we're very much aware of those limits not only for the global fleet, but also individually for each segment the in relation to perception of value and perception of quality that that specific customer has.

[Nora Lanari]: With that Guilherme, we've been able to maintain the NPS per segment at excellent levels. Let's try to go back to Rogerio, can we hear your question, Rogerio? Let's try.

[Rogerio]: Is it better, now?

[Nora Lanari]: No, still not good, Rogerio. Well, we have your question in the chat let me read it: "So, the expectations of the spread of purchase and sale of cars did that change. So, sales and purchase price expectations are still the same? and second question, what part for RAC did you consider the accelerated depreciation, what would be an ideal assumption on that?

[Rodrigo Tavares]: The spread expectations of purchase and sale considering a restriction scenario are actually tougher negotiations. So, when you look at the replenishment cost you expect a higher depreciation than what we see today without a doubt. About the RAC percentage as I mentioned there were 203.000 cars that were part of that report versus the current fleet, once again, by understanding the technical side we'll request reports for the cars that are currently in the fleet and for future cars as well that will enter the portfolio. So, I can't say, I can't mention the percentage, because these reports are individually drafted from that competent agency to confirm the useful life for the new cars that will enter the Localiza portfolio.

[Nora Lanari]: And defined according to license plate don't forget that 203.000 cars of the first report it's accelerated for the ones that weren't completely depreciated. Rogerio about your first question about the spread of purchase and sale cars, compared to pre-covid, yes, it did change. We're in a context where the restriction of inputs added to the exchange rate evaluation affected new car prices. So, when you look at the history, the company used to sell a car at an approximately 104% of the purchase price and then there's the sales expenses and depreciation and now the spread is much more positive, because not only lower depreciation but also an EBITDA Seminovos higher margin. It should come back to normal at some time, but we still have effects pressure and inputs pressures so, it's really hard to be accurate when these levels would go back to normal of the 104%, 105%, that depends on future car price increases and future negotiations, as Rodrigo mentioned.

[Nora Lanari]: I think that was our last question in the chat. So, with that, the Localiza conference call is now over. The IR team and Rodrigo, we are at your disposition at your available for you if you have any additional questions. Good afternoon, everyone.