FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Simpar's IDRs to 'BB-'; Outlook Stable

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Fitch Ratings - Rio de Janeiro - 16 Jun 2025: Fitch Ratings has downgraded Simpar S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB-' from 'BB' and Long-Term National Scale Rating to 'AA(bra)' from 'AA+(bra)'. Fitch has also downgraded Simpar and its financial vehicles' senior unsecured bond issuances to 'BB-' from 'BB'. The Rating Outlook is Stable.

The downgrades reflect Simpar's consolidated net leverage consistently exceeding 'BB' rating thresholds. Persistently high interest rates, elevated capital expenditures and lower returns on invested capital are also expected to continue limiting the company's ability to convert EBITDA into cash flow, hindering potential deleveraging efforts.

The Stable Outlook reflects expectations for gradual improvement in EBITDA margins, supported by Simpar's strong competitive position in the Brazilian rental and logistics industry and greater operating cash flow predictability from long-term contracts.

KEY RATING DRIVERS

Leveraged Capital Structure: Fitch forecast Simpar's consolidated net adjusted debt/adjusted EBITDA to remain around 4.6x in 2025 and 2026, amid rising interest rates in Brazil. Elevated interest expenses should consume, on average, about 86% of Simpar's expected EBITDA in 2025 and 2026, significantly limiting the group's deleverage capacity. Consolidated net adjusted leverage averaged 4.8x from 2022 to 2024 and stood at 4.7x in 2024, reflecting Simpar's historically aggressive growth strategy. Positively, consolidated total adjusted debt/adjusted EBITDA declined from a peak of 7.6x in 2021 to 6.0x in 2024, mainly due to EBITDA expansion.

Simpar's net debt rose consistently to BRL49.0 billion in March 2025 from BRL31.7 billion in December 2022, driven by the group's aggressive growth strategy. Investments exceeded BRL30 billion during this period and were partly financed by used vehicle sales. Despite Fitch's expectation of gradual operating margin improvement, net debt will likely continue to rise over the next three years to finance negative FCF. Sustained debt reduction depends on Simpar's ability to reduce investments and/or sell assets.

Negative FCF: The capital-intensive rental industry, which generates 78% of Simpar's EBITDA, requires sizable and regular investments to grow and renew the fleet, pressuring the group's cash flow. FCF should remain negative, averaging, BRL5 billion in 2025 and 2026, after annual average total capex of BRL15 billion, partly funded by used vehicle sales. Cash flow from operations (CFO) should reach BRL1.8 billion in 2025 and BRL2.3 billion in 2026, pressured by rising interest payments.

Strong Business Profile: Simpar's large scale and leading position in the Brazilian rental and logistics industry provide a competitive advantage in asset purchases and operating costs compared with peers. The group's diversified service portfolio and presence across multiple sectors also support its credit profile. Simpar' strategic and operational role, competitive cost structure and revenue stream based on long-term contracts for most of its rental and logistics businesses minimize exposure to Brazil's more volatile economic cycles.

Key Operating Segments: Movida (33% of net revenue and 45% of EBITDA, the second largest player) focuses on light vehicles and fleet rentals. JSL (22% of net revenue and 17% of EBITDA, the market leader) specializes in supply chain management and transportation. Vamos (12% of net revenue and 32% of EBITDA, the market leader) focuses on heavy vehicles and equipment rentals.

Solid Profitability: Fitch forecast consistent, gradually improving consolidated EBITDA, driven mainly by organic growth. Balanced demand and supply dynamics should support adequate rental and service rates and high occupancy, leading to a gradual recovery in Simpar's return on invested capital (ROIC) toward historical levels. Fitch forecast consolidated net revenue of BRL45.5 billion (+11% over 2024) and adjusted EBITDA of BRL11.7 billion (26% margin and +17% over 2024) in 2025, and BRL48.5 billion in net revenue with BRL12.7 billion in EBITDA (26% margin) in 2026, up from BRL41 billion in revenue and BRL10 billion in EBITDA (24% margin) in 2024.

PEER ANALYSIS

Simpar's business profile is stronger than that of Localiza Rent-a-Car S.A. (Foreign and Local Currency IDRs BB+ and National Long-Term Rating AAA(bra), all with a Stable Outlook). Simpar matches Localiza in scale and offers a more diversified service portfolio but has a weaker financial profile, with higher leverage and more pressured FCF, which pressure the rating.

Compared with Unidas Locações e Serviços S.A. (Foreign and Local Currency IDRs BB- and National Long-Term Rating AA(bra), all with a Stable Outlook), Simpar has a much stronger business profile, greater liquidity, and better access to the credit market. These advantages are offset by slightly higher leverage compared to Unidas.

KEY ASSUMPTIONS

-- Average consolidated annual revenue growth at 8% from 2025 to 2027;

-- Consolidated EBITDA margin at 26%, on average, from 2025 to 2027;

-- Average annual capex at around BRL15 billion from 2025 to 2027;

-- Cash balance remains adequate compared with short-term debt;

-- Dividends at 25% net income.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Limits to Simpar's unrestricted ability to access the operating companies' cash;

--Failure to preserve liquidity and inability to access adequate funding;

--Prolonged decline in demand coupled with company inability to adjust operations;

--Consolidated net adjusted leverage above 5.5x on a sustainable basis;

--Material deterioration on the group's fleet rental and logistics businesses.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Consolidated net adjusted debt/EBITDA below 4.5x on a sustainable basis;

--Consolidated EBITDA Interest Coverage above 2.0x

--Strengthening of the group's scale and profitability, without further deterioration of its capital structure.

LIQUIDITY AND DEBT STRUCTURE

Simpar's adequate consolidated liquidity is a key credit factor, with cash covering adjusted short-term debt by 1.2x in March 2025. However, the group will need to access new credit lines as FCF should remain negative. As of March 2025, Simpar had BRL13.4 billion of cash and equivalents, BRL1.9 billion in undrawn committed credit lines, and BRL62 billion in total adjusted consolidated debt (about 5% secured), with BRL11 billion due in the short term.

At the holding level, Simpar had BRL3.6 billion in cash and equivalents and BRL6.8 billion in total debt, with BRL200 million due in the short term and BRL100 million due in the last nine months of 2026. Structural subordination risk is mitigated by Simpar's board control and significant ownership in its operating companies, as there are no restrictions on dividend upstreaming or intercompany loans that a majority board vote cannot override.

The consolidated debt profile consists of mainly local debentures (40%), bank loans (16%), CRAs and CRIs (19%), and fully hedged USD bonds (13%). Simpar's financial flexibility is also supported by the group's ability to defer growth capex to adjust to economic cycles and considerable unencumbered assets, with fleet market value over net debt at about 1.2x.

ISSUER PROFILE

Simpar is a non-operational holding company that controls and manages eight independent companies providing mainly rental, logistics and mobility services, focused on long-term contracts. The company's main shareholder is JSP Holding S.A. (59.04%), the Simoes family holding company.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Simpar S.A.	LT IDR	BB-	Downgrade	BB
	LC LT IDR	BB-	Downgrade	BB
	Natl LT	AA(bra)	Downgrade	AA+(bra)
senior unsecured	LT	BB-	Downgrade	BB
senior unsecured	Natl LT	AA(bra)	Downgrade	AA+(bra)
Simpar Europe				
senior unsecured	LT	BB-	Downgrade	BB
Simpar Finance S.a.r.l.				
senior unsecured	LT	BB-	Downgrade	BB

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodologia de Ratings em Escala Nacional (pub. 22 Dec 2020)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

Metodologia de Ratings Corporativos (pub. 06 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Simpar Europe	EU Endorsed, UK Endorsed
Simpar Finance S.a.r.l.	EU Endorsed, UK Endorsed
Simpar S.A.	EU Endorsed, UK Endorsed

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