MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Ba3 rating to Simpar; stable outlook

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New York, June 01, 2022 -- Moody's Investors Service, ("Moody's") has today assigned a Ba3 corporate family rating to Simpar S.A. (Simpar). The outlook for the rating is stable.

This is the first time Moody's assigns a rating to Simpar.

Ratings assigned:

Issuer: Simpar S.A.

Â…Corporate Family Rating: Ba3

Â…Outlook: stable

RATINGS RATIONALE

Simpar's Ba3 rating reflects primarily its status as the holding company of one of the largest logistics and vehicle and equipment rental groups in Brazil, with relevant size, scale and market position as the largest supply chain management service provider and truck logistic transportation company in Brazil through JSL; largest truck and equipment rental company in Brazil through Vamos; and the second largest rent-a-car and fleet management company through Movida. The group's solid business model which encompasses long term service agreements, a wide service portfolio, diverse client base and cross selling opportunities, and that provides resiliency to operations during downturns is an additional credit positive. Simpar's subsidiaries have flexible business models and proven ability to manage the return of invested capital throughout the life cycle of its vehicles and equipment, which ensures adequate profitability and cash generation through economic cycles. The company's good liquidity and profitability, and Moody's expectations of gradual deleveraging in the next 12-18 months also support the rating.

The rating is primarily constrained by the group's high consolidated Moody's-adjusted gross leverage of 4.9x in the last twelve months ended March 2022 (excluding the credit-linked notes) resulted from its fast growth strategy coming from both organic and inorganic opportunities and from the capital-intensive nature of Simpar's businesses. Simpar's outlook of negative free cash flow related to its growth strategy is an additional concern, although Moody's recognizes that the company has the financial flexibility to reduce expansion capex and sell its unencumbered light and heavy vehicle fleet in case of need, which would help the company to generate cash and reduce debt. Finally, Simpar's capital allocation strategy could lead to notching considerations of debt issued at the parent level in case of structural subordination in the future.

Since August 2020, Simpar has announced sixteen acquisitions through its JSL, Vamos and Automob (former Original) subsidiaries that increased total debt marginally and will result in a cash outflow of BRL1.7 billion split over 2021-25, and won three concessions, accelerating its growth strategy. The company raised debt to fund the organic growth of its subsidiaries, but also raised BRL3 billion in equity with the IPO and follow-on of Vamos and JSL, respectively, which helped to temper the impact of its growth strategy in leverage ratios. Moody's expects that all acquisitions will bring additional BRL5.9 billion in revenues and BRL1 billion in EBITDA annually (about 20-30% above current level), which would alone drive leverage down to around 4.5x at the end of 2022 (excluding the credit-linked notes). Assuming no additional gross debt reduction, Simpar's adjusted gross leverage would hover around 4.0x-5.0x in the next few years with the consolidation of recent acquisitions, in line with the historical level of about 5x. Net leverage, used for covenant measure, would remain at around 3.0x.

LIQUIDITY

Simpar has good liquidity with BRL10.5 billion in consolidated cash at the end of March 2022 (BRL11.6 pro forma to a debt issuance made in April 2022), sufficient to cover short-term debt by 6.9x and all debt amortizations until 2025. The holding company has a cash position of about BRL2.8 billion, also sufficient to cover all debt amortizations until 2030, and received about BRL285 million in dividends during the last twelve months ended March 2022. The company also has BRL2 billion in approved credit lines available for capex, which are an additional source of funding for expansion despite being subject to certain conditions for disbursement.

Given the capital-intensive nature of Simpar's businesses, its free cash flow generation only turn positive when the company downsizes its fleet or if it is able to increase the return of its assets substantially. In the twelve months ended March 2022, Simpar's free cash flow was negative BRL9 billion, driven mainly by the BRL8.7 billion spent in the fleet expansion of Movida and Vamos – which led to a net capex of BRL10.4 billion. Simpar's total capex was even higher at BRL12.3 billion in the twelve months ended March 2022, but Moody's nets this amount by the asset sales achieved during the period to reflect the regular renewal of Simpar's fleet. The company's current high cash position and proven ability to sell cars in a timely manner to raise cash mitigates the risks associated with high leverage and covenant breach, as the company can quickly adjust its cash position to offset the lower EBITDA stream during economic downturns.

ESG CONSIDERATIONS

The surface transportation and logistics sector primarily consists of trucks, railroad and parcel delivery companies, which are heavy consumers of diesel fuel. The sector faces high environmental risk because of stricter emission standards and lower demand for freight exposed to environmental risks, especially coal. Simpar is not exposed to coal and other products in secular decline, but faces environmental risks related to carbon transition on the trucking logistics segment and the need to invest in fleet renewal to meet customers' preferences, as well as waste and pollution generated by the business activity. Social risks include the management of customer relations, including sensitive customer data, mainly in the car rental segment; responsible production; health and safety; and demographic and societal trends that may challenge mainly the car rental business model through new mobility alternatives.

In terms of corporate governance, the group is publicly listed in Brazil since 2010 (initially through JSL and currently through Simpar), with shares listed on the Novo Mercado segment of B3 (São Paulo's Stock Exchange), the segment with the highest level of corporate governance. Fernando Simões' family is the controlling shareholder of Simpar holding directly and indirectly (through JSP holding) 63.70% of the group's total shares. Other members of the family hold approximately 7.30% of total shares, management, board and treasury shares account for 1.92% and free float represents 27.09% of total. Simpar's board of directors is composed of five members, of which two are independent.

Simpar controls its listed subsidiaries JSL, Movida and Vamos, appointing three out of five board members for each. Currently, Moody's sees strong linkages between the holding company and its subsidiaries, evidenced by a relevant ownership, significant commercial synergies, cross-guarantees among Simpar, JSL and Vamos' debt, and financial covenants measured on a consolidated basis in existing debt instruments. Furthermore, a majority vote of the board of JSL, Movida and Vamos can lift any upstream dividend or intercompany loans restrictions, effectively providing Simpar full control over its subsidiaries cash flows.

RATING OUTLOOK

The stable outlook reflects Moody's expectations that Simpar will continue to grow both organically and inorganically and improve profitability and cash generation to gradually reduce leverage overtime. The outlook also reflects Moody's expectation that the company will maintain a conservative approach toward liquidity, balancing capex and shareholders and creditors interest overtime.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Simpar's rating could be upgraded if the company is able to reduce leverage materially, either through organic EBITDA growth or through gross debt reduction. Quantitatively, a rating upgrade would require total Moody's-adjusted gross debt to EBITDA below 4.0x and EBIT to interest above 2.5x (1.8x in the twelve months ended March 2022) on a sustained basis. The maintenance of an adequate liquidity profile would also be required for an upgrade.

Simpar's rating could be downgraded if the company's operating performance deteriorates, with operating margin declining to below 8% (23.7% in the twelve months ended March 2022) without prospects of improvement. The rating would also suffer negative pressure if EBITDA growth does not materialize, such that Simpar's Moody's-adjusted gross leverage does not remain at around 5.0x on a sustained basis. A deterioration in the company's liquidity profile and evidence of an aggressive growth strategy in times of weak market fundamentals could also lead to a downgrade.

The principal methodology used in this rating was Surface Transportation and Logistics published in December 2021 and available at https://ratings.moodys.com/api/rmc-documents/360641 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquarter in São Paulo, Brazil, Simpar is the non-operating holding company of a leading logistics provider and light and heavy vehicle and equipment rental group that operates in Brazil since 1956. The company has a 71.9% stake in JSL S.A. (JSL), the largest logistics service company in Brazil that provides dedicated logistic services and truck cargo transportation (29% of consolidated revenues); a 65.0% stake in Movida Participações S.A. (Movida), Brazil's second largest rent-a-car, fleet management and used car sales company (41%); a 71.9% stake in Vamos Locação de Caminhões, Máquinas e Equipamentos S.A. (Vamos), a truck, machinery and equipment leasing and new and used heavy vehicles sales company (20%). The company also owns 73.9% of a light vehicle dealership (Automob) and 100% of BBC, a multiple bank, of CS Infra, a port and toll road concession company (incorporated in December 2021), and of CS Brasil, a public and mixed capital transportation services provider. In the LTM ending March 2022, SIMPAR reported consolidated net revenues of BRL15.8 billion ($3 billion) with an adjusted EBITDA margin of 37%.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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