

## Q2 2020 Earnings Call

### Company Participants

- Mauricio Fernandes Teireixa, Chief Financial Officer
- Nora Lanari, Investor Relations Officer

### Other Participants

- Alexandre Falcao, Analyst
- Bruno Amorim, Analyst
- Lucas Barbosa, Analyst
- Nana Silver, Analyst
- Regis Cardoso, Analyst
- Roberta Versiani, Analyst
- Victor Mizusaki, Analyst

### Presentation

#### Operator

Good afternoon, and welcome to Localiza Rent a Cars Conference Call, of this Second Quarter of 2020.

Hosting the event today are Mr. Mauricio Teireixa, CFO and Ms. Nora Lanari, Investor Relations Officer. We would like to inform that the numbers in this presentation are stated in millions of Brazilian Reais, and based on IFRS. The presentation will be recorded, and all participants will only be able to listen to the conference call during the company's presentation. (Operator Instructions). The conference call, audio and the accompanying presentation are being broadcasted simultaneously over the internet at [ir.localiza.com/en/](http://ir.localiza.com/en/). The presentation can be downloaded at the same address by clicking on the banner, 2Q20 webcast.

Before proceeding, we would like to clarify that any statements made in the conference call concerning the business outlook of the Company forecasts, as well as operating and financial targets represent the opinions and assumptions of the company's management, which may or may not occur. Investors must comprehend that political and 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.

To start the second quarter of 2020 teleconference, I will turn the floor over to the CFO, Mr. Mauricio Teireixa.

## Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Good afternoon, and thank you all for your presence. This second quarter of 2020, brought on unprecedented challenges to society. In addition, the pandemic restricted mobility, directly impacting our business. Even during this period, we had not -- have not given up being protagonists and generating value for all our stakeholders.

Our themes that inspire and transform have been challenged and proved to be even more creative, agile and open to changes. We've maintained effective management and achieved extraordinary results in the current context, that bring us perspective of resumption of our growth trajectory. We took care of our team, our customers and operations. Among several initiatives, we have reinvented how we serve, so that customers could perceive the smile behind the masks and acrylic walls.

We also reinforced the car hygiene measures to ensure everyone's safety. Even during this difficult moment, we maintained our NPS levels at a high level. In addition, we took care of our partners and of the community around us, reinforcing our role as a company, committed to citizens. So we committed to contribute with BRL10 million in initiatives to support the healthcare system with hospital infrastructure and equipment, and actions that most impacted small and medium businesses and also with more vulnerable citizens.

Our results were impacted, but at a lower scale than one could imagine. After the initial impact of the social distancing measures in April, we resumed activities in most of our branches and stores. Today of the 529 Car Rental branches in Brazil, 393 are open. And of the 125 Seminovos stores, 124 are operating. From the financial point of view, we revisited our cost and expense matrix, and made an effort to adjust our operations to the new reality. We had to make difficult decisions, but we are sure that our agility and human approach with which we are dealing with the challenges have further strengthened our culture.

We were fast with the cash reinforcement measures and fulfilled all our commitments to suppliers, closing the quarter with approximately BRL3 billion in cash, and approximately BRL500 million in payables to OEMs. In addition, we were protagonist in the creation of a debenture repurchase program, having already generated results within this quarter. We re-prioritized investments, invest emphasizing the development of the customer experience and new products and mobility solutions, opening new avenues of growth, always with the intensive use of data and technologies.

We are increasingly a digital company. Looking ahead, we remain optimistic about the future and investing in our team and the skills necessary for a new mobility context. Now moving forward we will present the results of 2020. On page 2, we can see the operational highlights. In 2Q '20, the average rented fleet in the car rental division decreased by 8% over 2Q '19, but comparing to June alone when the average rented fleet was 115,000 cars, the reduction is already approaching 3% and by the end of the month, we had the rented fleet size equivalent to the same period last year. The Fleet Rental Division in turn proved its resilience with growth of 14% compared to the same quarter of the previous year.

Seminovos was very impacted by the temporary closure of the stores at the beginning of the quarter and ended the period with the sale of 19,736 cars with 11,275 cars being sold in June alone showing a strong recovery. The total fleet increased by 10% in the annual comparison, ending the quarter with 305,000 cars.

On page 3, we show the financial highlights of 2Q '20 where we can see the impact suffered by the company in this period. In 2Q '20 compared to the same period last year, net revenue decreased by 32% and EBITDA decreased by 13%. The EBIT impacted by the higher depreciation decreased by approximately 36% and net income decreased by 52% reaching BRL89.9 million in the quarter. Despite these impacts on our financial results, it is important to note that the worst period for the company was in April. And since then we have seen a consistent improvement.

To allow a better perception of this recovery, we will present some details of the second quarter highlighting some monthly data. To present the details of our results, I would like to hand the floor to our Investor Relations Officer, Nora Lanari.

**Nora Lanari** {BIO 18838335 <GO>}

Good afternoon, everyone. Starting with the car rental division, as you can see on page 4, in the second quarter, the average rented fleet decreased by 8% and revenue decreased by 30.2% compared to the same period last year, mainly due to the drop in average rental rates resulting from additional discounts and changes in the mix composition. As mobility restrictions were being reduced, we were able to start increasing back our tariffs and we saw a recovery in cars [ph], which is evidenced by the volume and revenue figures for June compared to April.

The rate recovery scenario can be seen on page 5, which compared to April-June showed an average daily rate with a 28.3% increase in average rates and 7.7 percentage points in the utilization rate. In 2Q'20 the average rental rate of BRL53.80 in RAC is 24.1% lower than the average rental rate in 2Q'19. The utilization rate, directly affected by the drop in volumes, especially in April and May, was 55.6% in the same quarter, which represents a drop of 23.2 percentage points in comparison with the same quarter of the previous year.

On page 6, we show that the network of own branches was expanded by two branches, in the first half of this year and the network of franchised branches abroad has been expanded by another two units.

Moving on to page 7 in the Fleet Rental Division, we see the average rented fleet increasing 14.4% and net revenue increasing 14.8% compared to 2Q19, with an average rental rate practically stable. We observed a reduction in the entry of new contracts during the months of April and May, but in June, we already saw a resumption of negotiations.

Moving on to page 8, we show the balances of buying and selling cars. In the quarter, we bought 2971 cars and sold 19,736 cars, a decrease of 16,865 cars in the fleet with the net sale of BRL655.5 million. The reduction aims at adjusting the fleet to the demand for car

rental and contributed to the increase in the utilization rate by 7.7 percentage points compared to April, the period of greatest impact.

On page 9, we show the Seminovos network. We made some adjustments to our network during 2Q'20 and ended the period with 125 points of sale. The month of April was impacted by the temporary closing of all Seminovos stores since the end of March. And as we were able to proceed with the reopening of stores, sales volumes recovered significantly. We ended the period with 19,736 cars sold, of which 11,275 cars were sold in June alone, a level even higher than the monthly average observed in 2Q'19.

On page 10, we show the end of period fleet with Car Rental showing a growth of 12.6%, and fleet rental, an increase of 10.1% compared to 2Q '19.

During the second quarter of this year, there was a reduction in the fleet of the car rental division of more than 15,000 cars, due to the decrease in volumes, as a way of reducing the impact on the RAC utilization rate. This fleet reduction process will continue until the utilization rate is normalized, when the company will resume greater volumes of car purchases.

Moving on to page 11, we see that the consolidated net revenue for the quarter decreased 31.7% when compared to 2Q '19. Net rental revenues decreased by 19% while Seminovos dropped 40%. In the first half of the year, consolidated revenues decreased by 6.6% with rent decreasing by 13% and the sale of used cars growing 3.4%.

Moving on to page 12, consolidated EBITDA decreased 13% in 2Q '20 compared to the same period last year. 2Q '20 EBITDA was impacted by the decrease in revenue and extraordinary cost resulting from the technology incident, staff adjustment costs and donations to support facing the pandemic, which totaled approximately BRL40 million. These effects were more than offset by the reversal of the provision for the difference of PIS and COFINS credits on depreciation in the one over 48 versus one over 60 regimen, which had been made since 2017 in the amount of BRL126.3 million before taxes.

The EBIT margin of RAC was 53.2%. The fleet rental had an expansion of 16.2 percentage points of margin helped also by the reversal. Seminovos had a negative margin of 4% having been impacted mainly by the non-dilution of fixed costs caused by lower sales volumes in April and May. In June, the segment's margin was positive at 1.5%.

On page 13, we see that in RAC the annualized average depreciation per car was and BRL2,640 in the quarter with a 19.9% growth compared to the last quarter. Considering the effects of the pandemic and the gradual recovery of the economy and sales volumes, we re-zigged [ph] assumption of cost and expense, estimates for the sale of cars until the end of the year to reflect the lower dilution of fixed cost, which resulted in an increase in depreciation compared to 1Q '20. In the fleet rental division, the average annual depreciation per car with BRL2092.4, 12.7% lower than the last quarter.

On page 14, we can see that the consolidated EBIT in 2Q '20 reached BRL218.4 million, a decrease of 36.1% compared to the same period last year. The EBIT margin of the car

rental division was 8.4%, representing a decrease of 25.9 percentage points compared to 2Q '19. This margin reduction reflects the division's lower EBIT, plus the Seminovos results and higher average depreciation per car. In the fleet rental division, the EBIT margin was 67.9%, an increase of 21.5 percentage points compared to 2Q '19.

Due to the factors, previously mentioned that affected EBITDA and the drop in the annual average depreciation due to the change of the depreciation method from side to linear.

The net income for the quarter, on page 15, dropped 52.7% compared to 2Q '19. This reduction is explained by the decrease in EBITDA by approximately BRL65 million, added to the increase in the depreciation of cars by approximately BRL68 million and financial expenses by approximately BRL29 million, partially offset by the reduction of taxes on profit of approximately BRL53 million.

On page 16, we show that in the quarter, there was a cash burn after growth, explained mainly by the payments made to the OEMs, resulting in the substantial reduction of the payable balance, which reached approximately BRL525 million at the end of the quarter compared to the balance of approximately BRL2.4 billion at the end of 2019. The substantial reduction in these commitments to automakers will enable the company to generate substantial cash flow, as we observe a consistent recovery in our rental and car sales volumes, while in the first months of resumption of car purchases there will be no need for significant disbursement.

As we can see on page 17, net debt increased around BRL1 billion, mainly due to the reduction on payables to OEMs, balance and ended the quarter at BRL7.7 billion. I would like to pass the floor back to Mauricio to present our cash position and leverage.

### **Mauricio Fernandes Teireixa** {BIO 19758664 <GO>}

Thank you, Nora. As you can see on page 18, that we ended the quarter with an extended debt profile. And with adequate liquidity to resume the growth path. At the end of the quarter, we had almost BRL3 billion in cash, virtually no maturity in 2020 and about \$525 million to be paid to OEMs, that is cash position net of OEM payables of BRL2.5 billion.

On slide 19, we can see that the net debt divided by the annualized EBITDA ended the quarter at 3.6 times. For the purposes of the covenants, we measured the ratio with the last 12 months as it did it. And in this case, the ratio was 3.4 times. It is also worth mentioning that our local credit ratings have been reaffirmed by the rating agencies.

On page 20, we present the evolution of the ROIC spread versus cost of debt. In the first half of 2020, we delivered a nominal spread of almost 5%, which is quite healthy, considering the pandemic scenario and that cost and expense reduction measures were implemented along the quarter. In addition, as we mentioned, we are seeing resumption of average volumes and tickets in RAC and increasing volumes in Seminovos.

To close, I would like to mention that despite the effects felt in our quarterly results, the way we reacted to the crisis, once again demonstrates our adaptability. We will continue

to build the future of mobility through innovative solutions, generating value to our entire business platform, cultivating long-term relationships and playing our role of being a Company committed to citizenship. Soon, we'll resume our growth trajectory, always focused in long-term value generation.

We are now available to answer your questions.

## Questions And Answers

### Operator

Ladies and gentlemen we will now begin the Q&A session. (Operator Instructions). Our first question is from Mr. Alex Falcao from HSBC.

### Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning or good afternoon, Mauricio and Nora. I have 2 questions, the first one about G&A. Can you talk about how recurring, the expense management results are, what we should expect moving forward. You did amazing work, but I'd really like to understand as volumes resume what will happen.

And second, I'd like to understand, July -- June and July. I think it was worse in April and then -- or mid-April and then things started -- or May started to come back. So what segments are coming back stronger and what do you see for the third quarter, thinking in business utilization recovery. And if you could add, how are the car sales going in July. So we can understand, what we can expect in depreciation and fleet aging. Thank you.

### A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Hi, Falcao. Thank you for your question. This is Mauricio speaking. So starting with G&A, we did a lot of work. We created an internal committee to create opportunities for cost reduction and expenses reduction. Some long lasting, we thought about how we work and manage processes to be more efficient. So we also had an opportunity to reinvent ourselves and those will be long lasting but obviously some of them are specific, some rental negotiations or consulting projects that we held back a little.

We didn't stop investing in technology in development, but some projects we can hold them a little for 2 or 3 months, but we do believe that a great part of things really changed and we are more efficient in the company. It's hard to give you the dimensions of each one of them. I think when things get back to normal. We will see the new levels of G&A, but we did have less employees. We did use the provisional measure from the government.

Some of these people will come back after their temporary lease. So some measures are here to stay. I'm talking specifically about the G&A, the positive G&A actually BRL58 million.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

So what level should it come back to?

**A - Mauricio Fernandes Teireixa** {BIO 19758664 <GO>}

Well, there are a number of initiatives that we are still implementing and reaping the effects of that. It's hard to give you guidance on the levels of that and the new normal for G&A. So it's lower than it used to be in the past, even for the same volume, but there are still some things that are just specific for the quarter. Compared to this the other segments that are recovering faster, when we see the ride sharing, the app drivers, that's recovering as the cities are opening up their restrictions. So, we see more activity, more kilometers driven and more drivers interested in cars. And we see individuals as well, individual rental and what hasn't come back yet is corporate travel, airports and travel on leisure. So, you see a weekend flow starting to increase, but still very shy, but in leisure we in domestic travel, we expect that in the fourth quarter more than now. And the sale of Seminovos in July, we see a very good July even stronger than June. So, reiterating the message that we are transmitting that the worse is in the past. And now we are on an increasing curve in car sales and we believe that stores will open again, economics activity will recover, city by city and I believe that July will be stronger than June.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Okay, thank you.

**Operator**

Our next question is from Mr. Bruno Amorim from Goldman Sachs.

**Q - Bruno Amorim** {BIO 17243832 <GO>}

Hi, good afternoon, everyone. My first question is a follow-up, based on the volume. You mentioned that July was stronger than June. But there is also the seasonality that comes into play July winter vacations in Brazil. So, I'd like to know that June was already flat, in July do we see a little bit of growth in volume, I believe that it's winter vacation time that's why. So you have travel, higher than the other months, given that's the segment that has been suffering more from this and a volume detract. So I'd like to understand your, the volume in June year-over-year to see if that's offsetting that factor.

And the second question, a bit more objective about the BRL39 million non-recurring costs, how are they allocated in RAC and fleet, and the reversal of the provision. So could you give us some more details about how you allocated the BRL39 million of non-recurring costs and according to the business unit that would be great. Thank you.

**A - Nora Lanari** {BIO 18838335 <GO>}

Bruno, thank you for your question. This is Nora speaking. You're right, we have a challenge in July because last year we had vacation and this year, vacation can't say that so much. But on the other hand, we have important markets such as Rio and Sao Paulo, at

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the end of June that will help in the sales volumes. So following that trend we're pretty much tied in that.

We can have a delta in the price given that during the vacation period, the average prices will increase, but we won't have that in volume. We see that and an average price, even though we don't believe we have that help from individuals traveling. On the other hand, we have the removal of the extraordinary discounts that we were giving, not only in the daily segment, but also in the app segments about that almost \$40 million.

Most of it is in RAC and just to remind you were talking about donations were talking about staff adjustments, which were the most relevant ones. As RAC has a higher weight in human resources, more better more representative. So it carries more than in fleet adjustments. So you can maybe 35 for RAC and 5 for fleet, but in that amount Seminovos is embedded in each product. It also carried some of the adjustment -- staff adjustment cost, because they also have personnel.

**Q - Bruno Amorim** {BIO 17243832 <GO>}

Okay, thank you.

## Operator

Our next question is from Mr. Regis Cardoso from Credit Suisse.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Hi, everyone. Good morning. Good morning, Mauricio and Nora. I have a question that, I'd say it's a bit longer answer and some quick follow up. So the longer question is your perspective not only based on fleet size, but also utilization rate throughout the year.

So how do you imagine that that curve is, where the comeback of the demand and increment in mobility will meet the curve that the fleet has been dropping, and if you have any expectations and at which moment in time. Throughout the second half of the year, do you believe that the purchase rates will increase an increase the fleet.

The other ones are about depreciation in fleet overall there was sequential reduction quarter-after-quarter and now we have a depreciation of fleet that's lower than RAC which is first and compared to the historical data, why was there such a different change in depreciation -- vehicle depreciation in the -- compared to the two, first ones.

And a last question, if you allow me about debt. There is an important -- there was an important payment made to OEMs and that in a certain way consumed your working capital. That was in accounts payable. But on the other hand, you're also increasing fleet size. So I believe that in the fleet reduction period should be accompanied by cash generation. So just to understand that point about cash, why is that growing in a moment where you're decreasing the fleet? Thank you.



## A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Hi, Regis. Good afternoon and thank you for your questions. This is Mauricio speaking. First about fleet size, as Nora mentioned in June-July, we're following the levels we were at the same month in 2019. So we believe that it's already a challenge for us to be able to follow 2019 and the 2020 fleet at the same levels that we had in 2019 for RAC. And that would be a victory. It would be a year without growth. But given the scenario. I'd say that's a victory.

It's not guidance, but it's something that we will try to follow throughout the year. And that's the dynamic. We have a growing rental fleet almost week-by-week. And we see more rentals as cities have more movement and people are renting more cars and operating fleet that's been falling day-by-day because they don't work, so the utilization rate grows, be it for the drop in operation or increase of the rental fleet, which is the numerator of that equation.

So we see that converging and that really depends on both ends, the rental demand increasing and how fast, I can sell cars in Seminovos. So there will come a time where that ratio will be close to the levels of 70%, 75% and our utilization, historical utilization rate is approximately 80% when it's close to 65%, 70% something, it will continue and then it's time to buy cars again. So depend on the speed and dynamic in the next months of Seminovos. We thought it would be around September but now Seminovos did well in June, July.

I think we'll buy before that. And we start to balance out the fleets and put that at levels where we buy and sell the same amount, and even by more than sell, if the rental demand is growing. So, that's the dynamic we're monitoring and we're doing that day, day-after-day. About fleet depreciation, we made a change. And we talked a lot about that in the results on the first quarter, where we changed the depreciation method in fleet management from [ph]Soed, which is adding the digits and you have higher depreciation in the first year, unless in the second and third for to linear depreciation, with equal a monthly quota throughout the cars useful life.

And now,. we're through in the moment of transition where we have new cars and then fleet management, we're still buying car, because cars because there is new contracts in fleet renewal. So these new cars coming in with the linear depreciation, which is lower in the first than it used to be with soed and some cars that were very depreciated because of soed and at the end of their useful life end of second, third year if the depreciation is very low or even 0.

So during this moment of transition, depreciation is lower and then it will match up. And on the other hand, will have the margin of Seminovos, so we will, from 6% to 7% in fleet management and as we renew the fleet with cars that have a more linear depreciation, we'll see Seminovos margin that's lower closer to what we see in RAC for Fleet Management. So it's really a moment of transition.

About the last question about cash that -- you can see on the slide, that talks about the debt, which is page 17, if I'm not mistaken. Yes, page 17. Here, the fleet reduction for

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growth, we generated BRL611 million, but we had BRL943 million to pay from the growth of the fourth quarter last year and first quarter this year and given the terms that we have, payment terms that we have with OEMs, we have to pay them now. And you can see that the suppliers account went from BRL2.5 million to BRL500 million.

So we stopped buying cars and have financing that we have from OEMs, and we have to pay these payments from the past and then we have this loss in working capital. Just to give you an idea. In May, which was the peak of payments, we paid BRL700 million to the automakers. And in sales, we had BRL200 million something, so we consumed \$500 million. And in June and July, it was BRL200 million to automakers and the 11,000 cars that we sold, we generated almost BRL500 million. So we generated cash, BRL300 million in that activity for purchase and sale. So that's what is moving forward. So we have BRL500 million. We have BRL200 million for the next month -- per month. And if you sell cars 11,000 cars for instance compared to June. That's BRL500 million in cash generation by selling cars. So net is positive, as of June.

Therefore we consumed -- burnt cash even not growing. And that was working capital and based on that and our projections or forecast the worst month in the ratio was month of May where we still had to pay more than receiving in the sale. As of June, we have a movement of unleveraging.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Great. Very clear. Thank you very much for your answers.

**Operator**

Our next question is from Mr. Victor Mizusaki from Bradesco BBI

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Good afternoon. I have two questions, actually follow-up questions. About the rate, you mentioned the volume -- July getting better, but if we think about the rate -- trying to separate the mix effect, if we think of a base of 100 in March and compared to June, and July -- I don't know if you can break this down for us. How can we see ride hailing, monthly rental if there is still any discounts, or you're back to the levels, base 100?

And about side, does it make sense to think that we should have these levels normalized next year only in fleet depreciation.

**A - Nora Lanari** {BIO 18838335 <GO>}

Victor, thank you for your questions. This is Nora speaking. Let me start off with the second. So as we have a reasonable number of cars in during this transition phase, that Mauricio mentioned that's benefiting average depreciation. So we believe that mid next year we should have cleaner base, so to speak. Based on rates. Victor, In June, we had already went back to the levels of pre-crisis and the daily segment in ride hailing pretty much in July.

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I believe in July per segment, we're pretty much in line with pre-crisis levels. So most of the effect from now on will be based on the mix effect. So thinking of march in evolution, on the price side. It's back to normal. So you're adjusting fleet size. and then you improve your utilization rate and that should reflect on margin expansion in the third quarter. If you disconnect the effects of the reversals, and go back to one-off impacts, RAC margin is strong, almost close to 40%. We have some challenges because as Mauricio mentioned Victor, there is some costs that will go back up as volume increases in summer permanent.

But for instance, the benefit of the employment contract suspension, right, from the government, that's ending. So the variable cost will be back, but we believe that based on the margin, we can capture some effects from that. And don't forget that we prioritized the most relevant investments. So as we see consistent comeback of volumes and in according to segments, some investments that were postponed in our contingency strategy will be back. So there is an expectation of gradual margin recovery in the third quarter and if Mauricio is correct, in the fourth quarter, if we come back to the levels below will have that back to normal. So we have an expectation of gradual comebacks. Thank you.

## Operator

Our next question is from Mr. Lucas Barbosa from Morgan Stanley.

### Q - Lucas Barbosa {BIO 20835372 <GO>}

Hi, good afternoon, Mauricio and Nora. Thank you for taking my question and congratulations on your results. I have a question about RAC, more specifically for ride hailing. So rental, how do you see the volume from April till now. I'm asking because in the beginning of the crisis, you gave drivers a discount. So, I'd like to know if the prices are back to normal and also, I'd like to know when you think you will go back to more relevant growth rates in that segment.

### A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Lucas. Thank you for your question. In fact it was a segment that was impacted by the pandemic, but in our case, it was less impacted in volume more in number. There was a price efforts, so that the drivers could keep the car. Volumes are on a recovery, a path of recovery. I believe that we can say that what we suffered a little bit over 50% was already recovered and the yields with an even stronger recovery than that. So remembering the following, for the third quarter that from mid to the end of June, Sao Paulo and relevant markets were not open yet. So in July, the trend of recovery should continue.

### Q - Lucas Barbosa {BIO 20835372 <GO>}

Perfect Nora, thank you

## Operator

We have a question from the webcast from Paulo. Good afternoon. What do you think of the long-term rental market for individuals as a potential come back for the brand new car

market in Brazil.

### **A - Nora Lanari** {BIO 18838335 <GO>}

This is Nora speaking. Paulo, we have seen this subscription cars, it could be is there a monthly contracts that would fall into RAC, in our case or could be in long-term contracts that would be in Fleet Managements

So we have long-term product in the oven to be launched and we're already selling that product, we believe that we could. Yes, it could contribute with the come back of the purchase volume, as we believe that more and more people are prioritizing private transportation, be it through a subscription monthly payments or buying their own car that came from the pandemic. So it's a new model subscription model.

### **Operator**

(Operator Instruction) Our next question is from Mr. Alex Falcao from HSBC.

### **Q - Alexandre Falcao** {BIO 5515455 <GO>}

Thank you for taking my follow-up question, I just like to understand your new product the leasing. Do you have any studies, the pilot projects that you could share with us what's the size of that market. What will you do with it becomes a relevant product, with the age of the fleet, with the cost of Fleet maintenance utilization I imagine that It's probably one of the things you looked into and should make a lot of sense. Could you talk to us about this product, first one.

### **A - Nora Lanari** {BIO 18838335 <GO>}

Of course, Falcao. This is Nora speaking. Thank you for your question. As I mentioned, you can explore this product, not only in RAC but also in fleet management and RAC it would be monthly contracts. So the customer wants more flexibility in coming in and leasing. So they come in, check which car is available in the RAC fleet and has total freedom to come and go. It could be a more longer-term product and that's what we will launch in the second half, so that would be two, three-year contracts on average.

And when we look at the potential in that market, it's huge. We're talking about millions of cars. The potential could be in the subscription model, right. So when we look at the US market for instance we know that one-third of the sales in the US, are leasing, as I think the leasing market isn't explored enough in Brazil. It's a relevant market, but the doubt is the speed of adoption of this new product. We're very optimistic, but we knew, we know we have to do our homework in educating customers to potentially move on to this new model.

If we consider this product in the Fleet Management mix, in theory, individuals drive less. There is some studies that show that individuals drive from 12 to 20,000 kms per year, a little less than corporate. So in terms of average mileage that could help a little and consequently, in terms of maintenance as well. But we can't generalize because in fleet

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management, we also have some benefit fleet contracts that fit into that such as someone that receives the car as part of their compensation and just commutes from work to home.

So we can say that the effect of that in Localiza total fleet would be a reduction in the average mileage given that we have other segments corporate monthly segment is growing, ride hailing is growing. So that also raises the average mileage. But in theory, in segment where the mileage is a lower maintenance proportionately lower but has to be tested, because we will give options in terms of mileage.

So in the lower one the car will drive less but higher, it would be similar to the ones that we have in B2B and fleet management.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Do you have any competitors doing that, that really stand out to you, that are gaining market share in that? that you believe, that you have to fight or is everybody at the same level? Thank you.

**A - Mauricio Fernandes Teireixa** {BIO 19758664 <GO>}

There are some initiatives. We haven't seen any very special products I'd say.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Okay, great. Thank you.

**Operator**

Our next question is from Mr. Regis Cardoso from Credit Suisse.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Hi, everyone thank you for taking my question again. Just a quick question. In this conversation, it seems to me that in the absence of a recovery, that's not within your control, which is urban mobility, the biggest bets, the biggest growth drivers that we should monitor from now on, are key ride hailing in RAC in the subscription cars in especially in GTF, because I believe that in the long term will be better than monthly rental. Is that correct? Is my idea correct? Is that how you're considering the volume? Thank you.

**A - Nora Lanari** {BIO 18838335 <GO>}

Thank you Regis, for your question. This is Nora speaking. I would add, ride hailing in RAC, but you have subscription cars in RAC in the, through the monthly subsequent contract, but we also see outsourcing, we see companies trying to generate cash. They sell their own fleet and go into out the outsource or even monthly rental, so you can't just say it's individuals or ride hailing. We also see many opportunities with corporates and we believe that at some point domestic travel will come back, resume its growth path. The preference has been private transportation, so many people are starting to reserve travel again, but obviously, airports, airplanes and using their cars, which could be a rented car.

So we are optimistic with the high season, high season, we're talking about December and January, we believe that there could be a reasonable come back in tourism as well.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Okay. Thank you, very clear.

## Operator

Our next question is from Roberta Versiani from Citibank.

**Q - Roberta Versiani** {BIO 21207378 <GO>}

Good afternoon, everyone. Just a quick question. How do you see the evolution of new car prices in the market and with automakers. And how does that impact Seminovos in the medium and long-term. Thank you.

**A - Mauricio Fernandes Teireixa** {BIO 19758664 <GO>}

Hi, Roberta. Thank you for your question. This is Mauricio speaking. We see movement now not only in new cars, but also Seminovos or used cars are recovering. It's a trend, something we believe that will recover in the beginning of the year. Some things postponed because of the pandemic and price increases. We see automakers that are increasing new car sales, 3%, by 3%, 4% and the prices are higher. And we've seen that in the end of June and that we already see a price improvement in some car models in automakers as well, and even used cars

So in fact it's not just public prices but also actual prices, actual price increases and we also see that in specific used car style or models. I'm not sure if we can say, if that's a trend, but the data points that we have end of June and July, are small increments to car price. It's different than what we expected. We thought that given the pandemic, we should see a price drop, but we're seeing the opposite. Given the exchange rate increase, US dollar exchange rate increase, there is a high amount of their production is in dollars. It's dollarized and they have to transfer that to consumers.

So we also see that effect when it happens to new cars, eventually happens to used cars as well.

**Q - Roberta Versiani** {BIO 21207378 <GO>}

Okay, thank you. Just one quick question, could you give us some more flavor on how you were able to maintain such a good EBITDA margin in car rental in such a heavy crisis, could you give us some more flavor on that?

**A - Mauricio Fernandes Teireixa** {BIO 19758664 <GO>}

Hi, Roberta. Of course, this is Mauricio speaking. We quickly had to adjust the size of our operation, be it in terms of operational cost and number of people given the lower volumes. So it was a very quick reaction in cutting expenses. We had hundreds of initiatives throughout the entire company car company was mobilized to fit the size of our

structure to the new volume reality, and to achieve our -- so we are able to achieve our objective of sustain our margin and having a profitable model. Even with the lower demand than we expected and we're getting ready for in the past months.

We opened stores, we hired people expecting that we would have a higher volume and the volume didn't come. So we had to take a step back and adjust our costs, and buckle up and get ready for the future.

#### **A - Nora Lanari** {BIO 18838335 <GO>}

Roberta. If I could add, this is Nora speaking. We have no number 92. That explains that better. We had relevant work and reducing fixed costs so, renegotiating our rentals. We used the government provisional measure to reduce working hours or suspend work contracts temporarily and variable costs, but even in variable cost, we had a drop in maintenance costs, travel, advertising. So, part of that obviously is variable but part of that is part of process automation, so we've been more efficient per unit in maintenance.

So we've been able to capture part of the investments in the past years that were also weighing on our margin, because they were expensed. But now we're reaping the benefits of those investments in the past. And just a disclaimer, that on the other hand, we had an expected increase in bad debt. So, we should resume certain level of investments post pandemic, some investments were parked, we had to interrupt them and we will resume them moving forward.

So the answer is, with a lot of work. Thank you.

#### **Operator**

Our next question is from [ph]Nana Silver from UBS.

#### **Q - Nana Silver**

Good afternoon thank you for taking my question. My first question is about the price gap in Seminovos that we saw opening up a little compared to the cost of prices, the price of cars bought in the past. So, I'd like to know if that's connected to the mix of vehicles sold or even the share of wholesale in total sales.

And the second question is, the prices and margins moving going forward. As the rates go back to normal, how much will the change in the mix continue to be good, because we see a high drop in tourism and new sectors are focused on monthly. So how would that reflect in margins because at the end of the day, you have a worse price in those segments, but with different costs.

#### **A - Mauricio Fernandes Teireixa** {BIO 19758664 <GO>}

Thank you for your question. I think that, I believe that the price cap is greatly explained by the low volume purchase, which affects -- affected the purchase mix. So the RAC price is on average BRL50,000 on average, which has been [ph] close to BRL44,000 and even

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in fleet. So the quote-unquote worsening of the spread, given this small purchase volume and the cars received at this time.

This quarter is never very good to do the math because there could be a concentration of receiving more expensive or cheaper cars that impact your analysis. But I'd say that the purchase mix receiving the cars -- and we can't forget that during a good part of the quarter, the seminovos stores were closed. So when the stores are closed that weighs a little more on the wholesale channel. And that also affects the net price, net sale price, but on the other hand, it also impacts the cost. You have a little less cost. So we don't believe that, that spread is recurring. We believe that it will come back in the future.

About the average rate, we don't have major expectations of resuming daily rental rates this year. Corporate travel is still low. I think when in April and May when things were worse, I think everything brought back -- came back a little. So everything's is bigger than the worst part of the crisis. And we believe that the mix is tending towards longer-term rentals, be it through the apps ride hailing or monthly or even replacement given instead of daily rental.

The average rates of this segment, the fact that it's lower doesn't impact the business' profitability. The rates are lower because associated costs are different. You have less network cost, less interaction in-the-counter higher utilization rate. On the other hand, you have maintenance and depreciation. So pricing is based in a way, is done in a way so that all segments are profitable. The change in the mix doesn't concern us or the change in average ticket, either.

### Q - Nana Silver

Just one last question, when we say that this segment has similar -- segments have similar profitability, is that percentage wise or is that return per vehicle? Thank you.

### A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Okay, thank you. I have to consider the invested capital as well.

### Q - Nana Silver

Thank you.

### A - Nora Lanari {BIO 18838335 <GO>}

We have a question from the webcast, from Manuel. Thank you, Manuel this Nora speaking. As we move forward, what are your thoughts in relation to the sustainability of the recurring mix that has held onto RAC considering that airports and leisure are highly affected by the crisis. So she asks percentage wise, how much growth can be explained by ride hailing daily, and other segments?

Thank you. Manuela for your question. Our -- or we imagine that the sustainability of that mix, that the trend is that it will remain in the segment of RAC, monthly rentals, weekly rentals because there will be a faster comeback in our opinion for ride hailing and for the



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subscription models, the monthly models, those cases they come back first, because based on what we have seen seeing in other markets, who have been through the pandemic already, we see that it's obvious now that people prefer private transportation.

So we will probably have a mass of people that will leave public transportation and migrate to Uber and others from Uber to their own cars or subscription cars. So we believe that not only the app will have a comeback but also monthly rental. So we believe that that mix will continue to lose -- to lower rates. And in that context, I think it's worth noting that obviously that what has been driving growth, or growth recovery are the segments that I mentioned daily is still very compressed.

So year-over-year the daily segment is still dropping. But year-over-year the other segments already showing growth. And still on the webcast, about the new leasing product, how -- in relation to the automaker fleet. I think that's a trend that we've been seeing some automakers are announcing some pilot projects in that subscription model. We believe that we have specific capabilities in fleet management and automaker is leaving industrial to services, right, but we already have this capability. So we have the competitive edge, not only in managing the asset, but also in selling the asset. So we're able to, we will be very competitive, but I believe that many automakers will try to enter this market and that's not new, throughout history, we've seen this happen a number of different times, not only in Brazil but also abroad. But they're very different competencies and what they currently have. So, we're monitoring that, we respect the automakers as competitors as the competition, we will continue to monitor them.

Here, another question about how stores are reopening outside the country?

Outside the country, we are present in 5 countries in South America and re-openings are following local guidelines. So each country is following the local regulations. So it varies country to country, it's a very generic answer.

A question from Fernando. Can you explain the PIS COFINS credit at this time? There is helped in EBITDA and avoided losses?

#### **A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}**

This is Mauricio speaking. I'll answer that question. Actually we were depreciating cars for the purposes of PIS and COFINS credits and on a monthly basis and we believe that since it's an asset for our activities, we could depreciate one over 48 instead of one over 60 in 4 years. So we receive, take the credit until the car is sold. So, the earlier we can do that, we get more credit because after you sell the car the credit is no longer perceived. So when we change from 5 years to 4 years, to receive the credit and we sell on average at 14 months in rental car, then I can receive those credits. So, we had a favorable decision at Localiza in RAC so to speak, that we could take that credit in 4 years, instead of 5. But we didn't have a favorable decision in fleet -- in fleet management. So, in a conservative way since we didn't have a consolidated understanding and the favorable decision in courts for the Company, we decided to be conservative and taking the credit in fact in 4 years but provisioning the difference in case the decision was -- there was a reversal or we had

an unfavorable decision for fleets, on the balance sheet, we would already have the liability for that provision.

On March 31st this year, we had a favorable decision for Localiza Fleet. So in both companies, we had a consolidated decision in court saying that we could get the credit in 4 years and analyzing that with our attorneys, and now we have a complete understanding that, that is consolidated. We can have that in 4 years. So the provision being conservative that we were, didn't make -- it wasn't necessary was no longer necessary as we had that understanding approval in both companies. So we started to reverse the entire provision.

It was accrued since 2017, when we started to get the credit in 4 years instead of 5. And we're -- I think that to be neutral in the result we're doing that month -- on a monthly basis, and for the fourth quarter last year, we had BRL17 million in provisions. So the result was affected in the year. And now we've reversed that entire provision and we no longer did the provision for the next quarter. So the results last quarter would have been better than it was and now we have reversed the entire stock of provisions this month and in the future results could you will be better than if we continue to do this, which is approximately BRL17 million.

This isn't the reason alone that guaranteed our profits. If we take away income tax, it's BRL38 million and we will probably be zero, we wouldn't have loss, even with that reversal. And if we consider all the non-recurring the donations expenses with terminations, and other aspects in terms of approximately BRL40 million if we adjust that in a good way, we would have profit of BRL17 million as well. So just to clarify the deep down everything that was reverse now also affected us in the past and from now on, it will no longer affect us, jeopardize us.

## Operator

(Operator Instructions) Now to end the earnings call, I'd like to hand over to Mr. Mauricio Teireixa.

## A - Mauricio Fernandes Teireixa {BIO 19758664 <GO>}

Thank you, everyone. I hope that everyone and your family is well and healthy. Our Investor Relations team is available for any additional clarification. Have a great day.

## Operator

The Localiza conference call is now over. Thank you for your participation. Have a great day.

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