CREDIT OPINION
11 July 2024

Update

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RATINGS

Simpar S.A.

Domicile	Sao Paulo, Brazil
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Simpar S.A.

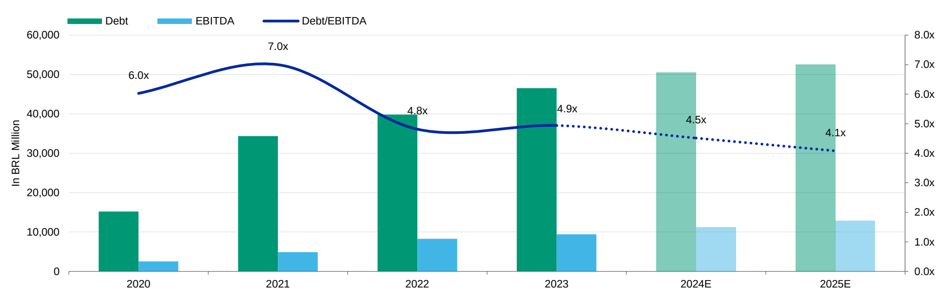
Update to credit analysis

Summary

Simpar S.A.'s (Simpar) Ba3 rating primarily reflects its status as the holding company of one of the largest logistics, and vehicle and equipment rental groups in Brazil, with a significant size, scale and market position in the country as the largest provider of supply-chain management services and truck logistics; largest truck and equipment leasing company; and the second-largest rent-a-car and fleet rental company. The company's solid business model encompasses long-term service agreements, a wide service portfolio, a diversified client base and cross-selling opportunities, providing resiliency to operations during downturns, an additional credit positive. Simpar's subsidiaries have flexible business models and a proven ability to manage the return on invested capital (ROIC) throughout the life cycle of its vehicles and equipment, ensuring adequate profitability and cash generation through economic cycles. The company's good liquidity, profitability and controlled leverage also support the rating.

The rating is primarily constrained by the group's high consolidated Moody's-adjusted leverage of 5.2x in the 12 months that ended March 2024, which resulted from its fast growth strategy from both organic and inorganic opportunities and from the capital-intensive nature of Simpar's businesses. Simpar's negative free cash flow (FCF) because of its growth strategy is an additional risk, although we recognize that the company has the financial flexibility to reduce expansion capital spending and sell its unencumbered light and heavy vehicle fleet in case of need, helping the company 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.

Exhibit 1
Despite higher debt, gross leverage should decrease with higher EBITDA generation



Source: Moody's Ratings

Credit strengths

» Size, scale and leading market position in all segments it operates, with wide product offering, synergies and cross-selling opportunities

» Solid business model, which provides stability to operations and good profitability

» Diversified client base, although geographically concentrated in Brazil

» Good liquidity

Credit challenges

» High leverage as a result of a fast and acquisitive growth strategy

» Negative interest coverage at the holding level, considering dividend upstream from subsidiaries

» Capital-intensive nature of the industry, which leads to negative FCF in times of expansion

» Capital allocation strategy, which could lead to notching considerations in case of structural subordination

Rating outlook

The stable rating outlook reflects our expectations that Simpar will continue to grow both organically and inorganically, and improve its profitability and cash generation to gradually reduce leverage over time. The outlook also reflects our expectation that the company will maintain a conservative approach toward liquidity, balancing capital spending and shareholders' and creditors' interest.

Factors that could lead to an upgrade

Simpar's rating could be upgraded if the company is able to reduce leverage substantially, either through organic EBITDA growth or gross debt reduction. Quantitatively, a rating upgrade would require total Moody's-adjusted gross debt/EBITDA below 4.0x and EBIT/interest above 2.5x (1.2x for the 12 months that ended March 2024) on a sustained basis. A rating upgrade would also require the maintenance of adequate liquidity.

Factors that could lead to a downgrade

Simpar's rating could be downgraded if the company's operating performance deteriorates, with its operating margin declining below 8% (17.7% for the 12 months that ended March 2024) without prospects of an improvement. Negative rating pressure would emerge 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 and evidence of an aggressive growth strategy in times of weak market fundamentals could also lead to a downgrade.

Key indicators

Exhibit 2
Simpar S.A.

USD Millions	Dec-20	Dec-21	Dec-22	Dec-23	Moody's 12-18 months Forward view
Revenue	$1,922.0	$2,574.8	$4,730.5	$6,380.0	$7,600.0 - $8,700.0
Operating Margin %	10.5%	22.6%	21.2%	17.8%	17.9 - 18.4%
EBITA / Average Assets	6.2%	11.0%	11.8%	10.6%	11.0 - 11.7%
Debt / EBITDA (*)	7.0x	7.0x	4.8x	4.9x	4.1x - 4.5x
FFO / Debt	14.5%	11.6%	11.9%	10.6%	9.0 - 10.8%
EBIT / Interest Expense	1.2x	1.8x	1.5x	1.2x	1.3x - 1.5x

*Gross Debt/EBITDA
All figures and ratios are calculated using our estimates and standard adjustments. The forecasts (f) or projections (proj.) are our opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Detailed credit considerations

Size, scale and leading market position in all segments it operates

Simpar controls, manages and, if necessary, provides support to eight independent subsidiaries (JSL, Vamos, Movida, CS Infra, CS Brasil, Ciclus Ambiental, Automob and BBC) that provide value-added rental, logistics, mobility and financial services, focused on long-term contracts. The group's primary activity consists of buying, renting, maintaining, financing, operating and selling light and heavy vehicles and equipment, aiming at maximizing the ROIC.

We believe there are strong incentives for Simpar S.A. to influence financial policies and support its subsidiaries in case of need. There are no limitations on access to dividend upstreams from subsidiaries, including Movida, JSL and Vamos, despite the minority carve-outs in all these subsidiaries. All the subsidiaries of the group benefit from the scale and diversity of the combined entities.

Despite the strategic and operational links, there are no formal debt links between Simpar and Movida, with no guarantees between the Holdco and Opco. Movida is the main subsidiary from a cash generation perspective. Simpar intends to remove formal debt links with its publicly listed subsidiaries, giving it the flexibility to restructure its portfolio in case its stake in any of the subsidiaries is no longer accretive to the group. Currently, Simpar is the guarantor of about BRL4.0 billion of JSL's, CS Brasil's, Vamos', Automob's and Ciclus' debt. Simpar offers its subsidiaries a degree of operating independence. Movida, JSL and Vamos operate independently, with exclusive executive and administrative teams, and maintain a brand identity distinct from the group.

Simpar's market position and scale, with a unique service portfolio, long-term relationships with clients and third-party service providers, and commercial synergies and cross-selling opportunities within its subsidiaries give it an edge over competitors on asset purchases and industry know-how. The group's integrated business model allows its subsidiaries to maximize returns by managing fleet capacity utilization and age, optimizing the profitability of service agreements, and minimizing losses stemming from the regular disposal of used vehicles and equipment, ensuring a structured market for large fleet divestitures, especially in times of economic deceleration. The group has around 530 new and used light and heavy vehicle stores in addition to more than 1,000 branches and stores for the rent-a-car, and truck and equipment rental businesses. This network gives the company significant commercial advantages over smaller competitors, a unique footprint in Brazil and a higher level of service offering.

Movida Participacoes S.A. operates a car rental, fleet rental and used car sales business. Simpar holds a 65% stake in the company. In 2023, the company had a total fleet of 243,931 vehicles in Brazil and Portugal. Movida is the second-largest rent-a-car and fleet rental provider in Brazil by revenue and fleet size. After the incorporation and consolidation of part of CS Brasil's business by Movida in 2021, the company also offers management and rental of light vehicles for public customers. For the 12 months that ended March 2024, Movida accounted for 31% and 41% of the group's total revenue and EBITDA, respectively.

JSL is the largest logistics player in the fragmented Brazilian logistics service and truck transportation markets. The company offers dedicated supply-chain services, including integrated logistics projects, information management of the logistics chain, input flow management (inbound), internal logistics (product movement and inventory management), reverse logistics, warehousing and urban distribution, bus chartering for the transportation of customers' employees, and general cargo transportation. This business represented 23% of Simpar's total revenue and 20% of total EBITDA in the 12 months that ended March 2024.

Vamos offers the rental of machinery and equipment, rental of heavy vehicles with and without services, a heavy vehicle dealership network and the sale of heavy vehicles, along with other personalized services. Vamos is the largest equipment and truck rental company in the fragmented truck rental industry in Brazil, accounting for roughly 1% of the country's total truck fleet. In the 12 months that ended March 2024, Vamos accounted for 18% and 32% of Simpar's consolidated revenue and EBITDA, respectively.

Finally, Simpar owns 79.4% of a light vehicle dealership (Automob), and 100% of a multiple bank (BBC), a transportation services provider for public and hybrid capital companies (CS Brasil), and a waste management, port and toll road concession company (CS Infra), which collectively generated around 27% of revenue and 8% of EBITDA in the 12 months that ended March 2024. Automob has become more relevant to the group after the acquisitions of UAB, Sagamar, Autostar and Grupo Green during 2021-22, with the subsidiary generating net revenue of BRL7.6 billion in the 12 months that ended March 2024. This is the fastest-growing subsidiary of Simpar; growth is mainly inorganic through consolidating smaller dealerships.

Solid business model and diversified client base provide stability to operations and good profitability through economic cycles

Simpar's subsidiaries have solid business models with long-term contracts with its clients that contain minimum volume guarantees, penalties for early termination and price adjustments; control over the entire business cycle — from the purchase of the asset until its sale; and a combination of asset-light and heavy business models, which provides more flexibility to operations.

For dedicated logistics services, JSL has contracts of around five years with annual price revisions, and most of them contain clauses that guarantee the company a minimum volume and penalties in case of cancellations. At Vamos, almost 100% of revenue is ensured by long-term and tailor-made contracts that have an average tenor of five years with an annual pass-through of inflation and penalties of 50% of the residual value of the contract in case of early termination. Furthermore, in the logistics and rental businesses, Simpar's subsidiaries JSL, Movida, CS Brasil and Vamos resell the assets used in the services at the end of the contract and include the estimated residual value in the contract's pricing and expected return. Therefore, the group's long track record and expertise in used light and heavy vehicle sales, and its unique used vehicle store network in Brazil play a crucial role in the company's overall profitability.

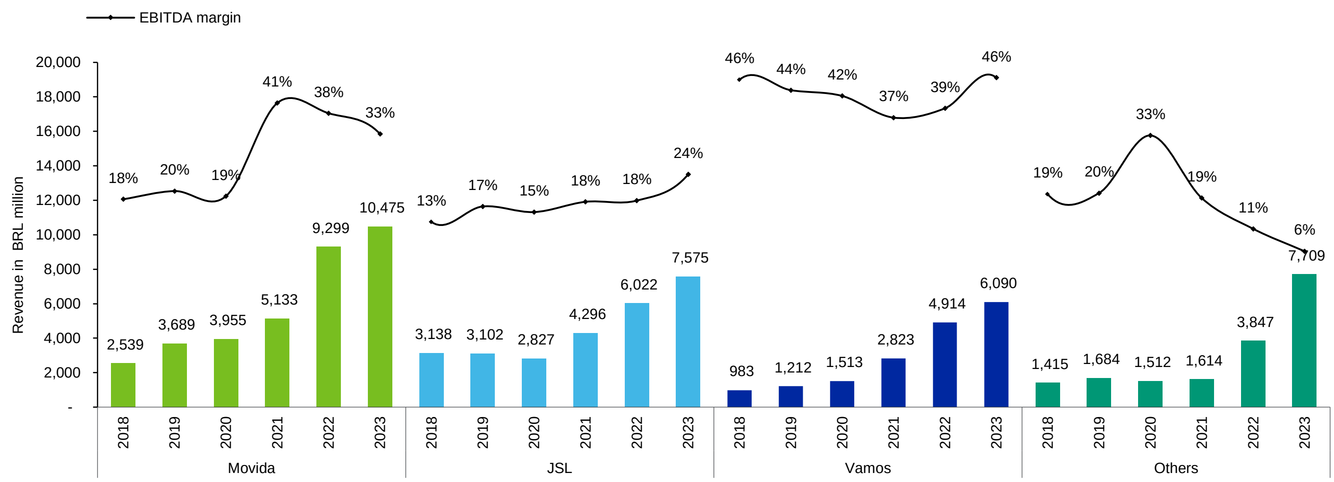
Simpar's subsidiaries operate with both an asset-light and asset-heavy business model, which provides it the benefit of both the operational flexibility to reduce costs during downturns, and the ownership and full control of operating assets. The asset-light model accounts for about 40% of the group's revenue, mostly related to the logistics segment, and the asset-heavy model for 60% of revenue, mostly related to the heavy and light vehicle, and equipment rental and fleet rental businesses.

The group has operations in Argentina, Bolivia, Mexico, Portugal, Chile, Uruguay, Paraguay, Peru and South Africa, but almost 100% of revenue is generated in Brazil, which leaves it exposed to economic cycles in the country. However, because Simpar's businesses have a diversified institutional client base comprising most of the essential and countercyclical sectors of the domestic economy (such as food and beverage, agriculture, retail, metals and mining, chemicals, pulp and paper, automotive, and capital goods) and operate with long-term contracts, the group's operating performance is resilient through economic cycles. Furthermore, Simpar's subsidiaries have good, long-term relationships with its clients, reflected in its track record of high client retention, and has been able to increase its profitability and ROIC even in times of expansion.

Operating performance remained adequate even during downturns

In the last three years, the operating performance of Simpar's subsidiaries has recovered, with consolidated Moody's-adjusted EBITDA growing to BRL9.7 billion for the 12 months that ended March 2024 from BRL2.5 billion in 2020, and the EBITDA margin expanding to 28.9% from 25.7% over the same period, because of the capture of synergies of all acquisitions and diversified and resilient cash generation, mostly coming from long-term contracts, with adequate profitability and protected by price adjustment clauses. Simpar's diversification toward the rental business will provide stability to existing operations and to the company's overall performance.

Exhibit 3
Profitability remained relatively stable across subsidiaries even during downturns
Historical revenue and EBITDA margin per subsidiary

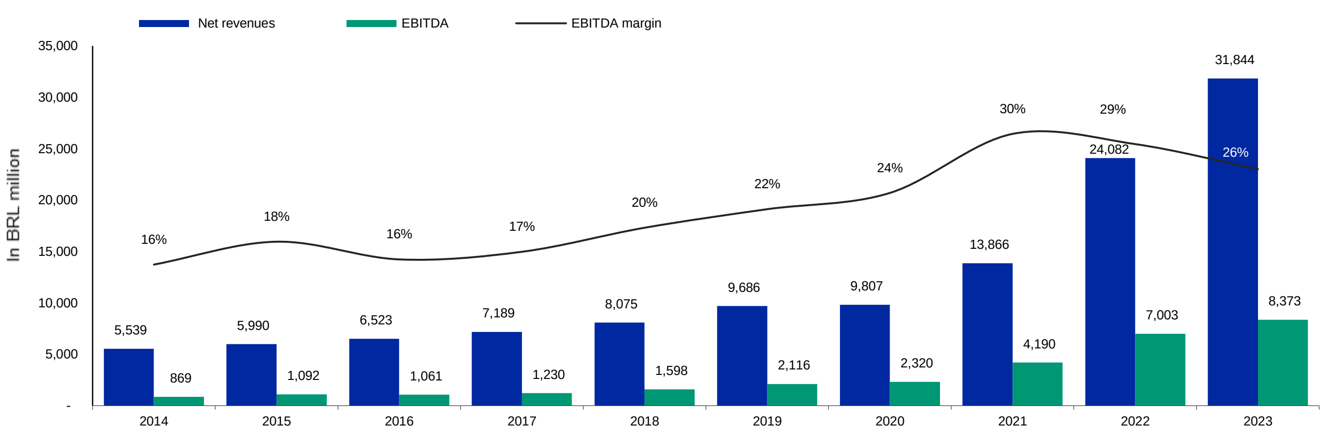


Sources: Simpar S.A. and Moody's Ratings

Without any additional shocks related to macroeconomic obstacles, we expect Simpar to continue posting robust growth rates through economic cycles. This growth will be supported by recent and future acquisitions, the organic growth of the industries in which the group operates, and market share expansion, given the fragmented nature of the logistics and equipment rental industries in Brazil.

We view the Simpar business model as highly susceptible to interest-rate volatility. Leverage of the group is high and its debt is mostly exposed to floating CDI (Brazilian inter-bank deposit rate). Therefore, a higher Selic rate (Brazil's central bank benchmark rate) leads to higher interest burden. Additionally, the combination of interest rates, credit availability and disposable income influences the activity on new and used car markets.

Exhibit 4
Revenue increased, supported by acquisitions and organic growth
Consolidated revenue and reported EBITDA



<u>2023 numbers exclude the effect of impairments of around BRL404 million</u>
Source: Simpar S.A and Moody's Ratings

In 2020, the operating performance of Simpar's businesses remained fairly stable relative to that in 2019 despite the coronavirus pandemic. The deterioration in the credit metrics of Simpar's subsidiaries was not as severe as that for other companies operating in the car, truck and equipment rental sectors. It was not as severe because the company benefited from its resilient business model, which encompasses long-term contracts with minimum volume guarantees and penalties covering about 75% of its EBITDA (related to the asset-heavy businesses in the logistics and rental segments), thereby increasing cash flow predictability. Furthermore, the company proactively adjusted costs and other cash outflow (namely the purchase of assets) to preserve profitability and liquidity. During 2014-16, when the Brazilian economy and industrial sector deteriorated significantly, the group also posted 18% growth in revenue and 22% growth in EBITDA, supported by the resilient performance of the logistics and leasing businesses and cost reduction efforts.

JSL's revenue was strained during the worst months of the pandemic under its asset-light segment, specially in April of 2020. But the drop in volumes in this segment was mitigated by the asset heavy segment with long-term contracts counting with triggers for passing on costs through a parametric formula. The asset heavy services are integrated into the production process of JSL clients through customized solutions with high degree of specialization and loyalty. Revenue at Vamos, Movida and fleet rental revenue at CS Brasil continued to grow through the pandemic. Even segments that we expected would suffer the most (such as Movida's rent-a-car business and used car sales, and sale of used trucks) posted a softer decline in sales than that of competitors, reflecting Movida's ability to sell cars and maintain fleet utilization rates during the crisis, and Vamos' know-how and competitive advantage in the sale of used trucks, considering the company's average truck fleet age.

Movida's revenue in 2023 was BRL10.3 billion, which we expect to grow about 10%-12% per year over the next two years, supported mainly by a larger pool of vehicles in fleet rental and higher rental prices. Revenue yield will help margins. In December 2023, revenue yield reached 3.9%, from 3.3% in December 2022. This is because the average cost per vehicle in the fleet was lower vis-a-vis the higher rental prices. We expect the company's Moody's-adjusted EBITDA to reach BRL4.7 billion in 2024 from BRL3.8 billion in 2023. Although the margins for rent-a-car and fleet rental will remain solid, used car margins will return to their normal level of mid- to low-single digits in percentage terms. Used car vehicle sales margins had been unusually high between year-end 2020 and year-end 2022. This is because of a sharp increase in used car demand and low available new vehicle supply as a result of a microchip shortage in the sector.

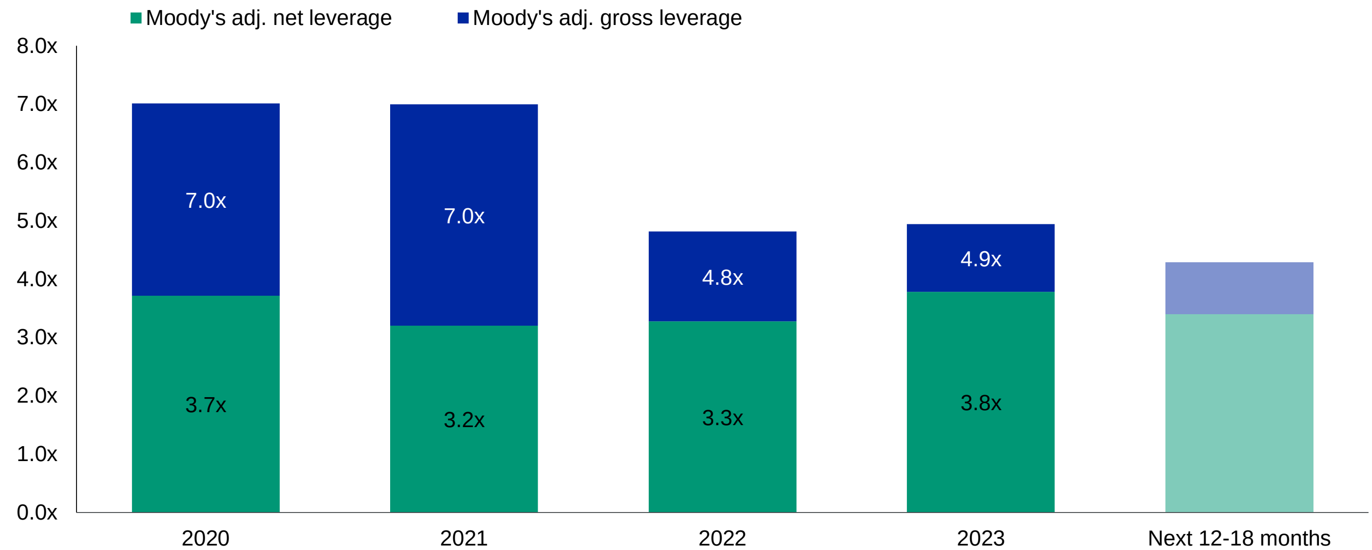
High leverage because of a fast and acquisitive growth strategy and the capital-intensive nature of the industries

Despite Simpar's adequate operating performance and profitability in recent years, the company's debt-funded growth strategy resulted in high leverage ratios. The group's revenue increased over 5.6x to BRL33.6 billion in 2023 from BRL6.0 billion in 2015, while its Moody's-adjusted EBITDA margin increased to 28.6% from 18.9% over the same period. Revenue growth came organically through the addition of new contracts at JSL and Vamos, and the growth of Movida's operations, and more recently through acquisitions. In terms of profitability, growth came from cost reductions, higher utilization rates and increased efficiency. Still, gross debt increased because of the capital-intensive nature of Simpar's businesses. Therefore, the group's adjusted leverage increased during 2020 and 2021, but declined to 4.9x at the end of 2023 with the integration of the recent acquisitions and efficiency gains.

Between 2020 and 2023, Simpar announced over 25 acquisitions through its subsidiaries JSL, Vamos, Movida and Automob, which have increased total debt marginally, since the acquisitions were made through a combination of debt and equity issuances, and will result in a cash outflow of BRL1.7 billion split over 2023-25. Simpar's subsidiaries also won three concessions, accelerating its growth strategy via that channel. The company raised debt to fund the organic growth of its subsidiaries, but also raised BRL3 billion in equity through the IPO and follow-on of Vamos and JSL, which helped to temper the impact of its growth strategy on leverage ratios. We expect that, with all acquisitions included, Simpar will generate over BRL38 billion in revenue and BRL11.3 billion in EBITDA in 2024. Simpar stated that it will continue to pursue a gradual reduction in leverage. We expect Simpar's adjusted gross leverage to be 4.0x-4.5x in the next few years, assuming no gross debt reduction and with the full contribution of recent acquisitions/concessions; this is lower than the historical level of 5.0x. Net leverage, used as a covenant measure, will likely remain at around 3.0x-3.5x.

Over time, we expect Simpar to continue to reduce leverage on the back of organic EBITDA growth, driven by an increase in profitability and greater scale at JSL, Movida, Automob and Vamos, the maturity of CS Infra concessions, high growth prospects of the vehicle outsourcing industry in Brazil and higher ROIC from new contracts. Still, leverage reduction will be gradual because the company will continue to require additional debt to fund its expansion plans at Movida and Vamos. A more sustained and faster reduction in leverage will only occur if the group raises proceeds from additional asset sales or minority interest sales.

Exhibit 5
Moody's-adjusted gross and net leverage

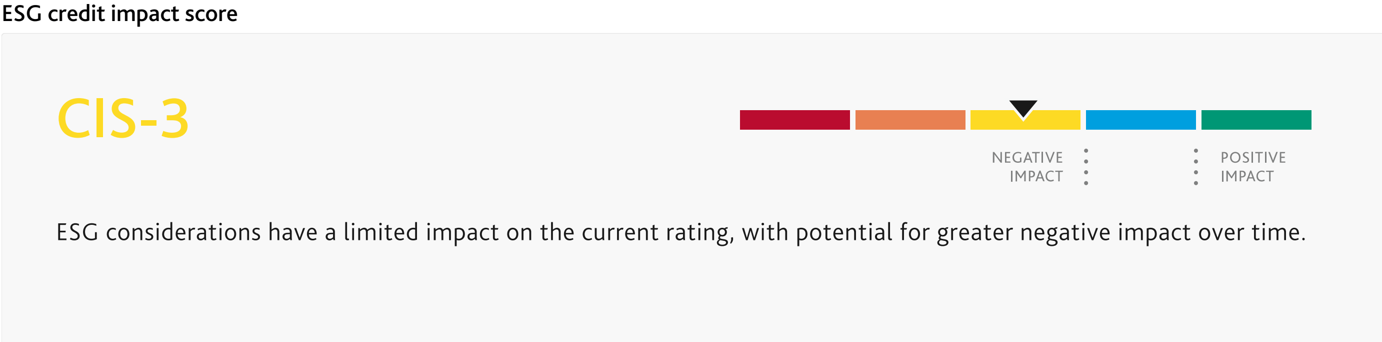


Sources: Simpar S.A. and Moody's Ratings

ESG considerations

Simpar S.A.'s ESG credit impact score is CIS-3

Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Simpar's Credit Impact Score reflects its environmental risk exposure on 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 incorporate managing customer relations, including sensitive customer data mainly in the car rental segment, responsible production, health and safety, and demographics and societal trends that may challenge mainly the car rental business model through new mobility alternatives. Governance aspects are incorporated in the rating and include the company's acquisitive growth history, concentrated ownership and board structure and somewhat complex organizational structure.

Exhibit 7
ESG issuer profile scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	S-3	G-3

Source: Moody's Ratings

Environmental
Simpar's environmental risks relate directly to carbon transition risk associated with the trucking logistics business and the need to invest in fleet renewal to meet customers' preferences, as well as the waste and pollution generated by the business activity.

Social
Social risks incorporate managing customer relations, including sensitive customer data mainly in the car rental segment, responsible production, health and safety in handling heavy equipment in the equipment and truck rental business, and demographics and societal trends that may challenge mainly the car rental business model through new mobility alternatives.

Governance
Governance aspects are incorporated in the rating and include the company's acquisitive growth history, concentrated ownership and board structure and somewhat complex organizational structure. The Simpar 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 the JSP holding) 63.70% of the group's total shares. Other members of the family hold around 7.27% of total shares, with management, board and treasury shares accounting for 1.46% and free float representing 27.06% of the total. Simpar's board of directors is composed of five members, of which two are independent. The group's management is composed of professionals with many years of experience in the logistics and equipment rental industries. Two family members — Fernando Simões (board member and CEO of Simpar) and his daughter Juliana Simões (People and Culture Director) — are part of management. The company has a conduct code in place, and has formal market risk, risk management and sustainability policies and committees, but lacks formal financial policies regarding leverage and liquidity targets. On relevant transactions involving related parties the controlling shareholders have historically deferred the decision to minority shareholders with a compromise to follow the majority decision by the minority group. This was observed in four decisions to date: in 2021, in two instances, when Simpar proposed to integrate CS Brasil Frotas assets into Movida Participações and to incorporate CS Infra assets into Simpar; in the corporate restructure of 2020, when Simpar became the holding company of the group replacing JSL; and, in 2011 when the holding company at the time, JSL, proposed the acquisition of Simpar Concessionárias Ltda. Simpar controls its listed subsidiaries JSL, Movida and Vamos, appointing three out of five board members for each. Currently, we see strong links between the holding company and its subsidiaries, illustrated by their ownership, significant commercial synergies, cross-guarantees among the debt of Simpar, JSL and Vamos, and financial covenants on existing debt instruments measured on a consolidated basis. Furthermore, a majority vote of the board of JSL, Movida and Vamos can lift any upstream dividend or intercompany loan restrictions, effectively providing Simpar full control over its subsidiaries' cash flow. The current corporate organization is a result of a restructuring that started in 2015 and aimed at providing more independence to each line of business. At that moment, the group separated its business into four reporting segments and increased the level of autonomy of each business, with a dedicated management and business strategies. In April 2020, the group separated all operating subsidiaries into independent companies owned by a pure holding company, Simpar, which replaced JSL as the listed parent company of the group. The corporate restructure facilitates M&A, IPOs and other transactions at the subsidiaries' level, but also increases notching considerations for debt sitting at the parent level because the ultimate parent of the group is now a pure holding company.

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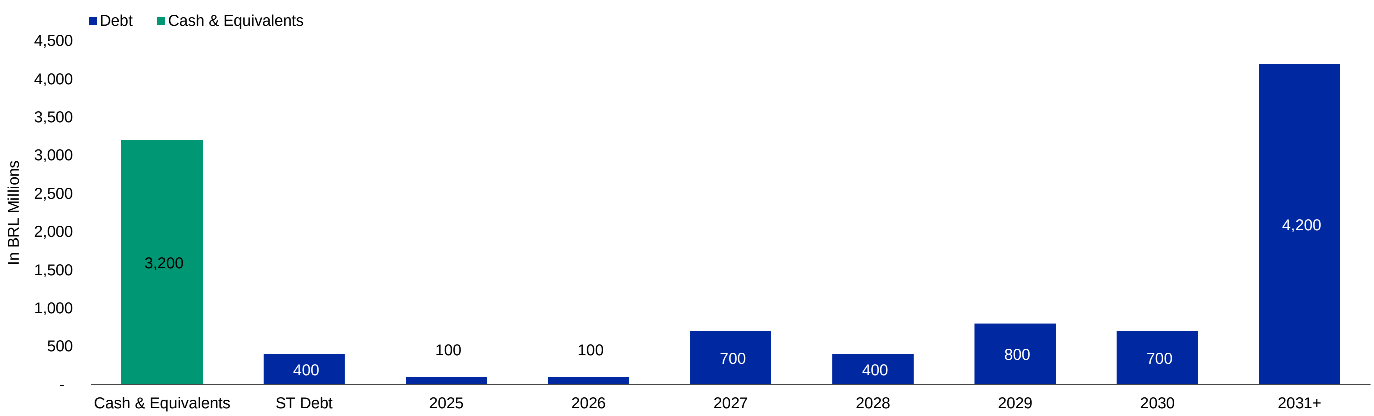
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Simpar has good liquidity. At the holding company level, as of March 2024, cash position is of BRL3.2 billion, which is sufficient to cover all debt amortizations until 2030. The holding company received about BRL401 million in dividends in 2023. These dividends received from its subsidiaries did not cover the holding company corporate expenses, interest payments and dividend payment cash outflow of about BRL900 million. This was the case even while complying with targeted dividend payments of around 25% of net income. In 2024, interest coverage of dividends/interest will likely remain negative, but we expect Simpar to use its cash and monetize assets and participations to sustain adequate liquidity.

Exhibit 8

Holding company cash position to cover debt amortizations, interest and corporate expenses
BRL million

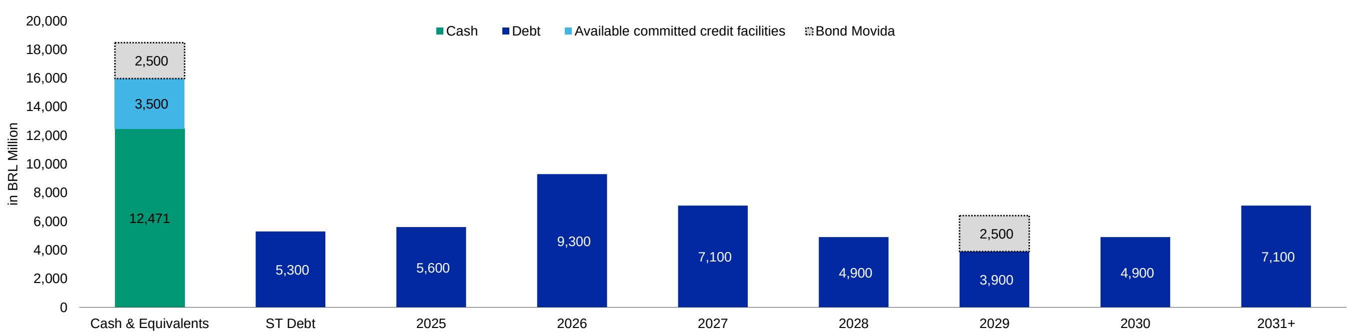


Sources: Simpar S.A. and Moody's Ratings

Consolidated cash was over BRL12.0 billion at the end of March 2024, sufficient to cover short-term debt by more than 2.0x and almost 75% of all debt amortizations until 2025. Simpar's subsidiaries have BRL3.5 billion in approved credit lines available for capital spending, which are an additional source of funding for expansion despite being subject to certain conditions for disbursement.

Exhibit 9

Pro forma debt amortization schedule considering Movida bond issuance
As of March 2024



Sources: Simpar S.A. and Moody's Ratings

The Simpar group has historically maintained its consolidated cash coverage of short-term debt above 1.0x and has proactively pursued liability management initiatives to lengthen its debt tenor. Furthermore, Simpar has BRL42.4 billion in unencumbered assets at market value, mainly its light and heavy vehicles, which could be sold in case of need and covers 86% of the group's total reported debt (including leases). The group's proven ability to sell assets and reduce capital spending related to new vehicle and equipment purchases to prevent a cash burn during downturns is a key credit consideration for Simpar because it provides a liquidity backdoor in periods of stress. Finally, Simpar's stock holdings in its subsidiaries currently have a market value of around BRL8.7 billion, and although the shares are subject to value leakage, they still provide an additional liquidity buffer for the company.

Given the capital-intensive nature of Simpar's businesses, its FCF will only turn positive when the company stops expanding its fleet, downsizes its fleet or if it is able to increase the return on its assets substantially. For the 12 months that ended March 2024, Simpar's FCF was negative BRL4.5 billion, driven mainly by the fleet expansion of Movida and Vamos, which led to a net capital spending of BRL7.7 billion, while total capital spending was at BRL13.9 billion. Although still high, capital spending fell in 2023, due to Simpar anticipating investments to the second half of 2022, benefiting from advantageous commercial conditions. The company's current high cash position and proven ability to sell cars in a timely manner to raise cash mitigate the risks associated with high leverage and covenant breaches because it can quickly adjust its cash position to offset the lower EBITDA stream during economic downturns. Considering only maintenance investments at Movida and Vamos, Simpar's capital spending would decline significantly and the group's consolidated FCF would be close to breakeven, assuming no deterioration in cash flow from operations as a result of higher working capital requirements or weaker-than-expected operations.

Simpar's dividend payout will remain at the minimum level of 25% of net income required by Brazilian law because the group is currently prioritizing leverage reduction. Dividend payment should be between 25%-50% of net income at Movida, JSL and Vamos. Finally, covenant compliance is adequate, with the most restrictive financial covenants within the group setting a maximum reported net leverage of 4.0x and minimum interest coverage of 2.0x. The reported consolidated measures, which are the weakest among all because of the existing debt instruments at the parent holding company, were at 3.5x and 3.2x as of the end of March 2024, respectively.

Structural considerations

Simpar's capital allocation strategy could lead to notching considerations of debt instruments at the holding level in case of structural subordination in the future. Simpar funded some of the growth of its subsidiaries with debt issued at the holding level, and currently about 13% of the group's total debt sits at the holding company (about BRL6.5 billion as of the end of March 2024), of which about BRL105 million has an upstream guarantee from JSL. Within its subsidiaries, leverage ratios are fairly similar at 2.5x-3.5x reported net debt/EBITDA, with no major disparities. About 19% of the group's debt is at the JSL level, 26% at Vamos, 33% at Movida, 3% at Automob, 2% at CS Brasil and 1% at CS Infra. Currently, the group has cross-guarantees among debt instruments, with Simpar as the guarantor of about BRL4.0 billion of JSL's, CS Brasil's, Vamos', Automob's and Ciclus' debt (a subsidiary of CS Infra). There are also financial covenants measured on a consolidated basis in existing debt instruments issued by JSL.

In terms of effective subordination, around 5% of Simpar's total debt is secured by assets (mainly related to FINAME lines[1]), while the rest is largely unsecured.

Methodology and scorecard

Simpar's scorecard-indicated outcome under our Surface Transportation and Logistics rating methodology maps to a Ba2 rating based on the financials for the 12 months that ended March 2024, one notch above the assigned rating. The scorecard-indicated outcome reflects Simpar's good business profile, scale and profitability, but also its leveraged capital structure and weak interest coverage resulting from its debt-funded expansion. We view the current negative interest coverage at the holding level as a rating constraint. Prospectively, our 12-18-month forward view maps to a Ba1 scorecard-indicated outcome, with stability across most subfactors, and indicating our expectation of an improvement in debt protection metrics.

Exhibit 10
Rating factors
Simpar S.A.

Methodology: Surface Transportation and Logistics published on 22 Dec 2021	Current LTM Mar-24		Moody's Forward View Next 12-18 months (as of May-24)	
Factor 1: BUSINESS PROFILE (15%)	Measure	Score	Measure	Score
a) Business Profile	Baa	Baa	Baa	Baa
Factor 2: SCALE (20%)				
a) Revenue (USD Billion)	$6.8	Baa	$7.6 -$ 8.7	Baa
Factor 3: PROFITABILITY, CASH FLOW, AND RETURNS (15%)				
a) Operating Margin	17.7%	Baa	17.9 - 18.4%	Baa
b) FFO / Debt	10.1%	B	9.0 - 10.8%	B
Factor 4: LEVERAGE AND COVERAGE (35%)				
a) EBITA / Avg. Assets	10.5%	Baa	11.0 - 11.7%	Baa
b) Debt / EBITDA	5.2x	B	4.1 - 4.5x	Ba
c) EBIT / Interest Expense	1.2x	B	1.3 - 1.5x	B
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating Outcome:				
a) Scorecard-Indicated Rating		Ba2		Ba1
b) Actual Rating Assigned		Ba3		

[1] All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. [2] This represents our forward view, not the view of the issuer. [3] As of March 2023.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
SIMPAR S.A.	
Outlook	Stable
Corporate Family Rating	Ba3

Source: Moody's Ratings

Appendix

Exhibit 12
Peer comparison
Simpar S.A.

	Simpar S.A. Ba3 Stable			Cosan S.A. Ba2 Negative			Votorantim S.A. Baa3 Stable		
(in US millions)	FYE Dec-22	FYE Dec-23	LTM Mar-24	FYE Dec-21	FYE Dec-22	FYE Dec-23	FYE Dec-22	FYE Dec-23	LTM Mar-24
Revenue	$4,672	$6,380	$6,800	$4,625	$7,629	$7,908	$10,263	$9,723	$9,576
EBITDA	$1,605	$1,887	$1,963	$1,607	$2,393	$2,532	$2,639	$2,197	$2,073
Total Debt	$7,543	$9,581	$10,121	$9,452	$11,449	$13,662	$4,659	$5,519	$5,714
Cash & Cash Equiv.	$2,413	$2,253	$2,491	$3,689	$2,982	$3,719	$2,555	$3,263	$2,807
Operating Margin %	21.2%	17.8%	17.7%	14.9%	17.4%	22.2%	13.2%	8.3%	8.4%
EBIT / Int. Exp.	1.5x	1.2x	1.2x	1.5x	1.5x	1.5x	3.8x	2.5x	2.1x
FFO / Debt	12.0%	10.6%	10.1%	6.4%	11.1%	14.7%	33.3%	21.1%	21.8%
FFO + Interest Expense / Interest Expense	2.13x	1.89x	1.88x	1.80x	2.06x	2.53x	2.79x	1.91x	1.55x
Debt / EBITDA	4.8x	4.9x	5.2x	6.1x	4.9x	5.3x	1.8x	2.4x	2.8x

All figures and ratios are calculated using our estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13
Moody's-adjusted debt breakdown
Simpar S.A.

(in US Millions)	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM Mar-24
As Reported Debt	**3,407.3**	**6,171.9**	**7,542.9**	**7,811.4**	**9,841.6**
Contingent Consideration	0.0	0.0	0.0	255.3	278.9
Non-Standard Adjustments	-478.1	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	**2,929.2**	**6,171.9**	**7,542.9**	**7,811.4**	**10,120.6**

All figures are calculated using our estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 14
Moody's-adjusted EBITDA breakdown
Simpar S.A.

(in US Millions)	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM Mar-24
As Reported EBITDA	**569.3**	**957.6**	**1,381.7**	**1,417.8**	**1,653.1**
Unusual	-74.6	-45.4	223.7	365.3	309.6
Moody's-Adjusted EBITDA	**494.7**	**912.2**	**1,605.4**	**1,711.9**	**1,962.7**

All figures are calculated using our estimates and standard adjustments.
Source: Moody's Financial Metrics™

Endnotes

1 FINAME is a modality of financing provided by the Brazilian development bank for the acquisition of heavy vehicles, equipment and machinery that is usually secured by the asset being financed.

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