

Q4 2016 Earnings Call

Company Participants

- Eugênio Pacelli Mattar, Chief Executive Officer
- Maria Carolina Barbosa Costa, Investor Relations Manager
- Roberto Antônio Mendes, Chief Financial Officer and Investor Relations Officer

Other Participants

- Alberto Valerio, Strategist
- Alexandre P. Falcao, Analyst
- Bruno Amorim, Analyst
- Murilo Freiburger, Analyst
- Márcio Prado, Analyst
- Rogério Araújo, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Fourth Quarter 2016 Conference Call of Localiza Rent A Car. Hosting the event today are Mr. Eugênio Mattar, CEO; Roberto Mendes, CFO; and Ms. Carolina Costa, Investor Relations Manager.

We would like to inform that the numbers in this presentation are stated in million of Brazilian real and based on U.S. GAAP until 2010 and based on IFRS from 2011 on. The presentation will be recorded and all participants will be able to listen to the conference only during the call and the presentation. Immediately afterwards, we will start a Q&A session for analysts and investors when further instructions will be provided.

The conference call audio and the accompanying slide presentation are being broadcast simultaneously over the Internet at the address, www.localiza.com/ir. The slide presentation can be downloaded at the same address by clicking on the banner 4Q 2016 Webcast.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the company forecast as well as operating and financial targets represents the opinions and assumptions of the company's management, which may or may not occur. Investors must comprehend that economic conditions and other operating factors may affect the company's future and may lead to materially different results from those stated in this call.

I would like to invite the company's CEO, Mr. Eugênio Mattar, to start the teleconference of the fourth quarter of 2016.

Eugênio Pacelli Mattar

Good morning, everyone, and thank you for attending our conference call. 2016 was another year of significant results for Localiza. Despite the economic scenario marked by deep recession and the great institutional crisis in Brazil, the company once again demonstrated its resilience and tremendous capacity to deliver strong financial and operating results, expanding its market leadership, its role as the pioneer in innovation, the strength of its brand and distribution network, while constantly maintaining the biggest and higher standards of ethics in corporate governance.

Notable among the key achievements in 2016 are: Localiza anticipated the oncoming crisis in Brazil and strengthened its balance sheet to face the adverse economic scenario and seize opportunities during the recessionary period.

During the year, three debenture issues were carried out creating BRL 950 million at attractive costs and tenures, maintaining the leverage at a healthy 2.1 times net debt over EBITDA.

In 2016, Localiza also maintained a high credit rating assigned by the principal rating agencies, which makes it (03:24) as part of a select group of 22 companies rated AAA by Fitch Ratings. In the last three years, in a recessive market with high interest rates and very competitive environment, Localiza has prioritized its growth and lives with lower returns on invested capital. Our net income has remained stable during this period.

Nevertheless, our ROIC generates a fairly healthy spread over the cost of debt, and we are the only company in the sector to create value for shareholders. Our priority in the short-term will remain in this direction. The company remains focused in commercial and operational excellence and on negative (04:11) cost management target in recent years.

In December, the company signed a long-term global strategic alliance agreement with The Hertz Corporation, which has the most recognized brand worldwide and operates in more than 155 countries. Under the agreement, Localiza will acquire Hertz Brazil, subject to approval by CADE, the Brazilian antitrust authority, expand its market share in inbound/outbound reservation, use the Localiza-Hertz brand through a co-brand agreement, and will exchange knowhow, technology and expertise.

Thanks to the strong DNA of our employees in focusing on clients (05:03) and their passion to serve, Localiza further increased its indisputable leadership in quality and service, attaining a Net Promoter Score of over 80 in 2016, which was widely recognized by the market.

Localiza won several awards in 2016 such as the Best Rental Company from Folha de São Paulo newspaper, and for the Best Customer Service for the second consecutive year in the (05:34) ranking, garnering more than 80% of the total (05:39). With its sharp focus

and innovation, Localiza introduced important new features in digital channel, customer experience, products and social media.

It heavily accelerated its presence in digital channel. It was the most visited site in its category with more than 7.6 million visitors in the year, and its mobile app registered more than 195,000 downloads. Its Facebook fan page has the highest engagement in the category with more than 515,000 followers.

Once again, surging ahead of competition, Localiza launched Check-In Express mobile (06:22), which speeds up vehicle pickup, and the new version of Check-Out Express (06:28), which enables vehicle return by 85% of the clients within a minute and without having to go through the counter.

In December, we launched the pilot project of Localiza Fast (06:37), becoming the only company in the sector across Latin America to offer a mobile app that allows clients to open the car door and drive away without going through the counter.

Localiza has the biggest and most diversified fleet that is renewed yearly, and that includes more than 50 models in categories that range from compact cars to premium brands such as Audi, BMW, and Volvo. In line with the latest market trends, Localiza uses methodologies such as agile and cloud based to develop innovative solutions and services.

Localiza was recognized as the 25th most valuable brand in Brazil by the Interbrand Annual Ranking, occupying a prominent position amongst the country's strongest brands from diverse subjects. Localiza was the official car rental company of the Rio 2016 Olympic Games, gaining tremendous brand exposure in an event of global importance.

Localiza Loyalty, the biggest loyalty program in the sector in all of Latin America reached more than 6.4 million members and has already distributed more than 1.8 million free daily rentals to its clients.

In the year where Brazil was (08:05), Localiza continued to operate with the highest standards of (08:10) and corporate governance, aided by practices such as evaluating the resilient potential while hiring senior (08:18) leaders, training all employees on ethical behavior, including a strong cultural compliance and through other tools such as the confidential compliant channel. In recognition of its track record, the company was honored as The Best Company in Transparency and Ethics at the Revista EXAME 2016 ranking.

These results would not have been possible without the tremendous commitment, sense of urgency, passion to serve and spirit of ownership demonstrated by more than 7,700 employees across the platform. In the context of rapid growth in transforming the needs of consumers and technology, Localiza continues to invest in the development of its employees to face the challenges of the future.

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Localiza ends the year with major achievements across all business segments, following our multi-year strategic plan and maintaining an exemplary level of execution. The company starts 2017 with renewed energy and a strong ambition towards sustainable growth and is in a position to continue expanding its market leadership through responsible management to strike a balance between short-term profitability and long-term goals. We are determined to continue writing yet another chapter in Localiza's success in 2017, always progressing together with our clients, employees, investors, suppliers, and partners. Thank you very much.

To present the highlights of the fourth quarter results, I turn the floor to CFO, Roberto Mendes.

Roberto Antônio Mendes {BIO 7289124 <GO>}

Good afternoon, everyone. I now present on slide number three some operational highlights of the fourth quarter in 2016. The Car Rental Division's growth and volume continued growing during 2016 and reached 28.1% in the fourth quarter.

At the same time, annual revenues per operating car remained stable in 2016 in BRL 203,000. The increase in the utilization rate offset the decrease in the average rental rate. In the fourth quarter, the fleet reached 143,131 cars, and 20,883 cars were sold to renew the fleet.

On slide number four, we see some financial highlights. Consolidated net revenue grew 31.5% in the 4Q 2016, and EBITDA grew 18.8% in the fourth quarter. EBIT grew 15.4% even with a strong increase in depreciation per car in Car Rental. 2016 net income was BRL 409.3 million, higher 1.7% than the previous year, even with increase of the depreciation in the Car Rental Division and the high interest rate.

To present the fourth quarter 2016 results, I turn the floor to the Investor Relations Manager, Carolina Costa.

Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

Good morning. On slide number 5, we present the evolution of volumes in the Car Rental Division. This is one of the main highlights of the quarter with 28.1% in daily rental growth and 19% in net revenue.

On slide number 6, we present the evolution of average revenues per operating car from Car Rental Division. As already mentioned by Roberto, average revenues per operating car from this division remain stable even with the 4.1 percentage point increase of the fleet utilization rate, which was offset by the drop of 5.8% in the average rental rate.

On slide number 7, we present the evolution in the number of car rental corporate branches. In 2016, Localiza systems totaled 561 locations and 13 new branches were added to our own distribution network.

On slide number 8, we present the volumes and revenues of the Fleet Rental Division. In 4Q 2016, the Fleet Rental Division's net revenue grew by 9.6%, an acceleration in relation to the other quarters due to a growth of 1.1% in volume and 2.6% in the average daily rental rate.

Slide number 9, we show the net investment in the fleet. In 2016, Localiza added 9,384 (sic) [19,384] (13:45) cars to its fleet, mainly to support the strong growth in the Car Rental Division. In total, 87,833 cars were bought and 68,449 were sold, representing a net investment BRL 947 million.

Slide number 10 presents the evolution of Seminovos stores. At the end of 2016, Seminovos had 84 stores, distributed across 53 Brazilian cities. The most part of the stores quickly reached (14:28) sales volumes in three months.

A smaller part takes up to six months to reach the expected volume. The average monthly cars sold per store in fourth quarter 2016 was 85 cars, higher than the average sold per store until September, which was 68 cars. Throughout 2017, new stores shall be opened to support the fleet renewal.

On slide number 11, we see the evolution of the end of period fleet. Localiza's fleet totaled 143,131 cars at the end of 2016, 8,436 cars more than 2015 already deducting the losses from accidents and that's (15:18) not recovered.

Highlight. We highlight the increase of 17,401 cars in the Car Rental Division and a record utilization rate of 73.4% in 2016. On slide number 12, we see the consolidated net revenue. Consolidated net revenue grew by 31.5% this quarter when compared to the 4Q 2015.

Rental revenues grew 15.9%, being 19% growth in the Car Rental Division's revenue and 9.6% increase in the Fleet Rental Division's revenue.

Net revenue from Seminovos in the fourth quarter 2016 increased 46.9% when compared to fourth quarter of 2015 due to an increase of 38.8% in the volume of cars sold and 5.9% in average car sales price.

Slide number 13 presents the EBITDA. A growth of 18.8% in consolidated EBITDA, which reached BRL 270.9 million in the fourth quarter 2016. In the Car Rental Division, the EBITDA margin was 31.5% in the 4Q 2016, an increase of 1.3 percentage points in relation to the 4Q 2015. This increase is mainly due to its growth of daily rental volume and consequent gains of scale of operating expenses SG&A.

In the Fleet Rental Division, EBITDA margin was 63.8% to the fourth quarter of 2016, practically (17:04) stable in relation to the 4Q 2015. Seminovos EBITDA margin was 5% in the fourth quarter 2016, proving the discipline of the company in the car depreciation calculation.

Slide number 14 we present the average depreciation per car in the Car Rental Division. 2016 average depreciation per car in the Car Rental Division was BRL 1,251.2, an increase of BRL 629, is a reflects (17:36) of the lower increase in the new car prices, which reflects a lower increase in Seminovos car sales prices.

On slide 15, we present the average depreciation per car in the Fleet Rental Division. In the Fleet Rental Division, the average depreciation per car in 2016 totaled 3,714, a 5.6% decrease comparing to 2015's depreciation. Due to the longer cycle, the car depreciation of this division benefits from the increase in new car price, which occurs during the cars' useful life.

On slide 16, we show the EBIT margin. Consolidated EBIT increased 15.4% in the fourth quarter 2016 when compared with the fourth quarter 2015. The EBIT margin of the Car Rental Division in the fourth quarter 2016 was 28.4%, on this table when compared to fourth quarter 2015 even with increase of the average depreciation per car.

The EBIT margin of the Fleet Rental Division in the fourth quarter 2016 was 52.4%, a 2.5 percentage point increase when compared to the same period of the previous year. In the year, EBIT grew 4.8% compared to 2015.

On slide number 17, we present the net income. Net income reached BRL 104.4 million in the fourth quarter 2016, a 1.4% decrease when compared with fourth quarter 2015. The EBIT increase was offset by BRL 29.2 million increase in the net financial expenses, which occurred mainly due to an increase in the average net debt in the 4Q 2016 and the reversion of BRL 9.9 million of swap mark-to-market which positively impacted the 4Q 2015. In 2016, net income reached BRL 409.3 million, a 1.7% increase when compared to the same period of the previous year.

Slide 18 presents the free cash flow. The company is a strong cash generated to support growth. The BRL 532.2 million cash generated by the rental operations after the net CapEx to renew the fleet was used to increase the fleet in 9,384 (sic) [19,384] (20:11) cars with an investment of BRL 535.3 million.

On slide number 19, we present the changes in the net debt for the period. BRL 288.7 million cash generated after the interest payment was used to increase the fleet.

Slide 20, we present a cash position and debt profile maturity. The company presents comfortable debt profile and a strong cash position to enjoy growth opportunities.

On the next slide, number 21, we present the debt ratios of the company. The comfortable levels of leverage support the growth targets.

On slide number 22, we present the spread between the ROIC and the cost of debt after taxes. 5.2 percentage points spread in line with the short-term company strategy and the downtrend in 2017 interest rate.

Let us now move to the Q&A session.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. First question from Goldman Sachs.

Q - Márcio Prado

Good afternoon. This is Márcio Prado from Goldman Sachs asking a question. I would like to ask about 2016 and forward. We saw that 2016 was the year that you have invested in fleet on slide number 9, we see heavy net investment in Localiza's fleet with the highest investments you've made.

And at the moment, you have a downturn pressure on return on capital, which is something that Localiza always provides to the market and has a pretty long history in that. So what I'd like to understand is major investment in the movement, and in this point in time when the ROIC presents a downward trend, do you expect a return during 2017 or is this a market share issue? I would like to understand in theory a major investment being made when the ROIC is lowering. Thank you.

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

Thank you, Márcio, for your question. Good afternoon. Localiza, as I mentioned in the beginning in my opening speech, we've prepared ourselves for this adverse moment in the economy to make the most of opportunities so the company is very strong with its strong cash, and we cannot miss any opportunity for investment.

So, the opportunity to grow or increase our leadership in the market with a more - greater consolidation of the market that happens in moments when companies have difficulty in having - obtaining credit. So looking at the downward trend in interest rates, we believe that it's very good timing for us that despite the downward trend in interest rates, our spread continues to be healthy and we're making the most of these growth opportunities in the market.

Q - Márcio Prado

Thank you.

Operator

Next question from Alexandre Falcao, HSBC.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

Good morning, everyone. My question is about the price dynamic of markets. Now speaking of usage as well, is this price drop was in the mix or are there any more specific

downward trend unlike in the corporate segment? And regarding the usage, although you have made a significant renewal of the fleet, I would like to know the usage rate is still high. So, is this due to the delay in car manufacturers in delivering the cars, what is the trend we should keep in mind?

A - Eugênio Pacelli Mattar

Thank you for the question, Falcao (25:14). The more (25:12) part of the drop in the average daily rate, if you compare the average daily rate in the fourth quarter when compared to the third quarter, it's stable, and strong growth we have seen is due to this price strategy that brought us gains (25:31) and then allowed us to keep - to maintain the EBITDA margin. As for the utilization rate, we've seen a 71.5% in the fourth quarter despite its major purchase of cars, and we want this utilization rate to remain at the same levels of 2016 when we think about this year, 2017. So, this has nothing to do with the delayed delivery of new cars that we've seen in the third quarter.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

Okay. Thank you.

Operator

Next question comes from Rogério Araújo from UBS.

Q - Rogério Araújo

Hello. Good afternoon. Thank you for the opportunity to ask a question. My question is about the Seminovos segment. You've purchased a considerable amount of cars in the first quarter and also sold a large number of cars. Utilization decreased. So, what I would like to know, what was the dynamic like whether you had major discounts for the purchase of cars, which was large ones?

And also a bit about the depreciation, depreciation of Car Rental has increased. What's the level that you believe it will remain at during 2017? And also in Seminovos, when we compare your depreciation in used cars when compared to competitors, we see that you have an advantage in depreciation. I would like to know, in your point of view, what are the main benefits? Is it at the purchase price, at the sales price? Is it in the cost? So, is the debentures (27:25) also sustainable from now on in your point of view? Thank you.

A - Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

Thank you. This is Carolina speaking. As for the purchase of new cars in the fourth quarter, I would like to remind you that we have a year plan to purchase cars. We purchased more cars in the fourth quarter because of the increase in demand due to summer vacation, and you've seen the increase in the number of the daily rentals. So it was according to the plan, nothing beyond that.

Now, regarding depreciation, this value of between BRL 1,500 and BRL 1,600 is the level we should maintain, considering the scenario in which the price of new cars are not going

up as they used to in the past. So, this is our expectation for this year.

Why has our depreciation been better than our competitors? This is a whole set of things. I mean, it's not only due to purchase conditions or sales conditions, but it's that of choosing what car to buy, choosing the car, negotiating the deal, taking good care of the car during its useful life, and then selling it in an effective way as we do in our used car stores.

And the overall result is that we have a good amount, BRL 1,500, BRL 1,600, except for 2015, which was an exception because the price of the cars rose too much at that year. But this level of depreciation shows that we've been quite efficient in the entire process.

Q - Rogério Araújo

Okay. And do you have any internal brand researches or studies in Localiza in terms of used cars? Is the brand important in the price that users or consumers are willing to pay when they're going to buy the used cars or is it more at the stores?

A - Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

Well, many things are involved. It's hard to know what's the criteria that our competitors are following. But we have well located stores – stores all over the country, a greater diversity of brands so that car purchasers can have more options to choose from. We have a trained team control over the process. I think everything contributes to the good results. I would like to remind you also that Seminovos Localiza is a good, well-known brand of used cars. It's also important when customers trust our brand when buying used cars.

Q - Rogério Araújo

Okay. Thank you very much for your answers.

Operator

Next question, Bruno Amorim from Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

I have three questions, if possible. Good morning. First, the prospect of growth for 2017, as you've mentioned. You're taking this opportunity opened by the crisis for consolidation in the market. I would like to know how far can you go? If the scenario improves in 2017, do you think the small companies will cease to suffer or do you think this will continue in 2017?

Second question, a follow-up on what Eugênio has mentioned. We'll have this ROIC of 15% is comparable with a (30:54) interest rate of 10% at the end of 2017, which seems to be the consensus for the market, or if it goes 10% or lower than 10%, could you let go a bit more of the ROIC?

And the third question, more objective. The financial expenses are high, above BRL 70 million in the fourth quarter. You've commented on the reversion of swap. So how much of this BRL 70 million were non-recurring which is resulting from swaps, or are they part of this advance payment of suppliers' policy?

A - Eugênio Pacelli Mattar

Thank you for your question, Bruno. Let's start with the financial expenses, the last question. In the fourth quarter, the net financial expenses have increased BRL 19 million when compared to the third quarter 2016, and we've seen a mark to market of BRL 2 million of that debit amount, let's say. And these financial expenses was due to lower average cash balance, so we had lower financial revenues.

Just to complement - the funding just arrived at the end of the year, that's why you didn't see the drop in cash. Throughout the period, we had a drop in cash. So with the lower average cash, we had less financial revenues. And we advanced payments to suppliers in the third quarter, which increased the financial revenues in the fourth quarter.

A - Roberto Antônio Mendes {BIO 7289124 <GO>}

As for the ROIC, Bruno, at Localiza, we try to balance opportunities for growth, the competitive environment, and then we look for the first point of equilibrium to try to maintain our leadership position and generate value as well as looking at the short and medium-term. Right now, that the environment is more competitive, Localiza is more aggressive in terms of diversification to try to leaving (33:25) space for competitors. So, we try to balance opportunities for growth, the competitive environment, as well as the profitability. And in the Localiza's DNA is strong generation of results and permanently creating value for shareholders, but we must know how to do short and long-term adequately.

A - Eugênio Pacelli Mattar

You also asked a question about the market, in the consolidation of the market, we have no information about the market in 2015. We do have information from 2015 that shows that 50% of the market was held by smaller companies, except for the three main players. We don't know what the figures are at the end of 2016 because it hasn't been published yet. We have to wait from ABA information to see whether there has been any change in that scenario.

Q - Bruno Amorim {BIO 17243832 <GO>}

Now, thinking about the scenarios of flat GDP and interest rates at about 10%, the question was, do you believe with this better scenario, maybe small players will stop suffering so much or do you expect anything different from there?

A - Eugênio Pacelli Mattar

Well, it has been a very long recession period, two years of recession, more than 3% downtrend in the economy. So it takes some time for a company to recover, and the interest rate is 10%. So, it would be 8%, which is the level of 2014, so the cost of money for

Localiza maybe going towards the level of 8% towards the end of 2017 which open some space for us. It's important because in the last two years of recession and even 2017, we expect a small growth. We're not - we're still investing a lot of energy. We're in movement to increasing the sales capacity of our sales area, how to approach customers, each geography, each segment, each market, so we are investing in training our sales force a lot.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Thank you. Have a good day.

Operator

The next question comes from Murilo Freiburger, Bank of America Merrill Lynch.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Good morning, everyone. Good morning, Eugênio. On our side, we would like to address two topics. First, the rental car volume growth. The main driver probably is the decrease in the smaller players, but is there any segment specifically that's performing better? You've been reached the 30% growth. I mean your constant growth level 30% in this last quarter which is quite impressive. I would like to understand what's the driver for this?

And also in terms of the capital structure during 2016, you've invested in expanding the fleet and you've paid bonus and shares, being paid until May, so the company leveraged this up a bit more, you're at 2.1 times. Do you believe that this leverage ratio is ideal now, or are you still going to pay your interest and pay dividends, or what's the level of leverage ratio that you intend to reach?

A - Operator

Thank you for the question. As for the growth in volume in rental car, we've seen growth in other segments as well in the fourth quarter, individuals, for entertainment. And in the short-term, we've seen the same trend of the fourth quarter in terms of growth of segments. The trends seem to be the same for 2017.

Just to complete, the replacement depends on the number of cars insured, and new facts (37:59) coming on since this is not happened. The number of cars insured is stable. As for investment in the capital leverage 2.1 times, it's quite comfortable at this level for us. This indebtedness ratio is very comfortable. We have a strong cash position, and we are investing in the growth of the company. It's not ideal because in terms of leverage ratio. We do have a low leverage ratio, it could be even higher.

The term for the funding in Brazil, we have reached seven years and now have gone back to five years. So as to see the idea of that, we have to look at this term of this credit facility if it's on a longer term that then the cost will be - I mean it would be higher. The leverage would be higher. But I believe that we could still grow a bit more at this level if needed and if the terms are good.

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The company is also focusing on having a differentiated credit rating in the market. See, this is our goal, having a company of high rating and having cost of capital as a competitive advantage.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Yes. Thank you very much.

Operator

The next question, Alberto Valerio from Citibank. Mr. Alberto, you may ask your question.

Q - Alberto Valerio {BIO 20009178 <GO>}

Good afternoon. Thank you for the question. I would like to know whether you could comment on January of this year, how it was and what would be the next step for the acquisition of Hertz? Any news from CADE? Thank you.

A - Operator

Well, January, we're doing fine, that's the most we can say so far. As for the acquisition of Hertz, we have filed a questionnaire with CADE. Now, we have to wait for CADE's report. It may take a while. Maybe by April or May, we'll have an answer allowing for the transaction to take place. We believe that there will be no difficulties to have this transaction approved by CADE, but we have to go through all these necessary steps for them to approve the purchase.

It's a very scattered market, 7,500 car rental companies. I mean we do have restrictions to new entrants - there are no restrictions to new entrants, so we believe that in this scenario, we won't have a problem having this approval fairly quickly.

Q - Alberto Valerio {BIO 20009178 <GO>}

Okay. Thank you. That was very clear.

Operator

We have a question online from Paulo (41:40) The question is as follows: I would like to see how the company sees competitors.

Thank you for your question, Paulo, Paulo from Bloomberg (41:48) Well, with regards to (41:56) Localiza has already anticipated this more competitive environment. We'll maintain a price strategy that add the value to shareholders, the low interest rates in 2017 allow for this strategy to take place. And we're also developing more competitive price strategy and gain productivity. It's also important to remind that the IPO companies that are going public, we have more information about them. It's good, because that gives us more information as well. And we believe that the market has room for these companies. They are good companies, respected ones and we welcome them to the market.

Just to wrap up, I would like to remind you that Localiza is the only company in the industry that generates ROIC above the cost of debt after taxes and that capitalization does not help to improve ROIC.

Next question from (43:07)

I would like to understand from the - what's the prospects of recovery for the economy? What segments of rental car and fleet rental are more sensitive to the economy and the cost of money, so that we can have an idea of what segment would have a greater potential for recovery?

My second question also given the IPOs of the competition, only Localiza is able to have a ROIC above the cost of capital. So I would like to understand, in your opinion, what is it so hard to do that the other competitors in the market that haven't been in the market for so long and not able to do? I mean, what's the main advantage, operational efficiency, scale, or the brand name? That would be the hardest thing to copy, of course.

Well, Pedro (44:15), I would like to comment on your last question. I remind you about a question that the (44:31) when she was visiting the (44:33) Napa Valley where will be Americans without the technology being invested in Napa Valley would make wine with the same quality as the French wine. And she said, certainly yes. The difficulty will be the first 200 years. So Localiza has been in the market for 43 years.

A lot of experience. We've learned a lot. We had our hard times as well, difficulties, and we have a deep understanding of how the assumptions, I mean, having a reserve (45:11) taking care of all activities. This activity involves an intense logistics, intensive labor. It's capital intensive as well. So it's not an easy industry to be in, so much so that the profitability is difficult to obtain. I mean, there are a few companies that are doing well. It's not an easy segment to make money in.

So in this 43 years of history, Localiza learned from its mistakes and found its best towards being accompanied that generates value. It's and are generated (45:53) passion for service, focus on the customer, teambuilding, stable management we think in the long term. So this is the difference in terms of a critical value. You must have people, systems, experience, knowledge and the long-term vision to be successful.

So I believe the market offers opportunities for everyone, and as all the companies reach this level of excellence, they will also be successful.

Okay. Regarding your question about the GDP improvement, what segments would benefit more from this trend?

Well, the monthly rent that we have showed (46:44) would have an incentive in terms of investments. When investments return, this is an important driver for this monthly rental. Replacement depends on the growth of the new car industry which also makes the used car industry go up. And that would have positive impact, but it would take longer to

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occur. And in the corporate area, the people have traveled less on business, if those trips go back to rise again. We believe the legal entities, the corporate fleet would increase. That also - I mean in terms people who rent - companies that renting cars, they would increase. But with the decrease in the unemployment rate, with the increase consumer confidence, all these factors would be positive drivers for individuals renting cars for leisure.

Okay. Thank you.

Next question from (48:02)

Hello. First, when you look at the latest quarters have been exception despite the crisis, you've had a very good financial performance and I would like to understand the partnerships you're thinking about with Uber because the Uber is losing market share with Cabify. Given the average age of cars used in Uber. Could you have a partnership with Uber in terms of renting cars from Localiza?

Thank you for your question, Pedro (48:50) Localiza does have a partnership with Uber. We already rent cars to Uber drivers. It's still hard to say that Uber now with the Cabify coming to the market, but this partnership already exists. The market is changing. Of course, there are opportunities for growth. We are part of this opportunity. I would like to remind you that Uber is a comparative, we don't have or still have opportunities to sell some new - used cars to these drivers as well (49:37)

Okay. Yeah, you've been - your performance was very good in the fourth quarter and you have mentioned about the financial leverage. I just didn't understand how hard purchase will be, what would be the share scenario?

Well, actually we made a strategic partnership with Hertz Corporation. We are buying Hertz Brazil operation, after approval by CADE of course. There is no exchange of shares between the companies.

So, it's a acquisition - a regular acquisition because when you made the call about Hertz, you said that Hertz would continue with an ownership in Hertz Brazil. And this is my main question. Will they have a major ownership for interest?

No, this information does not exist. We're going to buy 100% of the units of Hertz Brazil after the approval by CADE, as Roberto mentioned in another question. We are awaiting for CADE's approval.

Yeah, because I'm very excited about this purchase because the international executives, they see Hertz right. The branding is of course you will intend to keep that name, right?

Yes. We intend to work with two brands combined, Localiza Hertz.

Do you estimate how much you're going to save in terms of interest rates with the debentures in this year compared to last year, given this change in the interest rate?

Our net debt is about BRL 2 million. Every 1% decrease means BRL 2 million, it's a simple calculation. Yes, naturally, we try to make an effort of free cash flow. I mean there would be a major difference. We work with the publications of the Central Bank by focus research. This is the interest rate we were looking at probably 10% at the end of year according to the latest study being published by the Central Bank.

Thank you.

This concludes today's question-and-answer. I would like to invite Ms. Carolina Costa to proceed with the closing statement.

A - Maria Carolina Barbosa Costa {BIO 17052819 <GO>}

We would like to thank you all for participating in our conference call and to inform you that our team is available for any further questions you may have. Thank you.

Operator

This concludes Localiza Rent a Car audio conference for today. Thank you very much for attending and have a good day. Thank you.

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