

MOODY'S

INVESTORS SERVICE

Credit Opinion: Localiza Rent a Car S.A.

Global Credit Research - 02 Mar 2016

Belo Horizonte, Brazil

Ratings

Category	Moody's Rating
Outlook	Negative
Corporate Family Rating	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Corporate Family Rating	Aa2.br
NSR Senior Unsecured	Aa2.br

Contacts

Analyst	Phone
Marcos Schmidt/Sao Paulo	55.11.3043.7300
Cristiane Spercel/Sao Paulo	
Marianna Waltz, CFA/Sao Paulo	

Key Indicators

[1]Localiza Rent a Car S.A.	9/30/2015(L)	12/31/2014	12/31/2013	12/31/2012
Revenue (USD Billion)	\$1.3	\$1.7	\$1.6	\$1.6
Pretax Income % of Sales	13.7%	14.8%	15.4%	10.3%
Debt / EBITDA	2.5x	2.5x	2.4x	2.3x
FFO / Debt	14.8%	17.2%	21.1%	20.5%
EBITDA / Interest	3.3x	4.2x	5.4x	4.9x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

- Stable operating performance and history of resilient business model during stress scenarios
- Large unencumbered asset base with good liquidity
- Strong market share position both in the car and fleet rental segments
- Steep slowdown in the Brazilian economy and in the automotive market
- Positive fundamentals supporting continued growth of the Brazilian car rental industry

Corporate Profile

Localiza Rent a Car S.A. (Localiza), founded in 1973 and headquartered in Belo Horizonte, Minas Gerais, Brazil, operates car rental, fleet rental, and used car businesses in Brazil. It also franchises rental car operations throughout Latin America. As of September 30, 2015, Localiza had a total fleet of 104,274 company-owned cars and 13,175 cars from franchisees in Brazil and other seven countries. Localiza is the market leader in Brazil for both car and fleet rental with the largest number of car rental locations and presence at the principal Brazilian airports. For the last twelve months ended September 30, 2015, Localiza reported net revenues of BRL 4.0 billion and net income of BRL 399 million.

SUMMARY RATING RATIONALE

Localiza's rating is supported by the company's stable operating performance and resilient business model, which entails relatively stable cash flows and more flexible operations - a positive, especially during the current scenario of auto market slowdown. Localiza's leading market share position in both the car and fleet rental segments also supports the rating. The company continues to maintain robust profitability as a result of low fleet maintenance requirements, high utilization rates, attractive discounts from automobile manufacturers and expertise on the used cars sales market. The ratings also reflect the company's adequate corporate governance practices and strong liquidity position.

On the other hand, the capital intensive nature of the car rental business constrains Localiza's ratings, as does the company's small size when compared to its global industry peers and the lack of significant international footprint. The rating is further pressured by the expected more challenging environment for the automotive industry until at least the end of 2016 and weaker than expected economic prospects for Brazil for the next couple of years.

DETAILED RATING CONSIDERATIONS

CONSOLIDATED LEADING POSITION IN ATTRACTIVE SEGMENTS

Although Localiza is one of the smallest globally rated car rental companies in terms of revenues, it enjoys a dominant position in the fragmented Brazilian car and fleet rental industry, with a market share of approximately 25.7% in the car rental segment. We estimate that this market share, supported by its strong brand name, is more than twice the share of its next-largest competitor. Localiza operates in four main businesses: short-term car rental, fleet rental, franchising and used-car sales.

On the car rental segment, the company has 490 agencies in Brazil as of September, 2015, benefiting from a well-diversified distribution network with strategic locations across the country granting access to both the on and off-airport markets, including the replacement car market for insurance companies. The fleet rental business is also likely to experience consistent growth rates supported by the low penetration of rented fleet in Brazilian companies.

SLOWDOWN IN THE BRAZILIAN ECONOMY AND IN THE AUTOMOTIVE MARKET

The Brazilian economy is expected to contract around 3.5% in 2015 and another 3.0% in 2016 while the automotive industry is being severely impacted. The sale of new vehicles decreased by almost 24% in 2015 and the slowdown is expected to persist through 2016 with expectations of another 7.5% decrease, according to ANFAVEA.

The integrated business model allows Localiza to minimize losses at the regular disposal of the used vehicles and to guarantee a structured market for a large fleet divestiture, especially in the current scenario of economic deceleration. For example, during the downturn caused by the credit crisis in 2009, the company sustained strong margins and increased liquidity by unloading its fleet. This time around, the company has been able to replicate the strategy and in the first nine months of 2015, Localiza purchased 42,372 cars and sold 49,258 cars, mainly through its used car network of 76 stores, reducing its fleet size while increasing liquidity and maintaining utilization rates at sustainable levels, demonstrating the management's expertise in navigating through the cycles.

While Localiza's growth strategy and cash flow generation is concentrated in its car and fleet rental businesses, responsible for around 47% of net revenues, the company's franchising business, that represents less than 1% of net revenues, is strategic in terms of consolidating Localiza's brand, exploring new markets and increasing distribution. The other 53% of net revenues comes from the used-car sales division, that has been gaining space in 2015, emerging as an alternative to the purchase of a new car during periods of rising interest rates, weak consumer confidence and lower credit availability as buyers become more conservative and concerned about indebtedness.

In the first nine months of 2015, Localiza's sold fleet age averaged 14.5 months in the car rental division. The company's high inventory turnover evidences its ability to reduce its fleet in a timely manner, maintaining low depreciation expenses. The return of the IPI tax rates on new cars since January 1st, 2015, the increase of industry costs and higher inflation raised the price of new vehicles and ended up reflecting on the prices of used cars as well, increasing the value of Localiza's fleet. At the end of 2014, Localiza anticipated the purchase of 7,600 cars in order to make the most of the lower IPI taxes and keep renewing its fleet.

A worse than expected deterioration in used car sales for a prolonged period could negatively impact Localiza's profitability and liquidity. The company's experience towards pricing of its used vehicles will play a key role in maintaining liquidity, profitability and fleet size at adequate levels.

LARGE SIZE, SCALE AND DIVERSIFICATION PROVIDE BARGAINING POWER

The capital intensive nature of the automobile rental industry requires companies operating in this sector to have strong oversight towards fleet management and secondary market prices. Car manufacturers in Brazil do not provide repurchase or guaranteed depreciation arrangements. As the single largest car buyer in Brazil, Localiza benefits from large purchase discounts from car manufacturers, which can be as high as 20%. In the nine months ended September 30, 2015, the company invested BRL 1.4 billion to buy 42,372 cars. Localiza is Brazil's largest single auto purchaser with 4% of the five largest car manufactures (GM, VW, Renault, Ford and Fiat) sales in Brazil in the nine months ended September 30, 2015.

GOOD LEVEL OF CORPORATE GOVERNANCE STANDARDS

Localiza has a good level of transparency and adequate quarterly financial disclosures. The company's shares are traded on BM&FBovespa and comply with the Novo Mercado standards, the highest corporate governance level in the local equity market. Localiza has a board of directors comprised of eight members, of which four are considered independent by the BM&FBovespa standards. Additionally, the company has a permanent audit committee with three members, being two independent members.

ADEQUATE LIQUIDITY SUPPORTED BY LARGE UNENCUMBERED ASSET BASE

At the end of September 2015 Localiza had BRL 1.3 billion in cash and equivalents on its balance sheet, more than enough to pay down its short term debt of BRL 369 million. Such large cash position adequately covers all debt maturities until the end of 2018. Additionally, Localiza's consolidated fleet of 104,274 vehicles (both in the car and fleet rental divisions) is mostly unencumbered with an estimated value of BRL 3.3 billion, being an alternative source of liquidity. Localiza's cash balance plus its unencumbered fleet value comfortably covers its total Moody's adjusted debt of around BRL 3.1 billion by 1.4 times.

Rating Outlook

The negative outlook reflects the change in outlook of Brazil's government bond rating to negative.

What Could Change the Rating - Up

An upgrade of Localiza's ratings would depend on an upgrade of Brazil's government bond rating. In addition, positive rating momentum would be triggered by further gains in market share, geographic diversification and revenues while maintaining healthy credit metrics on a sustained basis. The implementation of financial policies that include maximum leverage and minimum cash amounts, as well as a long-term committed bank credit facility that would reduce reliance on capital markets to refinance existing debt maturities, would also be considered as an enhancement to the company's liquidity profile and overall credit quality.

What Could Change the Rating - Down

Localiza's ratings could come under downward pressure if Brazil's government bond rating should be further downgraded, or if Localiza fails to reduce its fleet size during a major downturn in the Brazilian car rental market, such as car rental utilization rates fall below the 60% range for a prolonged period (70.7% in September 2015). Quantitatively, Localiza's rating could come under downward pressure if EBITDA interest coverage falls below 3.0 times or if Gross Debt to EBITDA exceeded 3.5 times on a sustained basis.

Other Considerations

MAPPING TO MOODY'S EQUIPMENT AND TRANSPORTATION RENTAL INDUSTRY METHODOLOGY

The grid implied rating from Moody's 12-18 month forward view of the Equipment and Transportation Rental Industry Methodology is Ba1, which is one notch higher than Localiza's assigned senior unsecured ratings. The one notch difference from Localiza's Ba2 rating and the grid implied rating of Ba1 is explained by the constraint deriving from Brazil's Ba2 government bond rating due to Localiza's operations being highly correlated with the Brazilian economy.

Rating Factors

Localiza Rent a Car S.A.

Equipment and Transportation Rental Industry Grid [1][2]	Current LTM 9/30/2015		[3]Moody's 12-18 Month Forward ViewAs of 2/18/2016	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$1.3	Ba	\$1 - \$5	Ba
Factor 2 : Business Profile (20%)				
a) Business Profile	A	A	A	A
Factor 3 : Profitability (10%)				
a) Pretax Income % of Sales	13.7%	Ba	10% - 15%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Debt / EBITDA	2.5x	Ba	2x - 3x	Ba
b) FFO / Debt	14.8%	B	8% - 20%	B
c) EBITDA / Interest	3.3x	B	2x - 4x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned		Ba2		-

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moodys.com> for the most updated credit rating action information and rating history.

MOODY'S
INVESTORS SERVICE

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE

NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE. MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third- party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder

Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY’S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.