

Q1 2022 Earnings Call

Company Participants

- Carlos Horacio Horacio Sarquis, Head of Rent-a-Car
- Luis Fernando Memoria Porto, Chief Executive Officer, Member of the Executive Board, Director
- Marco Tulio De Carvalho Oliveira, Chief Financial Officer and Investor Relations Officer

Other Participants

- Aline Gil, Analyst
- Regis Cardoso, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon. Welcome to Unidas Conference Call where the results for the first quarter of 2022 will be presented. At this moment all participants are connected only as listeners, later the Q&A session will be opened when instructions will be given for you to participate. (Operator Instructions). This conference call has simultaneous translation into English. Questions can be asked normally by participants connected abroad. Questions can also be asked over the Internet using the webcast platform. I'd like to remind you that this conference is being recorded.

The audio will be available on the company's website within 24 hours. If any of you do not have a copy of the Unidas earning release, you can obtain it from the company's website ri.unidas.com.br/en. This conference call, accompanied by the slide show is being transmitted simultaneously over the company, accessed through the company's website. I would like to clarify that any statements made during this conference call regarding this prospects of the company's business as well as projections, operational and financial goals regarding its growth potential are forecasts based on expectations, Management in relation to Unidas future such expectations depend on the performance of the sector, the general economic performance of the country and the conditions of the national or international markets and are therefore subject to change.

Today, we have Mr. Luis Fernando Porto, CEO; Marco Tulio Oliveira, CFO and Investor Relations Officer; and Mr. Carlos Sarquis, Head of Rent-a-Car Division. I now turn over to Mr. Luis Fernando Porto. Please Mr. Porto, you may proceed.

Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Good afternoon, everyone. Welcome to the first quarter of 2022 Unidas conference call. Today with me are Marco Tulio, our CFO and IRO and Carlos Sarquis, our Head of RAC. Starting our presentation, Slide number 2. We're pleased to announce that you Unidas, aware of its role for a balanced environment and committed with the future of sustainable mobility in the country has started offering electric scooters for rental through Unidas Livre. Unidas has established a partnership with a Voce, a technology company focused on urban mobility to offer electric scooters, EVI Sports subscription plan. We are pioneers in the rent of electric vehicles in the country. In addition, this movement allows us to enter in a niche of market, where clients in addition to searching for a 2-wheel mobility option will save money with a lower ticket.

In the next slide, our total fleet went up actually 22.6% in this quarter, reaching the level of 203.7 thousand vehicles. This was boosted by the strong demand for both rental segments, especially in the Fleet Management, which had a positive change of 28.2% in the 12-month comparison. In the chart below, we show the evolution of the average rented fleet, which went 20.9% up when compared to last year's first quarter. In Slide 4, we present a net investments in fleet. We acquired around 13,000 vehicles and sold 10.1 thousand, a positive amount of 2.8 thousand vehicles in the quarter, in line with the company's estimates.

Now in slide 5, we will talk about Fleet Management. In the chart, we continue to prioritize contracts with higher profitability and 7.1 thousand new vehicles were hired in the quarter, although with a global value of new contracts of around BRL1.2 billion. This global value of new contracts is 65% higher than in the first quarter of 2021 and is also a record for the company. The cars in dispute for the next quarter surpassed 85,000 vehicles, an expansion of 17.4% when compared to the same period of the last year and almost twice of what we had disputed in 2019 and 2020, demonstrating the strong scenario for this rental segment and the company's capacity to identify and attract new clients.

Next slide, we continue to evolve in a consistent way our volume of daily rentals in fleet management. We hit a record of one -- one more time, reaching the volume of 9.7 million of daily rentals, with 30.7% of growth. This highly -- I'm sorry, this higher daily rental volume in the quarter goes along an evolution on the average monthly rate reaching record levels in the quarter of BRL1,964, an increase of 11.1% when compared to the first quarter of 2021. This resulted in an expansion of the net revenue with another record BRL576.1 million, an evolution of 45.7% compared to the first quarter as demonstrated on the right chart.

In Slide 7, we'll talk about the Used Cars market and its behavior. We increased our market share in Used Cars in a 0.6 percentage points when compared to the first quarter of 2021 despite of vehicles sales volume retraction, which went 17.5% and 12.3% down when compared to the first and the fourth quarter of 2021. In the chart below, we can see that we reached a total of BRL65.3 thousand per vehicle, an expansion of almost 20% compared to the last year. Our sales volume keeps impacted in a relevant way due to the need of reducing our rental businesses demobilization to allow the continuation of good attendance of our customers. So we just sold 10.1 thousand vehicles this quarter. In Slide 8,

net revenue from Used Cars totaled BRL661.4 million in the quarter, which -- and we shut down more -- four stores.

I now turn over to Sarquis, our Head of Ren-a-Car and he will present more details and the Company's results for this segment.

Carlos Horacio Horacio Sarquis {BIO 20060508 <GO>}

Thank you, Luis. Good afternoon, everyone. We are now on Slide number 9. I'd like to start talking about the bottom right chart. It presents the evolution of our average daily rent, which this quarter reached the level of BRL103.0, an increase of 38.4% when compared to the same period of 2021. This is a consequence of price increases in all business segments to offset the recurring, operating in capsule price increases and also of the growth of the rental share coming from individuals segment. In the first chart we show the volume of daily rentals, which went 5.3% up when compared to the first quarter of 2021, reaching 4.8 million.

And the bottom left chart, we can see the occupancy rate, which reached 79.4% in the quarter. The volume of daily rentals for this quarter and the occupancy indicator and revenue growth itself were affected by the reduction of the tourism volume caused by the peak of infections of the Omicron variant. We believe that the end of the pandemic will bring a very impressive short-term rental demand growth for such travels as well as for business or leisure.

In Slide 10, we continue evolving and reached a net revenue record in the amount of BRL455.6 million, an expansion of 50.2%. In the bottom part of the slide, we present the company's total stores. And this quarter we ended with 250 stores, 29 from franchises and 221 owned by the company, an expansion of 22 of our own stores. I now turn over to Marco Tulio.

Marco Tulio De Carvalho Oliveira {BIO 20074241 <GO>}

Thank you, Sarquis. Good afternoon, everyone. In Slide 11, we can see the costs regarding vehicles demobilization and preparation for sale in the segment of Used Car sales. The presentation of these costs in Used Cars operation better reflects the company's strategy regarding the level of car preparation versus the sales strategy contained in each channel. For example, we have comparatively increased preparation costs in recent quarters to capture higher sales values in the demobilization of our assets. The non-recurring impacts from merger, which in the quarter totaled approximately BRL14 million were excluded from the results and because of that adjusted EBITDA in the RAC operation reached BRL229.3 million in the quarter an expansion of 57.6%, when compared to the first quarter of past year with an adjusted EBITDA margin of 50%. In fleet management adjusted EBITDA hit record, reaching BRL383.1 million, an expansion of almost 40% when compared to the past year, and an adjusted EBITDA margin of 66.5%.

In Slide 12, we can see an evolution of our consolidated adjusted EBIT. We went from 39.2% -- I'm sorry we went up 39.2% and reached the amount of BRL573 million in the

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quarter when compared to the first quarter of 2021. We highlight EBIT margin from fleet management, which went 1.2% points up. In Slide 13 [ph], our net financial result was impacted by the strong growth of SELIC rate in the recent quarters in addition to the fact that our net debt doubled when compared to the first quarter to support the company's strong growth. In Slide 14, the spread between ROIC and the cost of debt was 5.8 percentage points. The ROIC spread was the result of adjusted quarterly ROIC of 13.1% and the cost of debt that reached 7.4% in the quarter. And then finally in the bottom right chart, we present our leverage levels, the net debt over recurring annualized EBITDA was 2.8 times.

I now turn over to Luis Fernando.

Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Thank you, Marco. Before we move to the Q&A session, I'd like to give my final concentrations. This first quarter of 2022 represents an important evolution of the strategies adopted throughout recent quarters. We keep on presenting the continued improvement in the rental business results. Both segments had record marks in net revenue and in adjusted EBITDA with a strong operating performance with a quite heated demand even with the negative impact caused by higher inflation of maintenance costs, the continuous fleet aging and the bottleneck in the brand new car industry. In Used Car sales, we continue to calibrate our sales volume to guarantee rent -- the attendance of rental clients. Meanwhile, the delivery of brand new cars from automated -- from automakers is normalized.

In a consolidated view, rental operations and Used Cars generated a net revenue of BRL1.7 billion, the highest for a first quarter in the history of the company. In addition to offering electric cars and outsourcing of fleet, this quarter for Unidas Livre clients, we have a partnership with Voce to offer a new vehicle segment. From now on the customers that are fans of 2-wheel mobility will have electric scooters as a cheaper and sustainable option.

Before moving to the Q&A session, I would like to thank the Unidas team, which has delivered another excellent quarterly results. Our investors, clients and partners that believed and continue betting on us. Thanks for attending this conference call and please always count on me and the Unidas Investors Relation team. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions). Our first question comes from Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hello Luis, Marco, Carlos. Thank you for the opportunity and congratulations for the results. I'd like to explore the RAC rates. Do you think that this is a channel in fact in the

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same category? We can see the results and I would like to know if it is a matter of prioritization or there are any other reasons? Also regarding the fleet renewal, you bought and sold the last cars, is there any reason for that? Is it a deliberate strategy or are there any restriction impacts in the offer of cars? Thank you very much.

A - Carlos Horacio Horacio Sarquis {BIO 20060508 <GO>}

Hello, Reis. Good afternoon. Thank you for the question. This is Carlos Sarquis. I'm going to answer to you about the RAC fees. In the first quarter of 2022, when compared to the first -- fourth quarter of the previous year, all of our rates excluding the physical person went up and most of them went up over 10%. The physical person rates went down, even though the one for physical rates went down and this is more visible for the market and you can check the prices in our websites. Even though they went up, we observed very expressive growth, quarter-over-quarter in the average ticket for Rent-a-Car and therefore, my answer it's very clear, this growth is obviously due to the fact that the percentage values for rentals in the physical person channel has improved and that is the channel that has the higher average ticket.

And as I mentioned in my presentation, this channel was impacted by the Omicron variant, especially in the first weeks. And even though it was significantly impacted and we had a price decrease, because when you're trying to encourage this demand, this is true for our Unidas and our competitors. But even in a scenario like this, we had an expressive increase in the average ticket. Prices of the other channels continue growing, physical persons are recovering when we compare this quarter to the previous one and we can see a very good evolution of prices in the market. Have I answered your question?

Well, Regis, moving on to your second question and the purchase and sales of cars, we have worked through out 2021 and also in the first quarter of 2022, we wanted to have their maximum number of cars available and then that makes sense in terms of the renewal of our fleet. We have mentioned that if needed, we will delay car sales. There has been a significant increase in car prices last year and in the first quarter of this year. We understand that with higher maintenance cost as we can have a good quality of our cars for our clients and then we will buy cars appropriately evaluating the difference between purchase and sales.

So, if we take into account this difference of purchase and sales in the last couple of quarters, we understand that we are using the best strategy possible and if we compare the fourth quarter and this first quarter, we have a little bit over 21,000 cars and therefore we purchased more in the fourth quarter. We sold little less with a net difference that is important for us to kick off 2022. In this first quarter, we have almost 3,000 new cars in our fleet. We are analyzing things conservatively, looking at our capital and -- and an optimal increment in net fleet according to our understanding. And we have also increased rentals and if we get 20,000 more cars, we're talking about a growth of 10% in the company's fleet.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay, excellent. Thank you, Sarquis. I just wanted to add -- I'd like to know about the margin in cars? Should we wait for these results looking ahead?

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A - Carlos Horacio Horacio Sarquis {BIO 20060508 <GO>}

Well, that's an interesting question Regis. In this quarter, we have started and almost a recurring regimen for Rent-a-Car. We did not conclude this for Fleet Management, but it is an almost recurring event and why? Well, because of the operational fleet, we had at the end of last year. So part of the Rent-a-Car fleet and the credit is not seen in the first quarter, but it won't be lost, it's a manner of concluding the report and we can say something about 15% and 20% of the operating fleet of Rent-a-Car is not part of the balance. In terms of outsourcing, we do not have appropriate credit, but it doesn't mean that we can't do this in the future.

Q - Regis Cardoso {BIO 20098524 <GO>}

Well, thank you very much.

Operator

Our next question comes from Aline Gil, BTG Pactual.

Q - Aline Gil

Good afternoon. We have seen an increase in RAC and fleet, do you have any perspective of stabilizing this segment? And I have another question regarding the sales of assets to Localiza? Thank you very much.

A - Carlos Horacio Horacio Sarquis {BIO 20060508 <GO>}

Thank you, Aline. Thank you for your question. Regarding the RAC and the fleet, it will continue increasing over the year and if we keep a high volume of cars, but in terms of renewal this effect will not disappear. We have a large volumes of cars today, which do not need to be depreciated and a smaller amount coming in every month. So the faster, we receive a higher volumes of brand new cars, the faster will be the destabilization. So the volumes of depreciation and the amount will increase over the year. Regarding the sales of assets, we have a similar event when compared to the past quarter. We want to sell these assets. We're going to close a deal and right now, I would like -- I would rather not speculate with prices. We have dilated deadline for the sales. We have some expectations, but I would rather not speculate because it depends on third parties. This is a normal process. It is growing well, according to what we mentioned in the last call we had with you. Aline, is that okay?

Q - Aline Gil

That is perfect. Thank you. Thank you for answers and the clarifications.

A - Carlos Horacio Horacio Sarquis {BIO 20060508 <GO>}

Well, I thank you.

Operator

Our next question comes from Victor Mizusaki, Bradesco BBI.

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Q - Victor Mizusaki {BIO 4087162 <GO>}

Good afternoon. Congratulations for the results. I have one question. In the first quarter, we've seen some pressure from ROIC and I'd like to know what your plans are for 2023. And Sarquis has already mentioned a little bit about improvements in the rates, but also in the first quarter, we've seen this process of a partial fleet renewal, which has increased invested capital a little bit. I wanted to understand from you how the ROIC will vary along 2022? Thank you very much.

A - Marco Tulio De Carvalho Oliveira {BIO 20074241 <GO>}

Hello, Victor. Thank you for the question. I think that in the composition of our ROIC, we have some factors involved. Even though it is a little bit lower than in the previous quarter, we can see that basically in terms of invested capital for example, if you look at the final balance position, the amounts are a little bit higher in the implementation of cars and the cars that we bought at the end of the previous quarter that has an impact and ROIC. And also with higher margins in used cars we are selling much less than the normalized amounts. It's important for us to understand how this behavior will be from now on, the ROIC spread and the cost of debt. We had a spread, a very healthy spread in the past years. In the next years and quarters, the objective of the company is to continue with its target spread in terms of cost of debt and ROIC. In terms of volume, if you have more or less Used Cars, they are already hired in the company's balance. The ROIC spread can be expected to be at the same levels that we've delivered historically.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Excellent. I wanted to ask a second question. Marco, I think you mentioned for this quarter a net addition of 2,000 to 3,000 cars. And -- and thinking about the average age of the fleet because of what happened in the first quarter, it could be that the RAC fleet will continue increasing its average age. How do you see that? Is it a market condition, because of these car assemblers or not? Is it possible to operate with an average age, so that the fleet can remain a little bit older? Thank you very much.

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Victor, thank you very much. This is Luis Fernando. This is an excellent question. Based on the changes we've had in the last couple of years because of a decrease in the delivery of brand new cars, we have tested new cars the new models, this is one of them. We've seen that it's possible to work with a return that is the same or even better with a fleet -- appropriate fleet. So even if in the next few years, the industry normalizes its delivery capacity, we can indeed try to have higher average rate -- average ages in our RAC. It's important to have this turnaround in this new fleet, but we had never worked with a fleet this age, with these numbers of kilometers and we can see that we can expand this a little bit. We cannot assure that and if the industry resumes normally in 2023, says all agreements have already been established for 2022. We will have to better calculate using our fleet a little longer has important factors involved. So the answer is yes, we can expect longer average age for our fleet, if the industry normalizes its delivery, we will have to decide whether we'll go back to previous levels or not.

Operator

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Thank you very much. Our next question comes from Felipe [ph], Citibank.

Q - Unidentified Participant

Good afternoon. Thank you for accepting my question. I have two questions actually. The first one is, I would like a follow-up in terms of fleet age and fleet renewal? You have explored some aspects, but I wanted to better understand what your expectation is in terms of purchase volume for the year and whether this volume will accelerate throughout the year and how you see this normalization for 2023? The second question, I wanted to learn from you, what would be an acceptable leverage level and how -- whether it is possible to increase this leverage?

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Felipe, good afternoon. Thank you for your question. Our expectation is to accelerate deliveries in the second quarter and especially in the third and fourth. These are the agreements we've made in April. In the first month, we already have some signs that they have been according to what was expected in the first quarter, what we received was what we expected and what we had agreed upon, so there is nothing new in those volumes being or we already anticipated in our budgets. In the first month of the second quarter, everything was according to our expectations and it was higher than the average that we received in the first quarter and therefore this is a good sign. And the ramp is very marked in the second and third quarter in terms of the volume of cars that we have agreed upon with the assemblers. Many of them did not produce cars in the first quarter because of part replacement, manufacture adjustments because of a new legislation that was going to place and these assemblers have a contract with us. And the expectation is very strong for the next quarters. And then April was a good month. We received more cars and for 2023, we expect that this will overcome and that we will buy the amount of cars we need, so we expect that by 2023, the industry will have solved its problems with parts and the automobile industry has already indicated that they want to explore their productivity the best way possible. So this is what we have for 2022. We will accelerate as of now and for 2023, we expect that the automobile industry will normalize and we will have it from our partners and assemblers.

A - Marco Tulio De Carvalho Oliveira {BIO 20074241 <GO>}

Well, thank you for the question for Felipe. I'm going to answer your second question about leverage. We have followed two metrics. Leverage, we'll look at the last 12 months, we follow this as well as leverage when we evaluate our EBITDA for the quarter. And here when we manage the company and look at the past experience, so we can see that the EBITDA has grown one quarter after the other and therefore this decision in terms of growth will be based on EBITDA. When we see that it grows, but for example, if it starts today, we're talking about 2.8 times here with a normalized EBITDA. So whereas we have EBITDA at this level or even up to 3 or 3.10, this is healthy. And if we start to grow this EBITDA would not go down. This is a metric we use and we have an important opportunity here to keep the company's strategy growing with a healthy leverage level. Thank you, Felipe.

Operator

Our next question comes from Mendez (inaudible).

Q - Unidentified Participant

Hello, Luis. This is Marco (inaudible). Thank you for your question. I actually have two questions. I know that, you I don't give a lot of disclosures about this segment, but I wanted to know what we have ahead of us? And I would like to know what we have in the future especially taking Localiza into account? And the second aspect now that we are in fact negotiating and discussing synergism, I'd like to know how -- what do you expect in comparison to what was expected in the past? Thank you very much.

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Well, Guillermo [ph], thank you. Our platform for heavy vehicles today has about 2,800 assets. We've grown well in this segment. You have probably observed the average ticket of cars, which is higher and obviously this amount has suffered an impact of heavy vehicles and other segments that we have invested in the last years, such as agribusiness and special vehicles, because the characteristic of these businesses is that contracts are longer and the average ticket is higher. When you have a longer contract, you charge less and the return has a longer cycle. Therefore, we are not going to disclose -- I'm sorry these and other segments separately. But maybe in the beginning of the next year or end of this year, we will have a more open disclosure per segment.

But for the time being, everything is closed. I can give you some numbers as the number of assets and I can tell you that we are making good use of this sector for our growth. Regarding synergism, we've started planning the new company because of restrictions and the process, we're doing this with a team, but we have not decided whether the synergism is higher or lower than what we have in terms of numbers. But our expectation is very positive in terms of what we see now that we are working closely, especially after the first approval by (inaudible) in December. Expectations are good. We did not have accurate numbers yet. So we do not know where to Localiza's numbers are. Localiza cannot see our number either. We have a consultancy available and that makes it very difficult for us to have accurate numbers available, but the expectation is very good based on what we've seen thus far.

Q - Unidentified Participant

Thank you very much Luis and good afternoon.

A - Luis Fernando Memoria Porto {BIO 17175861 <GO>}

Well, I thank you, Guillermo.

Operator

(Operator Instructions). Our next question comes from Andre (inaudible), Bradesco BBl.

Q - Unidentified Participant

Well, good afternoon. Thank you for accepting my question. I'd like to have an idea of the cars that are coming in and whether it's similar to the regular market?

A - Carlos Horacio Horacio Sarquis {BIO 20060508 <GO>}

Well, thank you, Andre. The mix is normalizing. If you get to the average ticket for RAC this quarter, it is more aligned to what we believe to be a normal mix and that is seen in numbers also. In the past we had an availability from the industry, which focused on the more expensive vehicles because if you have a better added value for the assembler in these more expensive vehicles than if you have a restriction in terms of the number of parts, of course the assemblers prefer to make this kind of car available. But now with the normalization of the delivery of parts, they will produce a natural mix because they need to have this mix to reach their objectives and therefore the answer is yes. This is normalizing and we expect that in the next few quarters, this will be consolidated. But as I mentioned, if you look at the purchase chart -- the purchase for the cars and the mix as things start normalizing, we can clearly see that the average ticket for RAC goes down and the reason is -- would be the mix. The reason for this normalization and this is what expect -- this is what is happening and this is what we expect. Thank you very much.

Operator

(Operator Instructions). If we have no more questions, this conference call is now over and we thank you all for your participation. Have an excellent afternoon.

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