



CFA Institute

CFA Institute Research Challenge

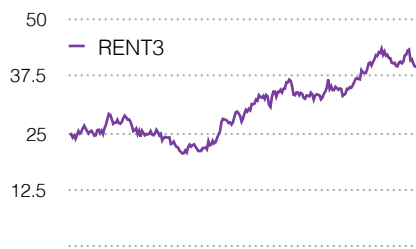
Hosted by
CFA Society Brazil
Team K

Rating	HOLD
12m Price Target	44.20 BRL
Price	40.80 BRL
Ticker	RENT3

Trading Data

Market Cap (BRL mn)	8,641
Last Month Performance	3.11%
LTM Performance	63.86%
2015 Performance	-29.33%
Lowest Price (LTM)	R\$ 20.49
Highest Price (LTM)	R\$ 43.95
% Free Float	72.13%
Shares o/s (mn)	208.4
Avg Daily volume (000 shares)	1,071

Stock Performance



Source: Bloomberg

Highlights

We are initiating coverage of Localiza Rent a Car SA (RENT3) with a HOLD recommendation and target price of BRL 44.20 per share (8.3% of upside from current levels). On this report we will analyze a company that is guided by a good management, is profitable and will gain market share in an industry that has substantial perspective of growth. We see an unquestionable value on Localiza's stock, but so does everyone else. Despite the excellent perspectives for the company, we believe that the good fundamentals are already priced by the market.

We believe the perspectives for the company are excellent given four pillars: i) Localiza's car rental business robustness, that even under unfavorable macro backdrop, grew 2.7% YoY in 1H16; ii) large room for consolidation of the market, especially with share gain over the small players; iii) prioritization of Rent a Car (RaC) and used car sales (Seminovos), granting volume and scale advantages that benefit Fleet Management business; and iv) pricing strategy that enables the company to remain the market leader. That should lead the company to reach BRL 3,473 bn EBITDA with CAGR₂₀₁₆₋₂₀₁₅ of 14.9%

Dominance objective: optimist but achievable. The company aims a 50% market share in 2025 from current 22% in the RaC industry. We see no evidence of failure in achieving this goal, since management has always delivered results and has embraced a pricing strategy to reduce tariffs, a growth that is backed by an efficient chain of car selling branches. Fleet market imposes no barrier of entrance, so Localiza's strategy is not gain share, but to maintain margins (terminal EBITDA margin of 64%).

The importance of scale. Being the largest company in RaC - 2.2x Movida's and 3.7x Unidas (2nd and 3rd players) in fleet terms - is a competitive advantage for Localiza. This grants bargaining power with car manufacturers (OEMs), SG&A dilution and capillarity to sell used cars charging higher prices. Fleet management, a margin business, benefits from RaC's volume to acquire cheaper cars than players that only compete in this segment. This interconnected strategy sustains higher margins for Localiza.

Financial Analysis: good return and capital structure. Localiza is less leveraged than its competitors and has a lower cost of debt, which is used for fleet expansion. Cash generation derives from efficient used car sales (with positive spread) and depreciation control. Among the major players, the company has the greatest RoIC-Kd spread (2.96% in 2015), the highest ROE (24.3%) and EBIT margin (18.7%).

Valuation: good expectations close to priced. Our DCF model, which uses a WACC of 13.5% e LT growth of 8.4%, backs Localiza's guidance of 50% market share in 2025 for our base scenario. Even under these assumptions, we obtained an upside of 8.3%, corroborating our Hold recommendation. Our analysis was complemented by Bull and Bear scenarios. We observe a 12-months P/E forward of 20.5 (10/14/2016), 2 std. dev. from the past 10 years, based on a high expected growth in revenue and improvement in company's fundamentals.

No Margin of Safety. It is hard for Localiza to surprise the market in the upside as according to our analysis it is priced for perfection - Bull and Bear scenarios were elaborated to predict improbable moves. On the other side, we see several risks which are not priced such as a turnaround at RaC 3rd player, Unidas, a smaller consolidation on the RaC sector than predicted and entrance of new players in the Fleet segment.

Risk: New technologies are a threat. In addition to the business' intrinsic risks, we see the intensification of car-sharing platforms and greater penetration of paid ride applications, such as Uber, Fleety and Zazcar, as products that can strongly affect the demand for car rentals, especially in large metropolitan areas.

In BRL mn	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
EBITDA	821	876	917	971	935	922	1.084	1.372	1.626	1.844	2.103	2.399	2.724	3.081	3.473
Net Earnings	292	241	384	411	403	443	464	615	760	900	1.053	1.231	1.432	1.654	1.908
Net Revenues	2.918	3.167	3.506	3.892	3.928	4.317	4.720	5.642	6.581	7.557	8.694	9.949	11.334	12.861	14.540
FCFF	65	224	314	199	-188	355	190	300	492	526	629	748	890	1.047	1.218
EPS	138	1.14	1.81	1.94	1.90	2.09	2.19	2.90	3.59	4.25	4.97	5.81	6.76	7.81	9.01

	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
EV/EBITDA (x)	12.2x	11.3x	10.9x	10.3	11.0x	10.2	9.5x	7.6x	6.4x	5.7x	5.0x	4.3x	3.7x	3.2x	2.8x
P/E (x)	—	—	—	—	21.42x	19.50x	18.62x	14.05x	11.36x	9.60x	8.21x	7.02x	6.03x	5.23x	4.53x
FCF yield (%)	0.8%	2.6%	3.6%	2.3%	-2.2%	4.1%	2.2%	3.5%	5.7%	6.1%	7.3%	8.7%	10.3%	12.1%	14.1%
ROIC (%)	15.8%	12.7%	16.1%	16.2%	14.6%	14.6%	15.3%	14.1%	16.1%	17.5%	18.1%	18.7%	19.4%	20.0%	20.6%
ROE (%)	32.4%	21.5%	29.0%	30.7%	24.3%	22.8%	20.9%	24.6%	26.5%	27.1%	27.2%	27.4%	27.4%	27.1%	26.9%

Exhibit 1. Localiza's Business Model

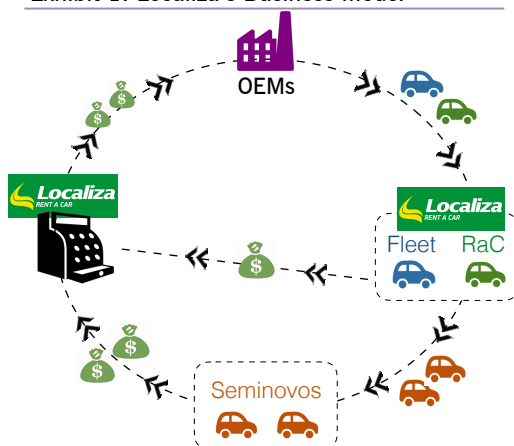
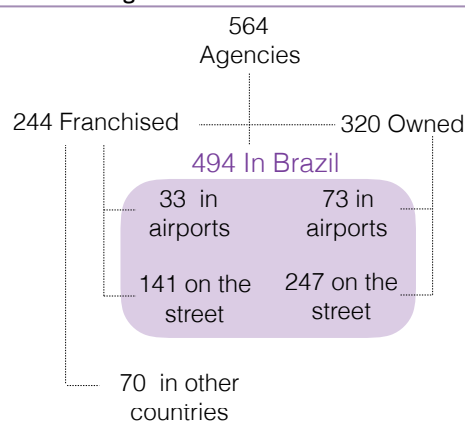


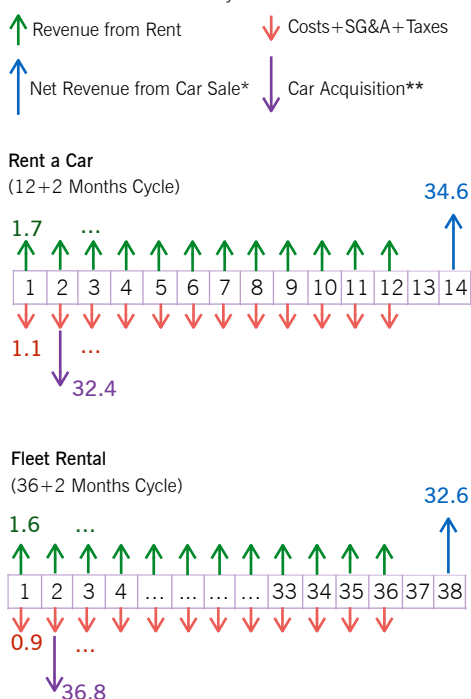
Exhibit 2. Agencies Distribution



Source: Localiza (2015)

Exhibit 3. Financial Cycle of 1 Car (000's R\$)

Simulation of the financial cycle



Source: Localiza

*Localiza takes 2 months to sell a vehicle (on average)

** Localiza usually pays the car manufactures in 60

Business Description

Localiza Rent a Car SA is the largest car rental company in Latin America. Founded in 1973 in the state of Minas Gerais, it is currently present throughout the country and operates in three business areas - Rent a Car, Fleet Management and Franchising - with the sale of used cars, or Seminovos, as support.

Rent a Car (RaC): car rental focus on retail through company branches located in airports or high traffic urban points. It represents 32% of company revenue with an operational fleet of 78,000 cars, which is renewed on average every 12 months, giving a great bargaining power with the manufacturers. The customers are divided into:

Retail: customers who rent the vehicle on average between 1 and 7 days with a usage profile of people who travel for leisure (2/3 of the total) or work (1/3);

Replacement: partnerships with insurance companies that offer car replacement services to its insured clients in cases of accidents;

Mini-leasing: companies that use the vehicle for a period over 30 days, resulting in lower daily tariffs and less cash compromising than in Fleet management contracts.

Franchising: the service of franchises includes the transfer of operational know-how and the right to use Localiza's brand. Today, there are 244 franchised branches mainly in medium and small size cities. Localiza buys grown branches in order to standardize operations. Despite low financial representation (less than 1% of revenues), this segment has a significant role in capillarity and branding positioning, including also internationalization, with 70 stores in other countries in Latin America.

Fleet Management: it is an activity of fleet outsourcing for other companies with long term contracts, from 24 to 36 months. Fleet has low operating leverage, since no agencies are required, and low risk, because Localiza only buy cars after signing the contract, resulting in high utilization rates (around 95%). Fleet represents 16% of Localiza's revenues (2015) and 30% of operational fleet.

Seminovos: the sales of deactivated cars ensures cash generation for fleet renewal and thus continuity of operation. Localiza sells 46.7% of the vehicles to the final costumers through its own chain of 78 stores, ensuring higher prices. Damaged cars are sold to local resellers. Localiza does not finance its customers - credit risk is mitigated by upfront receipts and default risks are left for financial institutions. Although the company claims that used car sales is considered a support business, we assess that this segment is at least as important as the RaC business. It represented 52% of total revenue in 2015, and, as we will show you in the Valuation section, has a great impact on the value of the company. Thus, as we can state that Localiza is a car rental company which resells the used cars to minimize costs, we can also state that Localiza is a car dealership that rents its vehicles to maximize its profits.

Strategy and operational cycle: the company buys cars directly from manufacturers, makes them available for renting and resells them through the Seminovos business. Thus, Localiza uses the cash generated in the rental and car sales to purchase new vehicles and to continue the operational cycle. To finance its expansion, the company leverages through the issuance of debentures. We found that there are five crucial points in which the company must be good at to be profitable:

- (i) **Buying cars at discount:** having bargaining power with automakers and negotiating a lower price on the purchase of vehicles is essential to increase the return on invested capital and ensure lower depreciation costs. Localiza is the largest individual car buyer in Brazil, and counts with tax exemption;
- (ii) **Taking debt at low cost:** the only way to grow in this competitive segment is investing in fleet expansion, as used car sales only finances the renewal of the fleet. Thus, issuing debt at lower costs than the competition allows the company to grow at a more rapid pace than its peers;
- (iii) **Increasing utilization rate and volume:** inactive vehicles do not generate revenue and increasing the utilization rate increases the dilution of fixed costs. Volume is essential for RaC since competitive market pressures prices, while utilization rate derives from sync between car purchasing and selling;
- (iv) **Charging highest possible tariffs:** the ability to charge more for the rental service comes from differentiation, such as offering more car model options, equipped cars and capillarity that enables a customer to rent the car in one city and return it in another.
- (v) **Seminovos sales prices:** to finance the renewal of the fleet, the company sells the cars at the highest possible price. Having its own chain of semi-used stores and no-discount policy enables the company to sell the cars at a premium price through financial companies, thus not burdening default risk.

Controlling depreciation is key to Localiza's business model: Due to its bargain power, the company buys cars with 20% to 30% discount, an amount that nearly equals first year of depreciation. Localiza's RaC car sales aims to the break even point. The depreciation is calculated based on the prediction of the sale price of that car. Precision is fundamental since wrong estimates can lead to depressed profit margins and lower-than-forecasted cash inflows. If you want to understand completely how the depreciation is calculated we invite you to read [appendix ##](#) at the end of this report.

Financial cycle differs between businesses: in RaC, Localiza must renew almost 100% of its fleet per year while in the Fleet segment only 1/3 of the fleet is renewed. This difference is very important, since RaC's 14.3k quarterly vehicles purchase guarantee a lot of bargaining power with OEMs and sales of 13.6k generate cash to renew fleet – which enhances depreciation control and 1-year selling importance. On the other hand, Fleet contracts require less SG&A and fixed costs, guaranteeing higher margins.

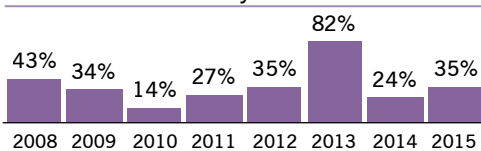
To illustrate this, we have simulated the financial cycle of a vehicle in both segments (Exhibit 3):

RaC: due to depreciation management, RaC vehicles are used on average 12 months before being sold. Between 15Q1 and 16Q2, Localiza was able to buy the car for less than selling price (32.4k vs 34.6k BRL) which added to yearly 7.1k BRL net revenues result in 28.3% IRR.

Fleet: annual net revenues per car account for 8.7k BRL, but vehicles are kept during an average of 36 months due to the length of fleet contracts. Vehicles were bought at 36.8k BRL in 13Q2 and sold in 16Q2 for 32.1k BRL, which results in a 20.4% IRR.

Looking at this, one might think that the Fleet segment is a better business, but the reader must bear in mind that there are synergies between both businesses, since the Fleet segment benefits from the bargaining power with OEMs that the RaC business provides to the company.

Exhibit 4. Dividend Payout



Source: Localiza

Exhibit 5. Shareholders

Lazard Asset Management	12.50%
Antonio Claudio Resende	9.00%
Eugenio Mattar	6.47%
Salim Mattar	6.38%
Flavio Resende	6.05%
Shares O/S	1.66%
Free Float	57.9%

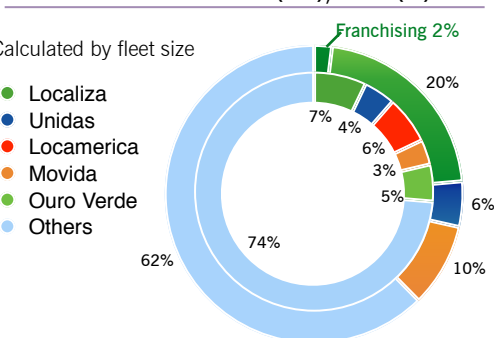
Source: Localiza

Exhibit 6. RaC Market vs GDP growth



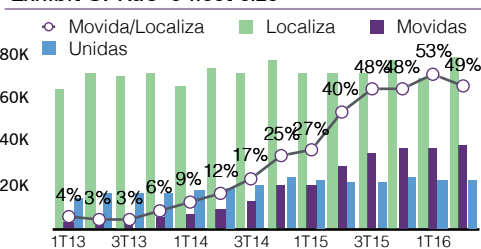
Source: IBGE, ABLA

Exhibit 7. Mkt share RaC (out); Fleet (in)



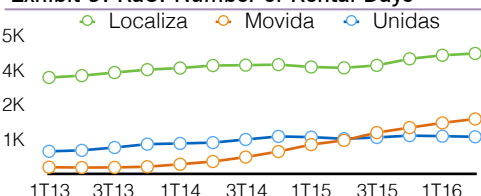
Source: Localiza

Exhibit 8. RaC's fleet size



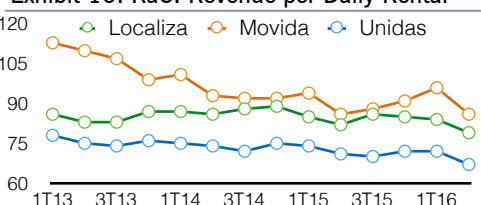
Source: Company's IRs

Exhibit 9. RaC: Number of Rental Days



Source: Companies' IRs

Exhibit 10. RaC: Revenue per Daily Rental



Source: Companies' IRs

Corporate Governance

Localiza was founded in 1973 in Belo Horizonte by four partners of the Mattar and Resende families, becoming Brazilian leader in RaC in 1981. In 1995, due to capital needs, one-third of the company was sold to DL&J private equity fund, which professionalized the management. IPO took place in 2005 at 295 million USD market cap. Localiza is part of Novo Mercado, the highest governance level in Bovespa, and its standards are recognized as one of the best in Brazil due to its value-adding dividend policy, experienced management, diversified shareholders base and experienced board.

Diluted shareholders base, but founders' presence ensures ownership sense. Total 58% of shares are free float, and US\$ 10.4 mn daily trade volume ensures liquidity. Lazard Asset is the main foreign partner, but the four founders hold 28% of total shares, and each occupy a seat on the Board. We view this as positive, since they have worked for 40 years in the industry and are recognized as Brazil's specialists in the segment. Four independent executives complete the board, including José Galló, CEO of the retailer Renner, and Stefano Bonfiglio, from Stirling Capital. Through internal committees of strategy and people, board is daily present and aligned with Localiza's operation. We also noticed through CVM that no significant transaction of stocks were recently made by insiders, which reinforces our HOLD recommendation.

Experienced management...but about to retire. Localiza's six C-level professionals average 34 years of work in the company. In their hands, company thrived in three of Brazil's economic recessions, and pioneered in the segment when developing Franchising (1984), Seminovos (1991) and Fleet (1997). However, many of them now approach limit age for retirement. The first transition took place in July 2016 – the director and creator of Seminovos division, Mr. Guimarães, retired, but will continue as advisor for the next year. However, CEO Mattar, one of the company's founders and CFO Mendes are 63 and 64 years-old, just near the 65 years-old cap, and their imminent exit place doubt in performance continuity.

Payout policy add value to shareholders. Localiza's ability to pay dividends even during periods of crisis, as Brazil current goes through, attracts investors attention. That happens because, due to its low cost of debt, Localiza prefers it against shareholders' equity. The company also repurchases stocks to feed a stock options payment program, in order to align management actions to shareholders' interests. The company uses JCP, a tax-exempt dividend form available in Brazil. If you are interested in understanding how this dividend payment form works, we invite you to read the [Appendix #XX](#) in the end of his report.

Industry Overview and Competitive Position

An outlier, independent of macro conditions? We do not think so. Many investors see Localiza as company with low cyclical, but that is not true. During good macroeconomics conditions, the company's revenues grew at CAGR₂₀₀₅₋₂₀₁₂ of 20.6%. However during bad macroeconomics conditions, revenues grew at CAGR₂₀₁₂₋₂₀₁₅ 7.4%, a negative real growth (Inflation₂₀₁₂₋₂₀₁₅ was 7.6%), a smaller growth than market's (Exhibit 6). Localiza is indeed resilient, but it is not independent of macro conditions.

Demand changed during crisis. In the recession, Localiza's RaC growth is being driven by leisure clients (25% of revenues), a high-margin segment, since currency depreciation (peak of 4.17 BRL per USD) and wages drop (-7.4% y-y in 2015) increased the proportion of domestic/international traveling. Mini-lease rentals, which are usually one month contracts, also benefited from macro stress due to migration of fleet clients, in order to increase flexibility.

A fragmented market. RaC segment is split between over 7.5k small players in 7.9k agencies across the country. Top 3 players represent only 37% of total fleet (Exhibit 7) – in the US, the proportion is 93% –, and fleet segment represent 0.09% of Brazil's GDP vs 0.16% in US. The segment has room to both grow and consolidate in Brazil, with Localiza leading the process. The company advertises that its goal is to reach 50% of the market share in the next ten years, the same as Enterprise, the market leader in the USA.

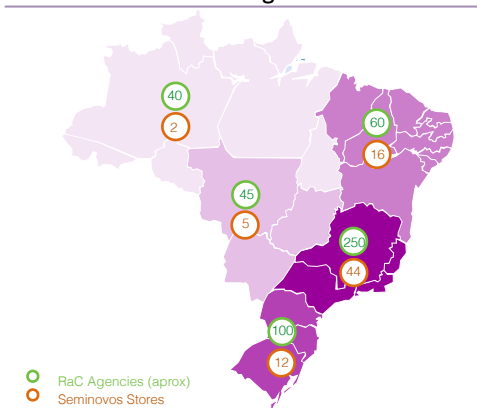
Competition: it's getting tougher. Localiza was the only giant competitor until logistic firm JSL's investment in a 2.5k RaC vehicles company, Movida, in 4Q13. Since then, Movida's revenues rose from 92 mn to 1.6 bn BRL and its 29k fleet now half the size of Localiza (Exhibit 8), overcoming the former 2nd place, Unidas. Although EBIT margins are still lower than Localiza's, mainly due to store maturation, Movida already presents the highest net revenue per car. Localiza and Movida are the only companies in the segment that have negative working capital, which indicates capability of pressuring OEMs and gains of scale. On the other hand, it is impossible for Movida to keep growing at the same pace it has been for the last 2 years. This year, the company is already slowing down, increasing its fleet by only 4k cars (in 2015 it increased its fleet in 18k cars). We think that Movida is a real threat but it will not become the leader in the segment, since Localiza, in response, adopted an aggressive growth strategy as well and it has much more room for leveraging. We invite you to read further data on competitors in our [appendix ##](#).

No price differentiation, but scale helps. Localiza is the 25th strongest brand in Brazil, but its RaC growth derives mainly from volume (Exhibit 9). Even though tariff increases followed inflation during last decade, Movida's 20% and Unidas' 11% last 3 years' decrease in prices pressured Localiza (Exhibit 10). In order to maintain results, Localiza developed a yield management strategy similar to the ones used by airlines, cutting prices and charging clients based on clustering. The result is that nowadays, Localiza and its competition have similar prices, but Localiza is the only one that yields a ROIC higher than its cost of debt at these price levels (exhibit 20).

Small players: another great room for consolidation. Small players have lower SG&A and avoid first year 10% depreciation by purchasing 1-year-old vehicles, but suffer in recession from expensive credit lines (at best CDI + 6%, according to our estimates). They are not direct competitors since they are located in small cities and compete in niches rather than in airports, replacement and mini-lease. Weak macro scenario hits harder on small and inefficient companies, and Localiza strategy is to gain share organically in smaller cities, given that its competitive advantages – mainly lower car purchasing prices.

Utilization rate – a new paradigm? Industry utilization rate (percentage cars in use) reached peak in 2016 due to higher-than-expected demand and delay in OEMs production schedule. Efficiency in use of capital helps explain Localiza and Movida's recent performance, but they acknowledge that return to normal levels is inevitable. We take this in consideration later in the valuation section.

Exhibit 11. Localiza: #Agencies and Stores



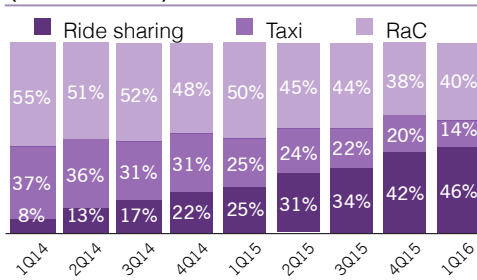
Source: Localiza

Exhibit 12. RaC: Number of Agencies

Company	In Airports	Out of Airports
Localiza	105	389
Movida	52	100
Unidas	53	158
Hertz	53	56
Avis	26	22
Others	31	7901

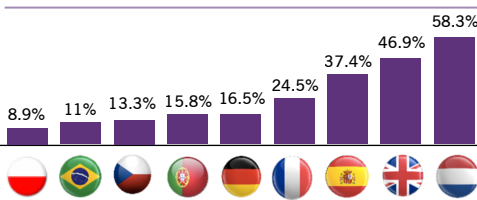
Source: ABLA, Localiza, Unidas, Locamerica

Exhibit 13. Ride sharing impact at USA (business travels)



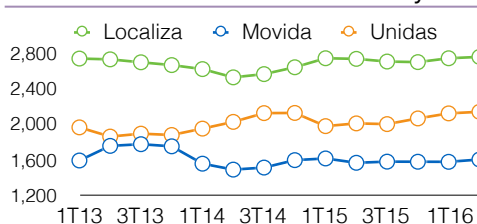
Source: Certify, Bloomberg

Exhibit 14. Fleet Penetration



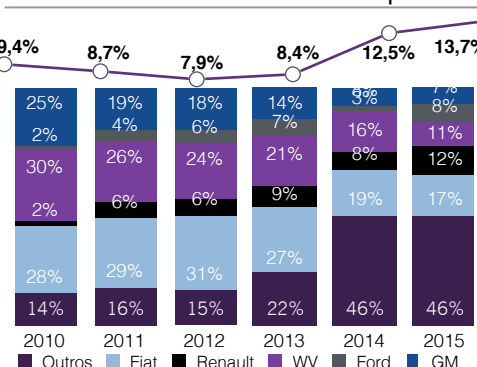
Source: Locamerica

Exhibit 15. Fleet: Number of Rental Days



Source: Companies' IRs

Exhibit 16. OEMs sell to Rental Comps.



A leader in capilarity. Localiza is present in all Brazil's relevant airports and represent 32.5% of this market (Exhibit 12). Localiza represents 22% of out-of-airports RaC fleet (Exhibit 11) and is present in 180 cities in which competitors do not operate – a large competitive advantage. This is a great advantage for the company because clients have a greater geographic flexibility in returning cars, which adds value to the service.

Is Unidas a threat? Unidas has the lowest ROIC and margins among the main competitors, and has failed to go public twice. On the other hand, it's 211 RaC branches and known brand are attractive assets and may call the attention of investors that wish to make an investment case similar to JSL's move with Movida. In anticipation, Localiza made a bid on Unidas, but it was rejected by the PE firms that control the company.

International competition ahead. World's largest and most profitable RaC players, US Enterprise and Germany Sixt, now operate in Brazil through partnerships with Unidas and Movida, respectively. In addition, Hertz and Avis, the other two US giants, have established branches in Brazil, especially in airports. Their gains on operational expertise may pose a threat to Brazil's players in the long run.

Uber - good or bad? Localiza's investors relations department arguments that Uber has a positive effect on Localiza's revenue since a partnership was set in which Uber's drivers can rent a car in Localiza instead of owning one. But we disagree, as shown in Exhibit 13, in the United States, Uber had a negative effect on the demand for RaC business traveling segments, one of the most important in volume for Localiza. On top of it, the partnership with Localiza is not exclusive, Uber drivers can also choose to rent a car from Movida, for instance. A deeper analysis on Uber may be found in [Appendix XX](#).

Car sharing may be disruptive for RaC. We think that the shared economy may change the way people consume mobility in Brazil and in the world. We identified two star-ups that are part of this process in Brazil: Zazcar, consisting of hourly rental cars and Fleety, a Peer-to-Peer (P2P), where car owners rent the own vehicle to third parties, as an alternative form of obtaining income. We even had a long meeting with Andre Marim, Fleety's CEO, about his view of the future of mobility. We address this risk in the risk section of this report and also invite you to read the more detailed explanation of it in the [Appendix XX](#).

The Fleet management market even more fragmented than RaC. In the RaC the 3 main players have 35% market share, in fleet management the 5 top players represent only 25%, but Localiza is also the market leader with 7% of market share. Furthermore, Fleet management services are less penetrated in Brazil than in other countries (Exhibit 14), which accounts as an opportunity for growth in an unexplored market. Movida and Unidas present both RaC and Fleet operations, thus benefiting from RaC volume in car purchasing, while Locamerica and Ouroverde, two smaller players, have only Fleet business.

In the Fleet management business, customization is key. Fleet services have longer and customized contracts, resulting in less migration of customers among competitors. In addition, the goal of players is not gaining share, but increasing profitability of contracts. We interviewed several of Localiza's fleet management clients, and concluded that in this business price is relevant, but is not the only single factor on a client's decision. Quoting Rogerio Aun, fleet manager at Omnalink, "We chose Localiza for two reasons: it offered a better service and is able to serve me in the whole country, so I don't need to hire one company in every city that my company needs a fleet. Localiza is even more expensive than other options, but it is better."

Despite being subject of differentiation, Fleet management lacks economic moats. Fleet operation requires lower Capex for expansion compared to RaC, with low fixed costs and selling expenses. Moreover, because it is an operation in which cars are bought just after contract signing (so utilization rates are 95% on average), newcomers can enter on this business at almost no cost. This, in our opinion, corroborate the view that Fleet business is not likely to consolidate.

Fleet operations have an anti-cyclical characteristic. One might think that on an economic downturn many customers reduce or terminate contracts. This is partially true, but actually recessions create additional demand (Exhibit 15). On hard times, due to scarcity of capital, companies seek alternative ways to liberate cash selling assets, and outsourcing the fleet is a good way to do it. The anti-cyclical of the fleet management business compensates the cyclical of the RaC business, providing less volatility for companies, such as Localiza, that operate both business.

Car rental companies are the biggest suppliers of semi-used cars. Nearly 52% of Localiza's total net revenues come from Seminovos (while it is 48% for Movida and Unidas), highlighting the importance of the sector for rental companies. As you can observe in [Appendix XX](#), the participation of car rental companies in the used cars market is increasing. If you consider the universe of semi-used cars, rental companies are even more weight, Localiza alone is responsible for 16.9% of sales of all the semi-used cars sold in Brazil with less than 2 years of use.

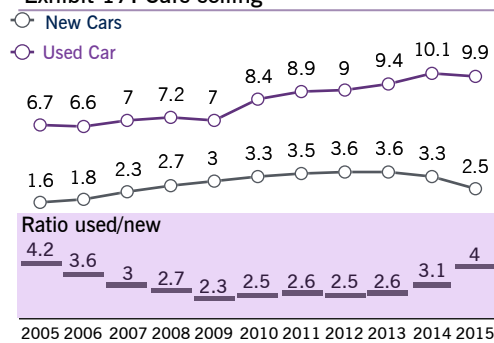
Seminovos stores are key for success. To ensure capital recovery through car selling with higher margins, car rental companies manage their own chain of Seminovos stores, which explains Movida's expansion from 8 in Jun/15 to 43 stores in Jun/16. In our view the opening of 35 stores shows that Movida's management is acting impulsively and will face difficulties to sell their cars in the next years, mostly because Seminovos stores take about 4 years to mature (despite company's allegation that maturity time is of 1 year).

Bargaining power with OEMs, who has it? Of the total of new cars sold in Brazil in 2015, 13.7% were purchased by rental companies (Exhibit 16) - only Localiza represented 4.2% of this. The 13% tax exemption and further discount on purchase of vehicles allow car rental companies to minimize buy/sell spread. However, the discount is proportional to purchasing volumes, which is a big competitive advantage for Localiza, since it is the largest individual customer of OEMs.

End of an upcycle. We believe that the current momentum experienced by the Seminovos segment will end in 2017. Today, the used car market is 4.9x higher than for new cars, well above the historical average of 3.2x (Exhibit 17). With the economic recovery, demand will return to the new car market, reducing demand of used cars from rental companies, which will be forced to reduce their prices. Thus, we see that car rental companies will have to adjust their depreciation estimates, which could mean a slight decrease in margins, since the competitive environment is pressuring the daily rental rate down.

Depreciation has hit the bottom. Localiza's annualized depreciation in RaC reached historical low in 2015 due to Seminovos heated market and greater competitive pressure with OEMs (Exhibit). Depreciation more than double in 2Q16 y/y and spread of cars bought/sold is diminishing (on recent results this spread was positive). Localiza still has the best depreciation control among top players, this is mostly.

Exhibit 17. Cars selling



Source: Fenabrave

Exhibit 18. Competitors Information

Operational Information				
2T16	Localiza	Movida	Unidas	Locam.
RaC Fleet (EOP)	78,352	38,559	19,047	N/M
RaC own Branches	328	164	95	N/M
RaC Franchise Branches	237	2	116	N/M
Outsourcing Fleet (EOP)	32,726	16,257	24,007	27,616
Cars Purchased	24,020	10,449	6,879	3,098
Cars Sold	13,839	8,967	4,701	1,453
Semi Sales Stores	78	43	45	14

Source: Companies' IRs

Exhibit 19. Income Statement - Waterfall

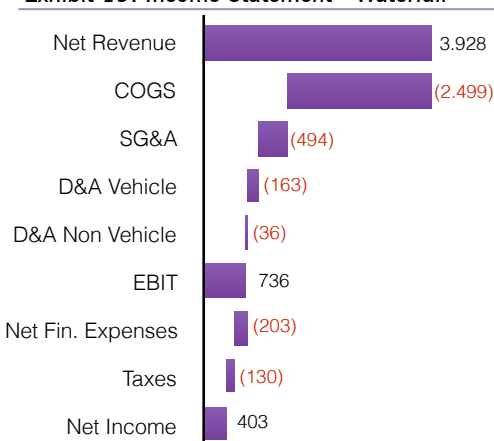
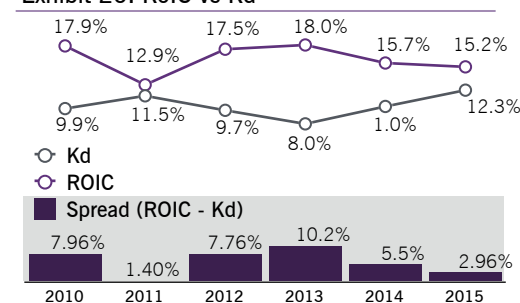


Exhibit 20. RoIC vs Kd



Source: Localiza

Exhibit 21. RoIC

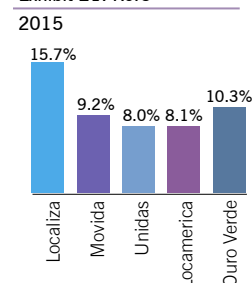
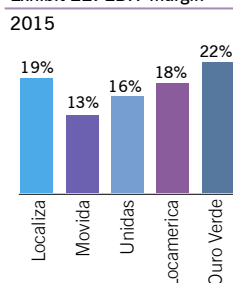


Exhibit 22. EBIT Margin



Localiza SWOT Matrix

Strengths

- Bargaining power on the purchase of vehicles
- Positive car selling spread granting cash generation
- Capilarity with national presence
- Highest margins in Fleet compared to competitors
- Lowest cost of debt among its peers
- Highest market share in RaC
- Most experienced management in the segment

Opportunities

- Fragmented market subject for consolidation in RaC.
- Low penetration of the fleet market compared to the developed world.

Weaknesses

- Low pricing power and differentiation in RaC
- Management retirement is imminent
- Limited innovations due to constant service for 40y

Threats

- Government tax incentives in the automotive industry can abruptly change car prices.
- New technologies may affect top line.
- Unidas may become another "Movida".
- Strong entrance of international players

To a more detailed SWOT analysis we invite you to look at the [appendix XX](#)

Financial Analysis

Overview: A financial fortress. Localiza has a solid financial position since it consistently generates cash and has a long-term debt profile. Despite the downswing in 2015 due to Brazil's macro stress, company's revenues grow at a stable pace – and so do margins, mainly due to Localiza's cost cutting plan in the last year. Company's negative net working capital differentiate it from national and international players, resulting in one of the only three positive RoIC – WACC spread in the world (along with Enterprise and Sixt).

Revenues: Aggressive growth, changing drivers. RaC revenues grew at CAGR₂₀₁₁₋₂₀₁₄ of 11.6% before Brazil's recession with -1% growth in 2015. Localiza's striking results in 1H16 indicate that positive growth will return in 2016, not driven by market growth (3% a year), but rather by marketshare gains (50% in 2025) specially from small players. Historically, the segments' revenues are driven by an increase in number of car rentals (CAGR₂₀₁₁₋₂₀₁₄ of 7.8%) and not price (CAGR₂₀₁₁₋₂₀₁₅ of 1.6%), indicating that Localiza has a low pricing power. Fleet segment grew at solid CAGR₂₀₁₀₋₂₀₁₅ of 10.9%, with 6.3% annual growth on volume and 4.1% on price. Contracts are readjusted by inflation and volume CAGR₂₀₁₆₋₂₀₂₅ of 6.6% will be driven by penetration increase from 11% to 19.6%. Used car sales derive from RaC and Fleet operations, and are projected to grow at a CAGR₂₀₁₆₋₂₀₂₅ of 13.2% vs 9.5% between 2010-2015.

Positive results from cost cutting plan. COGS currently represents 64% of company's revenues, and we estimated that this proportion will continue in the future. RaC and Fleet COGS are in line with current, derived from excellency in cost containment while expanding operation, with slight gains in Seminovos costs – which are mainly composed of cost of car sold.

SG&A: Benefits from dilution. Historically SG&A are around 12% of the net revenue and we believe in a decrease on this rate as the company has potential to growth with this structure. Besides, this cost is composed mostly by salaries and this is a driver to its dilution as we believe the revenues will grow above the wage level on the long run. For a better understanding of the COGS and SG&A impact look at the Exhibit 19.

Margins. Fleet rental gross margins maintained an elevated profile throughout years (nearly 70%) mainly due reduced costs from the operation (and 10% fixed cost). RaC's fixed costs are 40% of total, and its gross margin average 56% between 2009-2015 (Exhibit 22). As previously state, no significant change is expected in Fleet, while price competition will reduce RaC's gross profit for 53% in perpetuity. The EBIT margin will also improve due the dilution of the SG&A compared to the net revenues and the Net Margin will improve due the reduction of costs previously mentioned. We estimated that financial expenses will remain stable as we assume the same capital structure on the long run.

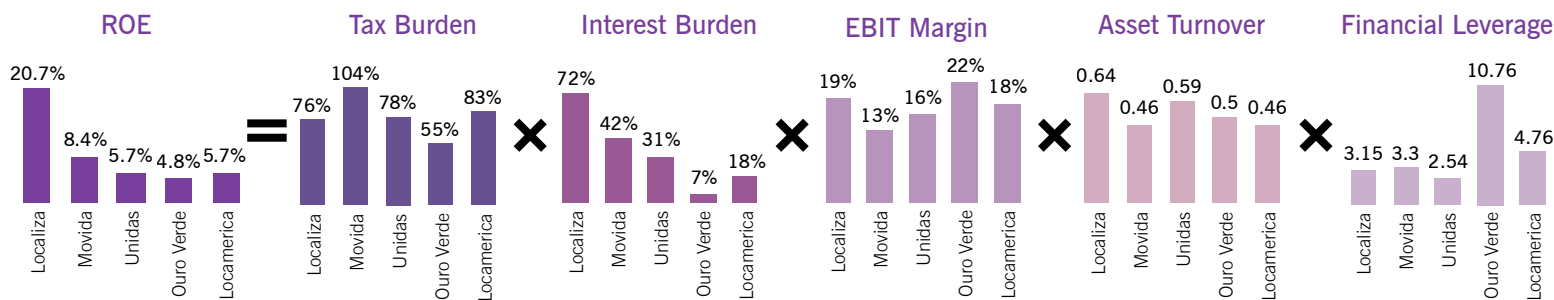
Net Working Capital. One of Localiza's main differentials is to generate cash from the operation. This is a consequence of its bargaining power with suppliers, the OEMs, allowing it an 86 days of average payment period vs 41 days of average receiving period, which is driven by Seminovos' immediate receiving through BV Financeira's financing. Movida is the only company in Brazil that equals Localiza in this aspect, which activates a red light on this possibly great competitor. [Appendix xx](#) details NWC calculations.

Cash generation. Localiza is a cash cow. Cash generation was negative in 2015 mainly due to company's investment on its new headquarters. We expect cash generation to return in 2016 with BRL 333 mn and to achieve nearly BRL 1 bn in 2025, which is mainly driven by a reduced growth in investments in the later years. Exhibit 24 illustrates the differences in EBITDA and CFO from main competitors.

ROIC. Localiza has a high ROIC and that compensates the fact it is also very capital intensive. Historically the ROIC level is considerably higher than its cost of debt (Exhibit 20). The company ROIC on the projected years goes from 15.2% in 2015 to % in 2025 and maintains its level above the cost of debt and the WACC, increasing its value when investing new capital. It's important to notice that the company's ROIC is considerably higher than its competitors (Exhibit 21) what reinforces our thesis that Localiza will increase its dominance on the market.

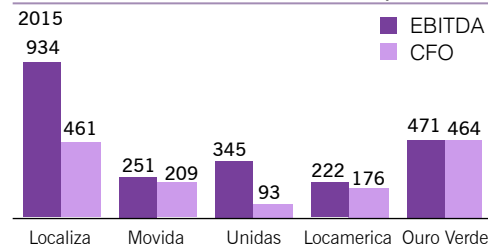
Dollar exposure. A depreciated currency may cause a growth on the tourism to Brazil, increasing the demand on the RaC sector. However, a Real depreciation has high correlation with an increase on CDS price, what may also cause a drop on the number of businesses travels affecting negatively the revenues of the company. Furthermore, seeking to reduce its cost of debt, the company has issued debt in foreign currency (7,3% of the total debt) but the company mitigated this risk with a swap on the same amount.

Exhibit 23. ROE Dupont 5 Components



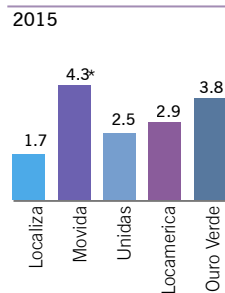
Source: Companies Investor Relations Departments.

Exhibit 24. EBITDA vs Cash from Operations



Source: Companies Investors Relation Dept.

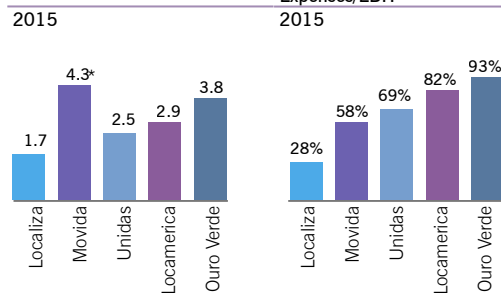
Exhibit 25. Net Debt/EBITDA



Source: Companies Investors Relation Dept.

* Net Debt/EBITDA of JSL (Movida's controller group)

Exhibit 26. Net Financial Expenses/EBIT



Localiza has the highest ROE amid its peers. The DuPont decomposition in Exhibit 23 enables a more detailed comparison between Localiza and its peers. It highlights Localiza's superior operating profitability, efficiency, tax rates and considerable lower leverage amid the players in RaC and Fleet, providing the higher ROE in the segment for its shareholders.

A comfortable capital structure. One of the company's advantages is its low leverage and consequently lower financial expenses in a country with historically high interest rate (see [appendix xx](#) for further information). Even with the expectation that SELIC rate will drop, we believe the company will continually use its capital structure advantage to maintain a higher Net Margin than its competitors, avoiding a high leverage rate. For our projections, we assume the company will maintain the same debt/equity proportion on the long term which will cause a reduction on the Net Debt / EBITDA proportion on the long run.

Solvency: Localiza still a dominator. Localiza has only 20.7% of its debt in short term (43.9% of cash). We see no issues in long-term debt as well, since Net Debt/EBITDA is at 1.6x (Exhibit 25), distant from covenants' 4.5x cap. This scenario indicates that payment capacity will not be a problem to Localiza, both in the short and long term. To better observe their ability to pay, we encourage to look at [Appendix xx](#) with the full table of ratios.

Interests rate. Because of its low leverage (exhibit 25) and solid financial results, Localiza has a higher investment rate than is national competitors. This allows Localiza to issues cheaper debt as the investors expect a lower return due its lower risk. In case there is a drop on the SELIC rate, Localiza will spend even less on interest expenses but this fact will help even more its competitors as they are much more leveraged than Localiza.

Financial Results. In line with the previous Interests rate topic, we may notice (Exhibit 26) that Localiza has net financial expense that represents only 28% of the EBIT, resulting in a higher net margin than competitors'. This is a very important advantage of the company as most of competitors' operational gain is used to pay interest expenses. For more information we encourage you to look at [Appendix xx](#).

Depreciation. In the RaC, the depreciation method used is the straight-line method, which the depreciation expense is equally recognized during the estimated useful lives of the vehicles. On the other hand, in the Fleet Management Division, cars are amortized by the method of the sum of digits, also known as the exponential method, which better reflects the pattern of consumption of the economic benefits that are declining throughout the useful lives of the vehicles. In case the value to depreciate the vehicles is underestimated, the residual value of the cars would be higher than market, which would lead to the recognition of loss on the sale of the vehicles. On the flip side, overestimating the value to depreciate the vehicles, could lead to an increase in the rent prices to customers, which would reduce the competitiveness of the company. The importance and the complexity of the depreciation accountability is another advantage for big players as the small players don't have the resources to maintain a prepared staff to work on the company's accounting.

Spread Car Sold/Car Bought. One of the corner stones of this business is to sell a car for the best price you can and buy a car paying the less you can. Localiza does it marvelously well because of the bargain power it has over the OEMs, the ICMS subsidy and the capillary car selling operation. On average, the RaC fleet is sold for a higher price than it is bought one year earlier (8% on average). This does not happen on the fleet segment because the cycle of the fleet used on this operation is sold on average 3 years after it is bought. In fact, Localiza's spreads are higher than competitors' (Exhibit XX). We believe there will be an improvement in this segment, mainly due on increased bargaining power with OEMs that will derive from Localiza's gains in volume.

Exhibit 27. Rent a Car Segment - Resumed Income Statement (excluding semi-sale)

BRL Millions	2011	2012	2013	2014	1T15	2T15	3T15	4T15	2015	1T16	2T16	3T16e	4T16e	2016e	2017e	2018e
Net Revenue	980.7	1093.7	1163.5	1284.3	310.1	296.4	317.1	334.5	1258.1	339.7	327.8	363.3	342.2	1372.9	1521.5	1747.4
Growth (YoY)	22.22%	11.52%	6.38%	10.38%	-0.39%	-6.41%	-2.46%	1.00%	-2.00%	9.50%	10.60%	14.6%	2.3%	9.10%	10.80%	14.80%
COGS	(382.7)	(476.6)	(537.0)	(577.3)	(146.7)	(148.4)	(159.6)	(163.4)	(618.1)	(160.4)	(164.2)	(178.5)	(171.4)	(674.5)	(730.3)	(838.7)
SG&A	(137.8)	(170.3)	(197.8)	(209.7)	(56.6)	(58.2)	(54.8)	(70.2)	(239.8)	(62.0)	(60.1)	(66.3)	(62.7)	(251.1)	(273.9)	(314.5)
EBIT	460.2	446.8	428.7	497.3	106.8	89.8	102.7	100.9	400.2	117.3	103.5	118.5	108.0	447.3	517.3	594.1
Margin	47%	41%	37%	39%	34%	30%	32%	30%	32%	35%	32%	33%	32%	33%	34%	34%

Exhibit 28. Fleet Segment - Resumed Income Statement (excluding semi-sale)

BRL Millions	2011	2012	2013	2014	1T15	2T15	3T15	4T15	2015	1T16	2T16	3T16e	4T16e	2016e	2017e	2018e
Net Revenue	455.0	535.8	575.9	571.9	148.9	149.9	154.1	155.6	608.5	158.4	159.5	158.6	156.5	633.1	719.1	838.6
Growth (YoY)	26.07%	17.76%	7.48%	-0.69%	3.98%	7.07%	8.52%	6.07%	6.40%	6.40%	6.40%	2.9%	0.6%	4.00%	13.60%	16.60%
COGS	(117.8)	(146.3)	(161.1)	(190.9)	(51.0)	(45.3)	(47.6)	(45.3)	(189.2)	(46.8)	(46.4)	(53.9)	(57.9)	(205.0)	(215.7)	(251.6)
SG&A	(24.9)	(33.6)	(37.6)	(38.0)	(9.6)	(10.4)	(10.1)	(10.7)	(40.8)	(9.5)	(9.4)	(14.3)	(14.1)	(47.3)	(43.1)	(50.3)
EBIT	312.3	355.9	377.2	343.0	88.3	94.2	96.4	99.6	378.5	102.1	103.7	90.4	84.5	380.7	460.2	536.7
Margin	69%	66%	65%	60%	59%	63%	63%	64%	62%	64%	65%	57%	54%	60%	64%	64%

Exhibit 29. Seminovos Segment - Resumed Income Statement

BRL Millions	2011	2012	2013	2014	1T15	2T15	3T15	4T15	2015	1T16	2T16	3T16e	4T16e	2016e	2017e	2018e
Net Reveneue	1,468.2	1,519.9	1,747.4	2,018.3	543.9	499.2	502.5	499.2	2,044.8	544.6	471.7	614.1	662.5	2,292.9	2,460.4	3,036.5
Growth (YoY)	11.09%	3.52%	14.97%	15.50%	11.96%	12.53%	-6.23%	-9.73%	1.30%	0.10%	-5.50%	22.2%	32.7%	12.10%	7.30%	23.40%
COGS	(1,289)	(1,306)	(1,486)	(1,705)	(445)	(408)	(414)	(415)	(1,683)	(459)	(398)	(506)	(545)	(1,908)	(2,142)	(2,510)
SG&A	(137.2)	(150.6)	(162.1)	(193.4)	(445.3)	(408.4)	(414.0)	(415.3)	(1,683.0)	(445.3)	(408.4)	(414.0)	(415.3)	(1,683.0)	(1,661.2)	(1,661.2)
EBIT	(159.8)	(313.4)	(129.7)	(87.3)	(1.8)	2.5	3.1	(17.9)	(14.1)	(9.3)	(20.9)	3.6	59.2	32.6	(110.8)	(28.8)
Margin	-11%	-21%	-7%	-4%	0%	1%	1%	-4%	-1%	-2%	-4%	1%	9%	1%	-5%	-1%

Investment Summary

A prosperous future is priced in

At this point, the report depicted only good things about Localiza, not justifying our Hold position yet. We reiterate that the company will keep growing, will remain the leader in the market and that the Brazilian car rental market will grow. But we are not alone. Actually, we came to the conclusion that all the prosperous future of the market is already priced in.

Our HOLD recommendation of RENT3 papers is based on the Target Price of BRL 44.20 obtained from our DCF model, in which we made assumptions according to the positive view we have about the company's future, and corroborated by our multiple analysis.

RaC: Consolidation ahead. Since market is very fragmented and big players have intrinsic advantages against small competitors, we believe that there is an undergoing process of consolidation in RaC, with Localiza leading the movement. We are in line with company's guidance to achieve 50% of market share (in number of car terms) in the next decade, a similar role as Enterprise in United States. Gaining share in RaC is priority to Localiza, since this is a volume business that guarantees that Localiza will be the most powerful car buyer in Brazil, increasing its bargaining power with OEMs.

Gaining market share comes at a price. We believe that the company cannot pass on inflation to its average ticket in the Rent a Car segment. In order to more than double its market share in the next ten years, Localiza will continue the strategy it has been adopting in the last 10 years – low and competitive prices. We thus project a CAGR2016-2025 of 2% in price vs. CAGR2006-2015 of 1.9%, with 4.5% of projected annual inflation.

Fleet, high growth but not a priority. Fleet is high growth and profitable secondary business to Localiza. Although the industry leader does not intend to adopt an aggressive growth posture for fleet management – since fleet is a margin business, not a volume one. We believe that industry will grow at CAGR2016-2025 of 4,7% due to an increased penetration in the Brazilian market – from today's 11% to 17% in 2025. As the RaC business, we believe players will reduce margins seeking improvement on penetration. In Fleet segment, we do not forecast changes in the current inflation adjustment in tariffs.

Seminovos – a huge cash generator. One of the company's main business is the used car selling, which will represent 58% of revenues in 2025 according to our projections. Cars used in RaC operations have a cycle of only one year and they are sold for a higher price than they are purchased, especially because of the tax breaks and the discount Localiza has with the OEMs. One of the corner stones of value creation on this company is the raise on Localiza's bargaining power with OEMs due to its gains in volume. We assume ICMS exemption will continue (a 11.5% of discount) and we also assume that Localiza will raise its bargain power as it achieves a higher market share and raise the number of cars purchased.

Growth also generates an operational improvement. According to our analysis, Localiza's growth will also cause the fixed expenses dilution, especially SG&A, composed mostly by salaries (which, we believe, will suffer a real depreciation). A slight improvement will be observed in gross margins, but COGS will still be attached to revenues – since depreciation is the main one.

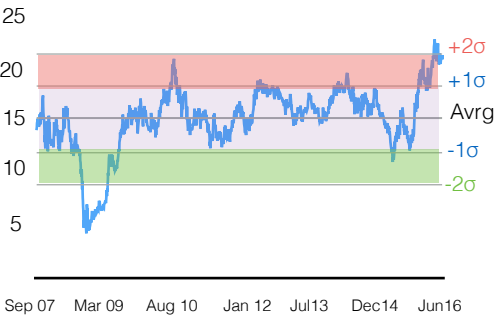
No surprises for the market ahead. According to our analysis, Localiza will hardly surprise the market with an upside as it is priced for perfection and expecting a growth rate that is way above the nominal GDP, with trading multiples that have never been so high. On the other hand, there are considerable risks that can surprise the market negatively and cause a downside, such as a turnaround at Unidas and disruptive changes in market dynamics due to popularity and growth of new technologies, especially car and ride sharing apps, and the entrance of new players, the end of fiscal incentives on the purchase of cars and others.

Exhibit 30. Multiples Comparasson

Peers Multiples				
	Country	Mkt. Cap.	PE FWD 2017	EV/ EBITDA 17`
Hertz	USA	3.952	7.6x	17.1x
Avis	USA	3.404	9.0x	16.4x
Sixt SE	GER	2.458	15.7x	5.1x
Car Inc	HK	2.387	15.7x	7.6x
Europcar Groupe	FRA	1.278	9.5x	10.1x
Northgate	UK	738	8.7x	3.5x
Locamerica	BRA	110	5.5x	4.4x
Median			9.0x	7.6x
Average			10.2x	9.2x
Localiza	BR	2.649	19.9x	9.6x

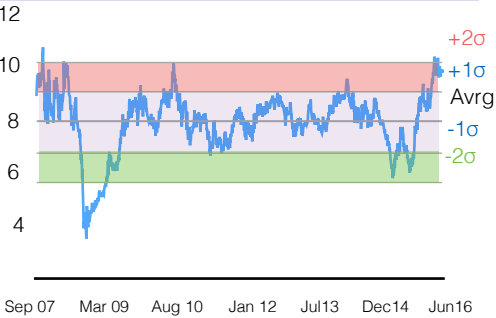
Source: Thomson Reuters

Exhibit 31. Historic PE Forward (12M)



Source: Thomson Reuters

Exhibit 32. Historic EV/EBITDA Forward



Valuation

"Because investing is as much an art as a science, investors need a margin of safety."

- Seth Klarman

We reiterate our HOLD recommendation on Localiza, with a fair value of BRL 44.20 per share, as all factors indicate that the market has already priced its expectations for the company. This is evident in last year's 58% upside in share price. Even though we are convinced that Localiza will continue to be a market leader and consolidator, we do not see relevant gains in investing on the company at the current price. On the other hand, our target price does not justify the risk of short-selling Localiza's share, which result in a HOLD status for RENT3.

The Value was achieved through a 10-year DCF analysis and, as a sanity check, we performed a Relative Valuation, taking into account peers' multiples that valued RENT3 at BRL 39.40 through the EV/EBITDA multiple and BRL 22.40 through the P/E multiple.

Sum-of-the-parts does not make sense. Localiza's business must be analyzed as a whole, since its three main sources of revenue (Rent a Car, Fleet management and Seminovos) are highly integrated and complementary. Seminovos is a break-even business, meaning its aim is not to lose money and support RaC and Fleet operations. These two are also dependent on each other, since Fleet benefits from the bargaining power with OEMs that RaC volume enables. Thus, separated prices would be unrepresentative, and our approach is to value the company as whole.

Exhibit 33. Discount Rate Calculation

WACC	
US risk-free rate (10-year t-bond)	2.0%
Adjusted Beta (Monthly - 5 years)	1.06
Equity Risk Premium	6.16%
Brazil Risk Premium (EMBI)	3.1%
BR Inflation	4.5%
USA Inflation	1.5%
Inflation Diferential	3.0%
Ke	14.7%
Kd before taxes	12.6%
Marginal tax rate	34%
Kd after taxes	8.3%
% of Debt (Net Debt/Market Cap)	18.8%
WACC	13.5%

Exhibit 34. Sensitivity Analysis

Base Scenario		WACC				
		12.5%	13.0%	13.5%	14.0%	14.5%
Perpetuity Growth (g)	7.4%	47,79	42,35	37,81	33,98	30,71
	7.9%	52,37	45,96	40,72	36,36	32,67
	8.4%	58,08	50,37	44,20	39,16	34,96
	8.9%	65,38	55,87	48,45	42,52	37,66
	9.4%	75,07	62,9	53,75	46,61	40,9

Source: Group K

A plain vanilla WACC. To calculate the cost of equity, we used CAPM adopting a risk-free rate of 2.0% (US 10 years T-bond), an adjusted beta of 1.07 – showing segment's dependence on the economy - obtained on Bloomberg (since we judged no company is comparable enough to Localiza's business to justify deleveraging a beta), and an equity risk premium of 6,16% (based on Damodaran's calculation). Average cost of debt was calculated considering the CDI on the future market for 5 years (11.25%) discounted by the marginal tax rate of 34%. We assumed that company's capital structure will remain constant in the future, resulting in a 13.5% WACC (Exhibit 33).

Where does perpetuity growth comes from? Our perpetuity growth rate equals reinvestment rate times the ROIC in 2025. Thus, we assume that the company will slightly grow above the GDP which we believe will grow 8% on the nominal rate. We obtain thus a reinvestment rate of 40% which multiplied by our 2025 ROIC (21%) will result in a growth in perpetuity of 8.4%. At exhibit 34 you may see the impact of this rate on the share price. Our sensitivity analysis (Exhibit 34) reinforces the HOLD recommendation.

Red alert on relative valuation. There are no publicly traded national companies that are fully comparable to Localiza and international players do not offer a good parameter due to market differences and interest rates. However, their use enables us to sign an alert on significant discrepancy between segment's average multiples and Localiza's multiples. We use P/E and EV/EBITDA 2017 average to perform the analysis.

P/E. Localiza's 19.9x multiple shows huge difference to segment's average of 10.2x, which results in a target price of BRL 22.40 giving us a SELL recommendation. Note that this multiple is, unlike EV / EBITDA, severely impacted by financial expenses and depreciation, two measures that vary significantly between countries.

EV/EBITDA. Our HOLD recommendation is reinforced by Localiza's 9.6x multiple, in line with segment's 9.2x. With this multiple we will reach a target price of R\$ 39.40, a downside of slight downside of 3%. This multiple has the advantage of not taking into account the leverage and depreciation, allowing for a "pure" comparison of companies' operation and because of that we believe this multiple is more reliable to evaluate companies of different countries.

Assigning equal weights to both multiple result in a target price of BRL 30.90, a downside of 25%. This assessment hoisted a warning flag in the optimism with Localiza and reinforces our thesis that a large increase in share values cannot be expected.

Historical analysis and a new alert. The multiples above mentioned were analyzed historically in the past ten years. Both consider the median of analysts' NTM projections. Company's PE and EV/EBITDA Forward are being negotiated 2 standard deviations from its historical average (Exhibits 31 and 32), which highlight issues in company's current valuation. These multiples can be justified by higher expectations of company growth. No robust conclusion can be derived from this analysis, but it is a further evidence that, even though company has good fundamentals, investors will hardly make good returns from Localiza.

Summarizing: a brilliant future... but everybody knows it. It is undeniable that Localiza will outperform its competitors and consolidate its position as a leader in RaC, with good performance in fleet management and world's benchmark in Seminovos sales. However, current BRL 39.40 price already considers market's optimistic expectations about Localiza, and investors will not derive significant gains from this asset.

DCF Main Assumptions (Base Scenario)

	Variable	Assumption	Impact
Rent a Car	RaC market growth	The market will maintain its historical growth of 3% for the next 10 years	High
	Company marketshare	The company will accomplish its goal to reach 50% of the market share	High
	Utilization Rate	We maintained the utilization rate in line with its historical rate plus a slightly improve	Medium
	Revenue per daily rental growth	Growth below the inflation rate because we assume it will practice more competitive prices seeking a higher marketshare	High
	% of cars renewed	We maintained the historical average	Medium
	Growth on average price per car purchased	We estimate the car price will growth according to the inflation. We considered the focus projection for 2016 and 2017 and the Central Bank inflation target for the following years	High
	Spread price sold/price purchased	Slight improvement since the company will have more bargaining power with the OEMs if it reaches 50% of Mkt Share	High
	% COGS/Net Revenue	We don't see much space for improvement. We maintained the rate around last 3 years rate.	Medium
Fleet	% SG&A/Net Revenue	We see some dilution on the SG&A compared to last year	Medium
	Fleet market growth	The market growth will be mainly driven by the raise on its penetration level. We estimated the market penetration will improve to a developed country rate of 16.9% in 2025.	High
	Marketshare	We assumed a small raise on marketshare since company says its focus is on RaC	High
	Revenue per daily rental growth	We estimate a growth below the inflation rate because we assume the whole market will practice a more competitive price seeking an improvement on the penetration	High
	% of cars renewed	We maintained the historical average	Medium
	Growth on average price per car purchased	We estimate the car price will growth according to the inflation. We considered the focus projection for 2016 and 2017 and the Central Bank inflation target for the following years	High
	Spread price sold/price purchased	Slight improvement since the company will have more bargaining power with the OEMs if it reaches 50% of Mkt Share of RaC	High
	% COGS/Net Revenue	As the Localiza is not focused on the improvement on this sector we maintained the historical average	Medium
Other PP&E	% SG&A/Net Revenue	We estimate a small dilution on the SG&A	Medium
	Other PP&E Capex	Maintained historical rate of other PP&E maintenance over the PP&A on the previous year (excluding Headquarter construction)	Medium
Working Capital	Depreciation non vehicle/Other PP&E	We considered a constant rate close to the previous years rate	Medium
	Accounts Receivable (Days)	We maintained its historical average	Medium
	Other Current Assets (Days)	We maintained its historical average	Low
	Suppliers (Days)	We used the average of more recent years because we assume the company will maintain the contracts with the suppliers	Medium
	Taxes Payables (Days)	We maintained its historical average	Low
	Other Current Liabilities (Days)	We maintained its historical average	Medium

Exhibit 35. Sensitivity Analysis

Perpetuity Growth (g)	WACC				
	12.5%	13.0%	13.5%	14.0%	14.5%
8.1%	60.88	53.06	46.72	41.48	37.09
8.6%	68.05	58.54	51.02	44.92	39.88
9.1%	77.36	65.45	56.30	49.06	43.19
9.6%	89.92	74.41	62.95	54.15	47.17
10.1%	107.81	86.51	71.59	60.56	52.08

Source: Group K

Exhibit 36. Sensitivity Analysis

Perpetuity Growth (g)	WACC				
	12.5%	13.0%	13.5%	14.0%	14.5%
5.7%	30.40	27.62	25.20	23.09	21.21
6.2%	32.36	29.24	26.56	24.24	22.20
6.7%	34.64	31.12	28.12	25.54	23.30
7.2%	37.37	33.32	29.93	27.05	24.57
7.7%	40.67	35.95	32.06	28.79	26.01

Source: Group K

What if the assumptions are wrong?

When we try to assess the future, we are always wrong. The important thing is to know what happens when we are wrong. For this reason, we recalculated the target price for 2 more different scenarios, in which we changed our assumptions.

- **Optimistic.** In this scenario we estimated the company will reach a marketshare of 60% in 2025, more than the marketshare of Enterprise in USA, and we estimated the company will have a higher discount with the car manufacturers, reaching a higher spread of price of car sold to price of car bought. On the fleet segment we estimated an ever higher penetration in the market of the outsourcing fleet. In this scenario we reached a price target of R\$ 52,43.

- **Pessimistic.** In this scenario we estimated the company will reach 40% of marketshare in 2025 and we estimated a lower spread on cars sold over cars bought. On the fleet segment we estimated the business will not reach a much higher penetration level and Localiza will maintain slightly grow its marketshare. In this scenario we reached a price target of R\$ 25,73.

Altered Assumptions for Positive and Negative Scenarios

Variable	Positive Scenario	Negative Scenario
RaC Market Share	Company reaches 60% of Market Share	Company reaches 40% of Market Share
Spread price sold/price purchased	Company gains more bargaining power with OEMs and the spread rises from current levels	Company loses bargaining power with OEMs and the spread falls from current levels
% SG&A/Net Revenue	Higher SG&A dilution	Lower SG&A dilution
Fleet market growth	Fleet market does not improve its penetration	Fleet market penetration rises more than developed markets
Fleet Market Share	Company does not gain Market Share in Fleet Market	Company gains market share in Fleet Market
Perpetuity Growth	Higher Perpetuity Growth	Lower Perpetuity Growth

Target prices on a chart



Recent Stock Performance vs IBOV

Looking at the recent history of the company's shares, we notice that RENT3 was very much in line with the market, showing similarity with the Ibovespa index curve. Thus, the macroeconomic factors significantly impacted the performance of the shares; we highlight the impeachment process and the change in the SELIC rate. Moreover, we signaled that the quarterly results have valued the share price since repeatedly exceeded market expectations.

Exhibit 37. Share's Performance comparison with Ibovespa

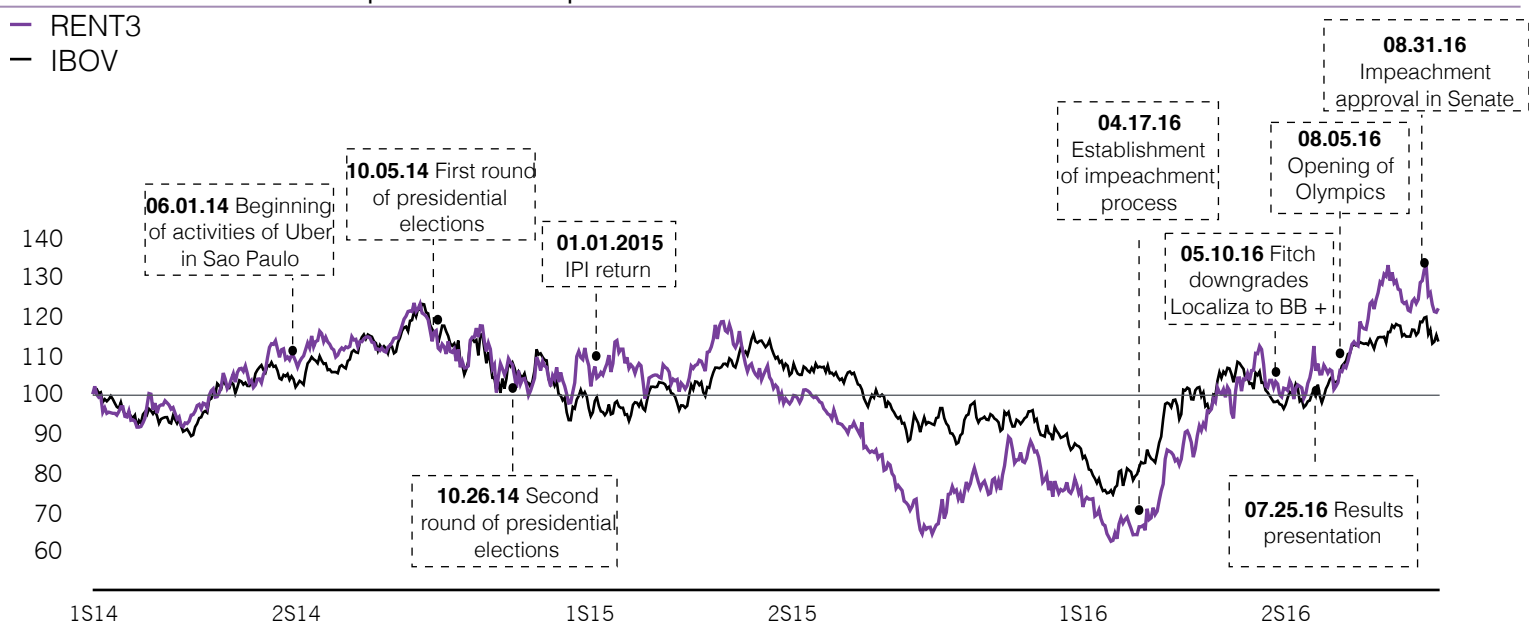


Exhibit 38. Risk Matrix

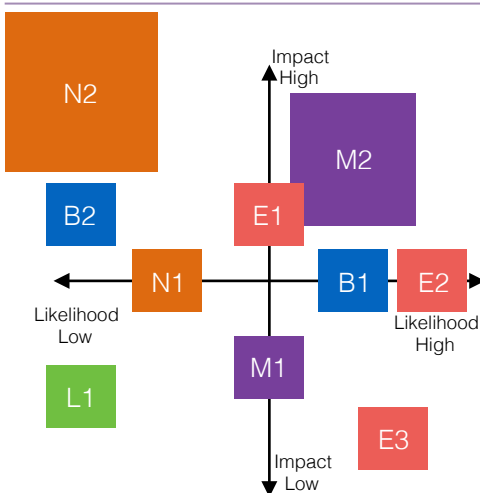


Exhibit 39. Risk Mitigation

Risk	Impact
Faster Economic Recovery	Premium on recent years' projected volume, but steady pricing due to competition.
Interest rates decrease	30% of the debt is linked to swap-fixed 15.4% rates, but Selic decrease would benefit capacity of expansion.
Brazil's speculative grade	The country will take years to recover inv. grade, which and poorer grade increase Kd.

Investment Risks

There are risks that may challenge our Hold recommendation towards an upside or a downside. Part of this set is intrinsic to Localiza's business and market; however, we have identified new threats that, if concretized, will result in deep changes in the rent-a-car business. We, thus, divided risks in Business and Operational (B), Market Risks (M), Legal Risks (L) and New Risks (N).

Business and Operational Risks

(B1) Succession of the board of directors (High Likelihood, Medium Impact)

Localiza has the most experienced managers in the segment – directors have, on average, worked for 34 years in the company. However, company states a limit of 65 years of age for the top management. CEO and founder Eugenio Mattar is already 64, and CFO Antonio Mendes turned 63, and the greatest specialists in the business may soon leave management.

Mitigation: Company former Seminovos Director, and a 29 years-in-company administrator, retired this year. Localiza says it has a plan of succession that involves identifying internal candidates and rotating them in different areas of the company.

(B2) Loss of bargaining power with OEMs (Low Likelihood, High Impact)

Better macro scenario may diminish Localiza's importance to OEMs, that would start decreasing the discounts when selling to Localiza.

Mitigant: New car selling is a cyclic industry, and Localiza benefits from both upside and downside moments.

Impact on valuation: Increasing in car purchasing prices, which affects the buy/sell spread. It is the most important and sensitive premise in the model, and corroborates our argument that Localiza is as much as car reseller that rents cars as a car renter that sells cars.

Market Risks

(M1) Increasing competition with international players (Medium Likelihood, Low Impact)

World's top two RaC players, US Enterprise and Germany Sixt, established partnerships with Unidas and Movida, respectively, and may start to operate independently in Brazil due to economic growth and potential of consolidation. Hertz and Avis, US 2nd and 3rd players, are already relevant in the airport segment.

Mitigant: Hertz and Avis have been in the country for more than 20 years, during which consolidation opportunity was present, but never invested aiming aggressive expansion.

Mitigant: Enterprise and Sixt present impressive numbers in their countries, but settling an operation in Brazil requires capabilities as thorough tax analysis and volume in order to obtain bargaining power.

Impact on projections: Company's market share would suffer a slight decrease, but with no compromise to the thesis

(M2) Barriers of entry and inorganic expansion – an M&A move (Medium Likelihood, Medium Impact)

Localiza may diverge to its organic expansion strategy if deciding to buy a medium or big player in the segment. This is also a negative risk if another strategic player was to make the move – as JSL did with Movida,

Mitigant: Localiza tried to acquire Unidas in 2015 and, despite IR guidelines, may be looking at new possible strategic acquisitions.

Mitigant: Movida is solely focused on its expansion and do not disposes of additional cash for this move. Locamerica and Ouro Verde are even smaller than Unidas, which prevents controlling offers.

Is an acquisition even worth it? Stores superposition is the main downside argument, but Localiza would possibly operate two different brands, gaining power to control prices and explore different market categories.

Legal Risks

(L1) Alteration in tax legislation (Low Likelihood, Medium Impact)

Government discusses ending the exemption of ICMS (tax for product circulation) to service companies, which would increase car prices in 13%.

Mitigant: ICMS is a responsibility of states, so its charge would require coordination Brazil's 26 administrative unities. Furthermore, end of exemption is mainly required by car dealerships, a not-so-powerful group, which argue that Localiza has an intrinsic advantage in car selling since it has the ICMS discount when buying car.

Impact on Valuation: Car selling spread would be affected since purchase price would increase, but selling value would remain constant. JCP tax increase would require cash (given constant amount payed to shareholders).

New Risks

(N1) Ride-hailing strong presence (Low Likelihood, Medium Impact)

A bigger national presence of apps like Uber and Fleety can impact the demand on RaC, due to its convenience and better price (as portrayed at Appendix Y).

Mitigant: Localiza's partnership with Uber is crucial, but our projections in [appendix xx](#) indicate a negative net effect.

Mitigant: Uber's legal situation in most of Brazil's major cities is ambiguous, and there is still doubt on whether the app will be able to operate in the country.

Impact on Valuation: Localiza will possibly have to decrease prices in order to compete in leisure and business travelling segments.

(N2) OEMs participating at car-sharing (Low Likelihood, Very High Impact)

As described in details in [appendix xx](#), there is a chance that OEMs begin renting their own car, competing directly with traditional RaC companies.

Mitigation: we see no skills on hand of RaC companies that can mitigate the entrance of OEM's in the industry. However, OEMs currently lack both expertise and a focus in this industry.

Impact on Valuation: OEMs participating at RaC industry would not only increase competition, but mainly extinguish the discount at car purchase, reducing Localiza's perpetuity to zero.

Appendix 1: Consolidated Income Statement

Exhibit 1.1 Consolidated Income Statement (In BRL M)

	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Car Rental												
Net Revenue (BRL mn)	2,952	2,935	3,246	3,570	4,295	4,998	5,788	6,661	7,626	8,691	9,865	11,159
# of rental days (000's)	15,416	15,574	17,357	18,749	21,191	23,818	26,622	29,574	32,679	35,943	39,374	42,978
Average Price (BRL)	87	85	82	84	86	88	89	91	93	95	97	99
EBIT	1,909	1,773	2,002	2,247	2,866	3,355	3,891	4,490	5,157	5,900	6,727	7,645
CAPEX	498	463	525	543	723	839	969	1,111	1,269	1,443	1,634	1,844
Fleet Rental												
Net Revenue (BRL mn)	922	977	1,053	1,131	1,328	1,563	1,749	2,011	2,301	2,620	2,971	3,355
# of rental days (000's)	10,363	10,895	11,028	12,287	13,889	15,588	17,385	19,279	21,271	23,360	25,546	27,830
Average Price (BRL)	57	57	58	60	61	63	65	68	70	72	74	76
EBIT	255	302	336	324	379	466	525	586	663	747	837	934
CAPEX	571	502	464	838	914	1,024	1,181	1,355	1,549	1,764	2,001	2,263
Semisales												
Net Revenue (BRL mm)	2,018	2,045	2,293	2,460	3,037	3,586	4,136	4,807	5,557	6,393	7,325	8,361
# Cars Sold RaC (000's)	58	52	52	54	59	67	75	83	92	101	111	122
# Cars Sold GDF (000's)	13	12	13	14	15	17	19	21	24	26	28	30
Average Price per car sold RaC ('000 BRL)	29	32	41	41	45	47	50	52	54	56	59	62
Average Price per car sold Fleet ('000 BRL)	29	32	41	41	45	47	50	52	54	56	59	62
COGS	(1,705)	(1,683)	(1,908)	(2,142)	(2,510)	(2,911)	(3,405)	(3,969)	(4,588)	(5,279)	(6,048)	(6,903)
Book Value of Sold Cars RaC	25	27	30	33	35	37	39	40	42	44	46	48
Book Value of Sold Cars Fleet	21	24	27	26	28	26	28	29	31	32	33	35
EBIT	(87)	(14)	33	(111)	(29)	22	2	1	11	24	41	62
Consolidated Results												
Net Revenues	3,892	3,928	4,316	4,719	5,641	6,580	7,557	8,693	9,949	11,334	12,860	14,540
COGS e SG&A	(2,922)	(2,993)	(3,324)	(3,636)	(4,270)	(4,955)	(5,713)	(6,591)	(7,550)	(8,610)	(9,779)	(11,067)
EBIT	727	736	844	862	1,097	1,300	1,488	1,693	1,927	2,184	2,461	2,773
Margin	19%	19%	20%	18%	19%	20%	20%	19%	19%	19%	19%	19%
Net Revenues (BRL mm)	411	403	443	464	615	761	900	1,052	1,231	1,431	1,653	1,907
Margin	11%	10%	10%	10%	11%	12%	12%	12%	12%	13%	13%	13%
EPS (R\$)	1.9	1.9	2.1	2.2	2.9	3.6	4.3	5.0	5.8	6.8	7.8	9.0

Appendix 2: Consolidated Balance Sheet

Exhibit 2.1 Balance Sheet (In BRL M)

BALANCE SHEET (in BRL mn)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total current assets	1,963	2,006	2,304	2,204	2,222	2,359	2,489	2,689	2,967	3,338	3,818	4,418
Cash and equivalents	1,390	1,385	1,634	1,476	1,347	1,351	1,336	1,367	1,453	1,615	1,867	2,214
Accounts receivable	461	486	530	565	683	789	902	1,034	1,184	1,347	1,527	1,724
Other current assets	94	103	140	163	192	219	251	288	330	375	425	480
Decommissioning cars to fleet renewal	18	32	0	0	0	0	0	0	0	0	0	0
Total long term assets	171	103	60	60	60	60	60	60	60	60	60	60
Long term cash & equivalents	93	46	2	2	2	2	2	2	2	2	2	2
Escrow deposits	42	53	54	54	54	54	54	54	54	54	54	54
Deferred taxes	33	0	0	0	0	0	0	0	0	0	0	0
Other LT assets	3	5	4	4	4	4	4	4	4	4	4	4
Total fixed assets	3,564	4,014	4,238	4,665	5,159	5,650	6,256	6,910	7,614	8,371	9,179	10,052
PP&E + intangible, net	3,564	4,014	4,238	4,665	5,159	5,650	6,256	6,910	7,614	8,371	9,179	10,052
Cars	3,278	3,611	3,808	4,222	4,701	5,177	5,767	6,405	7,091	7,831	8,625	9,479
Other PP&E	204	314	344	358	373	388	404	420	437	455	469	488
Intangible	82	89	85	85	85	85	85	85	85	85	85	85
Total assets	5,698	6,123	6,601	6,929	7,440	8,068	8,805	9,659	10,640	11,768	13,057	14,530
Total current liabilities	1,398	1,356	1,643	1,693	1,835	2,007	2,203	2,426	2,669	2,937	3,234	3,562
Short-term debt	301	422	653	653	653	653	653	653	653	653	653	653
Suppliers	828	691	745	791	912	1,057	1,225	1,415	1,621	1,850	2,103	2,383
Wages and labor costs	86	86	82	82	82	82	82	82	82	82	82	82
Taxes	41	28	36	35	40	48	55	64	73	83	94	107
Dividends	59	29	31	31	31	31	31	31	31	31	31	31
Other current liabilities	82	100	96	102	118	137	158	183	209	239	272	308
Total long term liabilities	2,644	2,825	2,739	2,739	2,739	2,739	2,739	2,739	2,739	2,739	2,739	2,739
Total long term debt	2,412	2,597	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493	2,493
Provisions	70	68	69	69	69	69	69	69	69	69	69	69
Deferred taxes	139	142	161	161	161	161	161	161	161	161	161	161
Other long term liabilities	23	19	17	17	17	17	17	17	17	17	17	17
Minority interest	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	1,656	1,942	2,219	2,498	2,867	3,323	3,863	4,495	5,234	6,093	7,085	8,230
Capital stock	977	977	977	977	977	977	977	977	977	977	977	977
Retained earnings	679	965	1,243	1,521	1,890	2,347	2,887	3,518	4,257	5,116	6,108	7,253
Total liabilities & shareholders' equity	5,698	6,123	6,601	6,930	7,441	8,069	8,806	9,660	10,641	11,769	13,058	14,531

Appendix 3: Consolidated Cash Flow Statement

Exhibit 3.1 Direct Cash Flow (In BRL M)

	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Operating income (loss)	727	736	844	862	1,098	1,300	1,489	1,693	1,928	2,184	2,461	2,774
D&A (including portion in SG&A)	(243)	(199)	(148)	(221)	(274)	(326)	(355)	(410)	(471)	(540)	(620)	(700)
EBITDA	971	935	992	1,084	1,372	1,626	1,844	2,103	2,399	2,724	3,081	3,473
Taxes	(165)	(130)	(157)	(181)	(239)	(296)	(350)	(409)	(479)	(557)	(643)	(742)
Net interest income (expense)	(151)	(203)	(243)	(218)	(244)	(244)	(239)	(231)	(217)	(196)	(165)	(124)
Other non-cash items	0	0	0	0	0	0	0	0	0	0	0	0
Cash earnings	655	602	592	686	889	1,086	1,255	1,463	1,703	1,972	2,274	2,608
Investments	(872)	(745)	(382)	(649)	(768)	(817)	(961)	(1,064)	(1,175)	(1,297)	(1,429)	(1,573)
(Increase) or decrease in working capital	308	(198)	(24)	(9)	(4)	39	51	53	52	60	68	76
Free cash flow	91	(341)	186	28	117	308	345	452	579	735	913	1,111
FCF per fully diluted share	0	(2)	1	0	1	1	2	2	3	3	4	5
Operating FCF (EBITDA - capex)	99	190	610	435	604	809	883	1,039	1,224	1,428	1,653	1,901

Exhibit 3.2 Indirect Cash Flow (In BRL M)

	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
CFO	963	404	568	677	885	1,125	1,306	1,516	1,754	2,032	2,341	2,683
Net income	411	403	443	464	615	760	900	1,053	1,231	1,432	1,654	1,908
(+) Minority interest	0	0	0	0	0	0	0	0	0	0	0	0
(+) Depreciation & amortization	243	199	148	221	274	326	355	410	471	540	620	700
(+/-) Δ in WC	308	(198)	(24)	(9)	(4)	39	51	53	52	60	68	76
(+/-) Δ in other accounts	0	0	0	0	0	0	0	0	0	0	0	0
CFI	(872)	(745)	(382)	(649)	(768)	(817)	(961)	(1,064)	(1,175)	(1,297)	(1,429)	(1,573)
Fleet capex	(2,480)	(2,275)	(2,465)	(3,085)	(3,780)	(4,378)	(5,072)	(5,845)	(6,706)	(7,664)	(8,728)	(9,908)
Non-fleet capex	(74)	(146)	(56)	(28)	(29)	(30)	(31)	(33)	(34)	(35)	(37)	(38)
Cost of cars sold add-back	1,705	1,683	2,136	2,464	3,041	3,592	4,142	4,814	5,565	6,403	7,336	8,373
Other investments	(23)	(7)	4	0	0	0	0	0	0	0	0	0
Total free cash flow from operations	91	(341)	186	28	117	308	345	452	579	735	913	1,111
CFF	172	51	(108)	(186)	(246)	(304)	(360)	(421)	(493)	(573)	(661)	(763)
(+) New debt issued - debt repayments	369	307	126	0	0	0	0	0	0	0	0	0
(+) Equity raised	(197)	(256)	(234)	(186)	(246)	(304)	(360)	(421)	(493)	(573)	(661)	(763)
(-) Dividends paid	39	45	0	1	0	0	0	0	0	0	0	0
(-) Interest on capital paid	62	95	165	185	246	304	360	421	493	573	661	763
Free cash flow to equity	263	(290)	77	(159)	(129)	4	(15)	31	87	162	251	348
CF adjustments (omissions, acquisitions, etc)	117	285	172	0	0	0	0	0	0	0	0	0
Adjusted total FCF to equity	380	(5)	249	(159)	(129)	4	(15)	31	87	162	251	348
Opening cash (1)	1,011	1,390	1,385	1,634	1,476	1,347	1,351	1,336	1,367	1,453	1,615	1,867
Closing cash (2)	1,390	1,385	1,634	1,476	1,347	1,351	1,336	1,367	1,453	1,615	1,867	2,214
(2) - (1) = Net increase/(decrease) in cash	380	(5)	249	(159)	(129)	4	(15)	31	87	162	251	348

Exhibit 3.3 FCFF (In BRL M)

	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Operating income	727.2	735.8	843.8	862.5	1,097.6	1,300.2	1,488.9	1,693.1	1,927.5	2,184.4	2,461.4	2,773.8
Taxes	(247.2)	(250.2)	(286.9)	(293.2)	(373.2)	(442.1)	(506.2)	(575.7)	(655.4)	(742.7)	(836.9)	(943.1)
Tax Breaks	38.9	70.2	56.0	57.3	72.9	86.3	98.9	112.4	128.0	145.1	163.4	184.2
NOPLAT - net operating profit less taxes	518.9	555.8	613.0	626.5	797.3	944.5	1,081.6	1,229.9	1,400.2	1,586.8	1,788.0	2,014.9
(+) D&A	243.3	199.2	148.3	221.3	274.4	325.8	355.1	410.0	471.4	539.7	620.0	699.6
(+/-) Other cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross cash flow	762.2	755.0	761.3	847.9	1,071.8	1,270.3	1,436.7	1,639.9	1,871.5	2,126.5	2,408.0	2,714.5
(+/-) Δ Working capital	308.2	(198.3)	(24.0)	(8.6)	(4.4)	38.9	50.7	53.2	51.8	59.9	67.7	75.8
(-) Net investments	(871.8)	(744.9)	(382.0)	(649.1)	(767.6)	(816.9)	(961.4)	(1,063.9)	(1,175.2)	(1,296.6)	(1,428.7)	(1,572.6)
Gross investment	(563.6)	(943.2)	(405.9)	(657.7)	(772.0)	(778.0)	(910.7)	(1,010.7)	(1,123.4)	(1,236.7)	(1,361.0)	(1,496.8)
Free cash flow to the firm (R\$ mn)	198.6	(188.2)	355.4	190.1	299.8	492.3	526.0	629.2	748.1	889.8	1,047.0	1,217.7

Appendix 4: Capital Structure and Debt

Exhibit 4.1 Capital Structure and Debt FCFF (In BRL M)

Debt / PL	2009	2010	2011	2012	2013	2014	2015	1H16
Localiza	287%	273%	258%	205%	241%	244%	215%	205%
Movida						116%	230%	220%
Unidas		216%	127%	109%	146%	143%	154%	177%
Locamérica	2880%	428%	485%	293%	286%	343%	376%	373%
Short-term debt composition								
Localiza	41%	34%	27%	27%	30%	35%	32%	37%
Movida						73%	61%	61%
Unidas		96%	14%	24%	35%	45%	54%	58%
Locamérica	42%	40%	36%	23%	21%	18%	41%	37%
Indebtedness								
Localiza	74%	73%	72%	67%	71%	71%	68%	67%
Movida						54%	70%	69%
Unidas		68%	56%	52%	59%	59%	61%	64%
Locamérica	97%	81%	83%	75%	74%	77%	79%	79%
Asset Imobilization								
Localiza	279%	284%	251%	207%	224%	215%	207%	203%
Movida						164%	201%	230%
Unidas		228%	123%	120%	148%	169%	165%	184%
Locamérica	2328%	388%	410%	232%	243%	291%	308%	300%
Non-current imobilized resources								
Localiza	103%	101%	88%	83%	83%	83%	84%	88%
Movida						125%	106%	123%
Unidas		209%	59%	66%	76%	94%	97%	105%
Locamérica	131%	109%	100%	71%	75%	77%	96%	89%

Source: Group K

Appendix 5: Mobility – We see a change ahead

Exhibit 5.1 Localiza's Average Cost

Localiza - Car Price		
Days	Total Value	Per Day
1	112	112
2	224	112
3	346	115
4	461	115
5	577	115
6	692	115
7	666	95
8	762	95
9	857	95
10	952	95

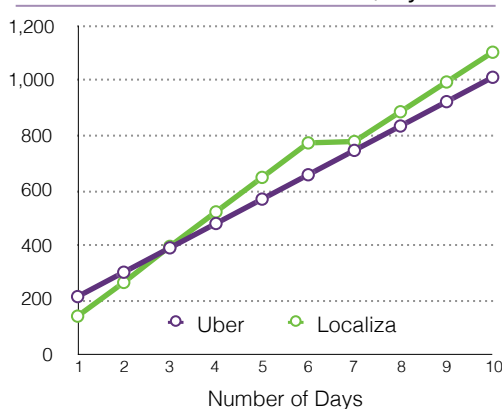
Source: Localiza

Exhibit 5.2 Uber's Average Cost

Uber Cost	
Base Price	BRL 2.00
# Per min	BRL 0.26
# Per Km	BRL 1.40

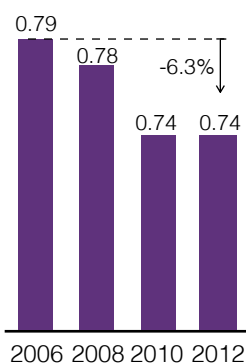
Source: Uber

Exhibit 5.3 Uber x Localiza (40km/day)



Source: Group K

Exhibit 5.5 Vehicles per Person



Source: McKinsey

New business models, technology-driven trends and consumer behavior shift are remodeling the RaC industry, and we don't recognize Localiza ready for this change.

Apps and mindset intertwined with Sharing Economy are emerging all over the world, and we see this movement as harmful to rent a car. In this report, we analyze separately the impact of Uber, Carsharing and OEMs new tendency.

Uber

Uber is already present at nearly all metropolitan regions in Brazil and represents a transformation at the current ground transportation transactions. As we mentioned previously, at the United States, ride-hailing services overtook rental cars among clients who are traveling on business (based on Certify analysis of 8 million expense receipts). It is clear for us that the share of paid car rides here in Brazil will be trending toward Uber.

Not only convenient, but also cheaper. Doubtless, taking a taxi or renting a car vary from place to place. At this sense, Uber is much more user-friendly. Taking an Uber in Brazil is not much different from USA, or Europe, for instance. Therefore, we see that tourists tend to prefer the usage of this app instead of renting a car. Apart from that, RaC is also at disadvantage if we consider the price. Here, we simulate hypothetical travel costs using Uber and Localiza, and the scenario is not good for the last one.

Travel Data Assumptions: travel to São Paulo:

- 1) Guarulhos Airport – Aveinda Paulista (round trip);
- 2) Car Type: C - Economy with air condition (Chevrolet Onix, Ford Ka, Nissan March)
- 3) Car consumption: 11km/L; Fuel price: BRL 3.20/L;
- 4) Parking in lot expenses: BRL 20.00/day;

Using the fixed cost of the round Airport-City (we use Guarulhos Airport due to its distance to the downtown, representing the main cost of Uber user), and considering the amount of day and distance traveled per day, at the table below we depict the ratio 'Localiza price/ Uber price'; we stress that more than half of the table is favorable to Uber's users, showing a great chance of customers' reduction to Localiza.

Therefore, we see with distinct opinion from Localiza IR, who affirms that Uber is beneficial to the RaC industry. The company only observes the revenue that comes from partnership with Uber's driver (special prices for Uber's drivers who do not own a car); and although we recognize it as extra revenue for the company, we consider the net impact of Uber as negative.

Exhibit 5.4 Uber x Localiza (km/day x Number of Days)

	10 km	20 km	30 km	40 km	50 km	60 km	70 km	80 km
1 day	1.03	0.93	0.84	0.77	0.72	0.67	0.63	0.60
1 days	1.63	1.35	1.16	1.02	0.92	0.83	0.77	0.71
3 days	2.12	1.66	1.38	1.18	1.04	0.93	0.85	0.78
4 days	2.46	1.86	1.50	1.27	1.11	0.98	0.89	0.81
5 days	2.73	2.00	1.59	1.33	1.15	1.01	0.91	0.83
6 days	2.95	2.11	1.66	1.37	1.18	1.04	0.93	0.85
7 days	2.69	1.89	1.47	1.22	1.04	0.92	0.82	0.75
8 days	2.82	1.95	1.51	1.24	1.06	0.93	0.83	0.76
9 days	2.93	2.00	1.54	1.26	1.07	0.94	0.84	0.76
10 days	3.02	2.04	1.56	1.27	1.08	0.95	0.85	0.77

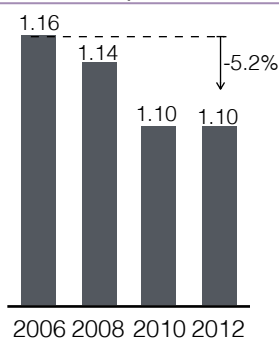
Source: Group K

Car sharing - The Milestone in the RaC Industry

Car sharing is the arm of sharing economy related to Mobility. Its idea consists on the sustainable usage of resources, in this case, a vehicle (on average, a car is idle more than 90% of the time). Therefore, we currently notice a shift in consumer behavior; car is now more seen as a service than an asset.

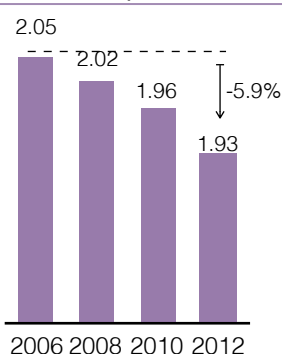
At short term, car sharing should benefit Rent a Car: companies in USA are looking for new types of customers, differently from the daily rentals. Avis acquired Zipcar in 2013 (world's leading car sharing network), Hertz created Hertz on Demand and Enterprise, Enterprise CarShare. However, we do not see any similar movement from Brazilian companies related to this new segment.

Exhibit 5.6 Vehicles per Driver



Source: McKinsey

Exhibit 5.7 Vehicles per Household



Source: McKinsey

Peer-to-Peer (P2P) – A potential competitor

P2P is a car sharing system where fleet is decentralized. Cars owned by private individuals are rented to users who pay for this usage. The app that connect renters to owners gets a percentage of the transaction, being also responsible by the insure of the vehicle. The idea is to gain over the 90% of idleness mentioned above.

Now, imagine that instead of paying the exorbitant price of parking lot at airports, you could actually rent your car during your travel? Given the lower daily values, greater range of cars for hire and not mandatory security deposit for car insurance (unlike what happens with the major car rental companies in which the insurance of the vehicle requires prior deposit from customer), we see this new platform as a potential competitor of rental companies.

In a conversation with the CEO of Fleety (main P2P company in Brazil), Andre Marin, he told us, there is currently a large market of people (A) who own cars and people (B) who wish to occasionally drive. Due to the low use of cars and the high costs involved to keep the vehicle, people 'A' started to look for ways to earn an income to mitigate these expenses through the car rental itself. Meanwhile, people 'B' can rent these vehicles at a low price, due it to the high availability. In the long term, we see the trend that more people are no longer owners of vehicles and start to rent them. This will have a strong impact on automakers, that will sell fewer cars. We believe that it is possible that manufacturers will begin to rent their own vehicles, instead of just selling them. We have noted this movement with the major manufacturers adhering to car sharing like: Ford - GoDrive; General Motors - Maven, Daimler's - Car2Go and BMW - DriveNow.

OEMs Renting Cars

Automakers are struggling all over the world. Revenues decreased and, as we mentioned, vehicle consumption tends to drop. Therefore, we notice that there is a strong movement nowadays in which OEMs are testing their own car sharing services, existing a possibility that automakers start to compete with RaC companies.

It is not possible to conclude that this movement will materialize, but certainly OEMs recognize that it is not natural the bargain power Localiza, for instance, has with the biggest automakers, and to make even worse, presents good margins while renting the car they manufacture. In OEMs' view, renting a car is a duty they could do.

In addition, in early April, GM launched a pilot of the Maven program at its plant in Sao Caetano do Sul, SP. Vehicles (Car model: Cruze) are available to employees and can be rented through an application. Although it is a pilot program, the cost is very competitive (BRL 35/hour our BRL 210/day) comparing to BRL 267/day from Localiza.

And How Localiza React?

Corporate culture with small openness to new ideas: we meet with three important names in the sector (David Zini, Director of Ouro Verde, André Marim, CEO of Fleety, Ricardo Leite, Country Manager of Bla Bla Car in Brazil) and all corroborate with the team's view that Localiza's management has little openness to new perspectives of the sector, especially if compared with the board of Movida, which is more dynamic and able to the changes of industry. As example, we mention Movida's partnership with Bla Bla Car, the world's ride sharing service.

Exhibit 5.8 Movida - Bla Bla Car: Partnership

movida
aluguel de carros

CPF: Login
Senha:

Central de Reservas 24h
0800 606 8686

[A Movida](#) • [Lojas](#) • [Terceirize sua frota](#) • [Contato](#) • [Fidelidade Movida](#) • [Compre um Carro](#)

Movida • Parcerias • BlaBlaCar

> Parceiro BlaBlaCar - Aluguel de Carros

Bla Bla Car
Viagens com confiança

Carros tão novinhos que fica fácil achar alguém para dividir a viagem na BlaBlaCar.

Clique aqui e reserve

Movida e BlaBlaCar.
Uma parceria para você economizar e ainda cuidar do planeta.

Alugue um carro na Movida
Publique sua viagem na BlaBlaCar
E divida os custos da viagem
Você garante 3% de desconto na diária + Carbon Free grátis
+ Condutor Adicional Grátis + WiFi 4G Móvel Grátis (sujeito à disponibilidade)
Faça já sua reserva

Bla Bla Car
Viagens com confiança

Source: Movida

Appendix 6: RaC - Pricing Power

As already mentioned at the report, the RaC industry is very fragmented. The main companies have to compete against small players who work with low margins. In the picture below, we show the prices of an economic car rental in the Decolar.com website (one of the main travel agency in Brazil).

Exhibit 6.1 Decolar - Prices for Renting a Car

Aluguel de carros

Onde deseja retirá-lo?

☐ Devolvê-lo em outro destino

Data de retirada

Data de devolução

Quantidade de pessoas

Procurar

Ampliar o mapa

Refine sua pesquisa

Pesquisar locadoras perto de um Endereço, ponto de referência ou um nome de empresa

Quantidade de pessoas

Aplicar

Ordenar por Menor preço

Categoria:
Carro econômico

Cancelar sem custo

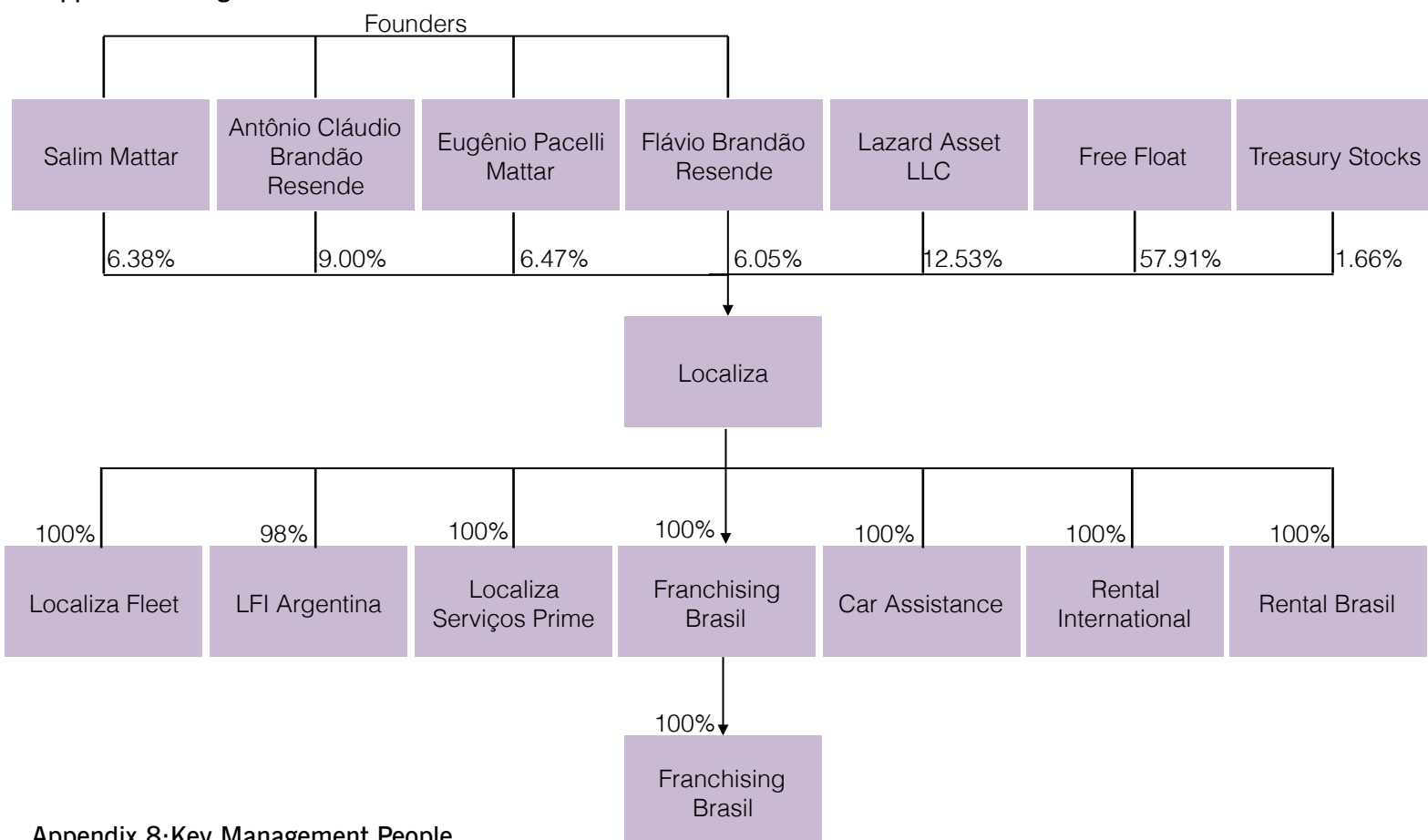
4 pessoas, 1 porta-malas, 1 bagagem

[Ver no mapa](#)

	6.2 pontos	5 Fiat - Uno Novo ou semelhante	Preço final por dia R\$ 61	Ver detalhe
	7.4 pontos	5 Volkswagen - Gol ou semelhante	Preço final por dia R\$ 69	Ver detalhe
		4 Nissan March ou semelhante	Preço final por dia R\$ 69	Ver detalhe
	8.6 pontos	5 Gol, Novo Uno ou semelhante	Preço final por dia R\$ 80	Ver detalhe
	8.8 pontos	5 Fiat Novo Uno ou semelhante	Preço final por dia R\$ 81	Ver detalhe
	6.6 pontos	4 Nissan March ou semelhante	Preço final por dia R\$ 83	Ver detalhe
		4 Celta ou semelhante	Preço final por dia R\$ 83	Ver detalhe
	8.5 pontos	5 Fiat Novo Uno ou semelhante	Preço final por dia R\$ 91	Ver detalhe
		5 Fiat - Uno Novo ou semelhante	Preço final por dia R\$ 102	Ver detalhe
		5 Fiat - Uno Novo ou semelhante	Preço final por dia R\$ 102	Ver detalhe

Source: Decolar . com Website

Appendix 7: Organization Chart



Appendix 8: Key Management People

Statutory Directors of Localiza Rent-a-Car

Name	Title	Biography
Eugênio P. Mattar, 63 years-old	Chief Executive Officer, President of the Subsidiaries, Member of the Board	Mr. Mattar is one of the founding partners of the Company. He is a member of the Board and Chief Executive Officer of the Company and its subsidiaries. He graduated in Civil Engineering from Federal University of Minas Gerais in 1975, where he also postgraduated in Economic Engineering in 1976. Besides the position of member of the Board of Directors and CEO of Localiza Rent a Car SA and its subsidiaries, Mr. Eugenio acts as Director of Locapar Holdings and Management Ltda.; Chairman of the Advisory Board of Junior Achievement of Minas Gerais; At Localiza, Mr. Mattar created the fleet management segment and implemented the current format of the Seminovos business.
Roberto A. Mendes, 64 years-old	Chief Financial Officer, Executive Director of Investors Relations	Mr. Roberto Mendes Director of Finance and Investor Relations of Localiza Rent a Car SA. He graduated in Business Administration and Accounting from Federal University of Minas Gerais. He began his career as an external auditor at PwC and KPMG (1971-1979) and worked for the mining group Vale. He attended the Executive STC of Kellogg School of Management in Chicago and Strategy and Business Innovation at Wharton University of Pennsylvania in 2011.
Bruno M. de Andrade, 57 years old	Executive Director, Franchising	Mr. Bruno Andrade graduated in Civil Engineering from the Kennedy School of Engineering (1983), has a postgraduate in Economic Engineering and a STC in the Kellogg School of Management. Mr. Bruno began his career in the Company in the area of relationship with travel agencies, was Branch Manager, Product Development Manager and Sales Car Dealers and International Franchising Manager, before reaching the Executive Director of Franchising, a position he has held since June 2008
Eugenia M.R. Oliveira, 59 years-old	Executive Director, Rent a Car	Mrs. Eugênia Oliveira is Executive Director of the Company, which she joined in 1980. She graduated in business administration from the Catholic University of Minas Gerais in 1981 and completed postgraduate studies in marketing at UNA in 1985. Ms. Eugênia Oliveira participated management program in 2003 by Kellogg School of Management.
Edmar V. Paiva, 39 years-old	Executive Director, Fleet Management	Mr. Edmar Paiva is Executive Director of Localiza Rent a Car SA. He graduated in Accounting, from the Catholic University of Minas Gerais in 1998 and studied Business Executive MBA from Fundação Dom Cabral, attended the Executive Development Program for Fundação Dom Cabral and holds a post graduate degree in Finance from IBMEC. He was controllership manager Leader Aviation and Audit Manager of Deloitte Touche Tohmatsu
Heros di Jorge, 59 years-old	Executive Director, Seminovos	Heros Di Jorge graduated in economics and management, -graduate in financial mathematics and holds an executive MBA from Fundação Dom Cabral. Mr. Heros started his career in the Company in 1987, in the Sales division of the Car Rental in Sao Paulo. Then, Mr. Heros took over the sales management of Localiza Fleet Management São Paulo, was promoted to Regional Manager Finds Dealers in São Paulo and, in 2012, took over the Seminovos sales division, in the matrix. In July 2016, he assumed the position of Executive Director.

Source: Localiza Rent-a-Car, LinkedIn, Thomson Reuters Eikon

Appendix 9: Statutory Director of the Subsidiaries

Name	Title	With Localiza since:
João Alberto Mazoni Andrade	Executive Director, Fleet Management	2004
Daltro Barbosa Leite Júnior	Executive Director, Rental Brazil	1985

Appendix 10: Non-Statutory Directors

Name	Title	With Localiza since:
Alberto Wagner Teixeira Campos	Information Technology Director, Rent-a-Car	2008
Ana Cristina Carvalho Chaves	Attendance Director, Rent-a-Car	2003
Antonio Hiroyuki Hyodo	Treasury Director, Rent-a-Car	1995
Bernardo Dias Gomide	Chief Operating Officer, Seminovos	2001
Cláudio Luciano Marques	Sales Director, Fleet Management	1991
Cláudio Zattar	Logistics Director, Rent-a-Car	2013
Daniel Tadeu Pereira	Sales Director, Fleet Management	2006
Herbet Viana Andrade	Marketing Director, Rent-a-Car	2011
José Carlos Batista	Sales Director, Rent-a-Car	2011
Leandro Franco Bacchin	Sales Director, Fleet Management	2002
Nora Mascarenhas Lanari	Investor Relations Director	2012
Paulo Henrique de Almeida Pires	Sales Director, Rent-a-Car	1995

Appendix 11: Localiza Board of Administration Members

Name	Title	Background	Tenure	Independent?
José Salim Mattar, Jr., 68 years-old	Chairman of the Board of Administration	He founded the company in 1973, at age 24, and served as Chief Executive Officer of the Company and all its Brazilian subsidiaries until May 2013. Salim Mattar graduated in Business Administration from FUMEC in 1976.	15 years	No
Eugênio P. Mattar, 63 years-old	Chief Executive Officer and Director, Member of the Strategy Committee, Member of the Ethics Committee	See appendix X.	15 years	No
Flávio B. Resende, 63 years-old	Independent Board Member, Member of the Compliance Committee	He was one of the company's founding partners at age 20. Today is a member of the Board of Directors. He graduated in 1980 in Civil Engineering. In addition to the position of member of the Board of Directors of Localiza Rent a Car SA, Mr. Flávio acts as: Partner FBR Equity Administrator.	15 years	No
Antonio C.B. Resende, 70 years-old	Vice-Chairman of the Board of Directors, Member of the People Committee	He was one of the company's founders at age 27. He was Managing Vice President of the Company and its subsidiaries until 2008. He is also Partner administrator ACBR Holdings and Management Ltda and Partner and administrator Resende Fish Farming and Livestock Ltd.	15 years	No
Maria L.F. Costa, 56 years-old	Independent Member of the Board, Chairman of the Strategy Committee, Member of the People Committee	She graduated in Production Engineering from the University of São Paulo and has an MBA at Cornell University. She was Vice-President of Booz Allen Hamilton, responsible for Industry and Operations. Currently, she is a partner of Prada Advisory, a company dedicated to business advice. She is also Member of the Board of Administration of Technip, Marcopolo and Votorantim	7 years	Yes
José Galló, 65 years-old	Independent Member of the Board, Chairman of the People Committee, Member of the Strategy Committee	He graduated in Business Administration from EASP-FGV. He holds the position of Chief Executive Officer of Lojas Renner SA since March 1999. He was a member of the Board of Directors of Azalea Shoes SA and SLC Agrícola SA and also of the Advisory Council of ABN AMRO (Banco Real).	5 years	Yes
Oscar Bernardes, 70 years-old	Independent Member of the Board, Chairman of the Compliance Committee, Member of the Strategy Committee	Mr. Oscar Bernardes has worked as CEO of Bunge International (1996-1999). Before joining Bunge Group, was Senior Partner, Booz-Allen & Hamilton. He was also a member of the Board of Directors of Alpargatas SA, Delphi Corporation (United States) and Johnson Electric.	11 years	Yes
Stefano Bonfiglio, 52 years-old	Independent Member of the Board, Member of the Strategy Committee, Member of the Compliance Committee	He graduated in Economics from Georgetown University and in 1992 obtained an MBA from the Wharton School. He worked for Bankers Trust Company in activities related to Mergers & Acquisitions and Private Equity. He also worked for DLJ MB Private Equity. Currently, Mr. Stefano is a founding partner of Stirling Square Capital Partners, a private equity firm based in London specializing in buyouts.	15 years	Yes

Source: Localiza Rent-a-Car, LinkedIn, Thomson Reuters Eikon

Appendix 12: Board Committee Position

Localiza has three committees subordinated to the Board of Administration, which are the Strategy Committee, the People Committee and the Compliance, Auditing and Risk Management Committee. Company has also a Disclosure Committee subordinated to the CFO, Mr. Roberto Mendes, and an Ethics Committee subordinated to the CEO, Mr. Eugênio Mattar. All the committees aim to stand for the company's principles, worked according to the best Corporate Governance practices, make decisions on behalf of Localiza's interests above interests of particular shareholders and follow and supervise company's ethical standards. The committees' specific functions are described below:

Strategy Committee. Has the aim to support the Board of Administration in matters related to the company's strategy, to evaluate the strategic guidelines proposed by the CEO and to evaluate the implementation of the company's Strategic Plan. **People Committee.** Responsible to propose politics for remuneration, performance assessment, stock options program and bonuses. **Compliance, Auditing and Risks Committee.** Aims to supervise the work of the independent auditors, the quality of the financial statements and reports, the accuracy of the accounting principles and the effectiveness of the internal controlling structures. **Ethics Committee.** Has the responsibility to define the company's values and verify if ethical principles are followed rigorously, deciding on ethical dilemmas always in the best interest of the Company as a whole, regardless of the specific interests. **Disclosure Committee.** Responsible for evaluating the company financial documents to be sent to the CVM (Brazil's SEC).

Strategy Committee	Title
Maria Letícia de Freitas Costa	Chairman
José Galló	Member
Oscar de Paulo Bernardes Neto	Member
Stefano Bonfiglio	Member
Eugênio Pacelli Mattar	CEO, Member
People Committee	Title
José Galló	Chairman
Maria Letícia de Freitas Costa	Member
Antônio Cláudio Brandão Resende	Member
Daltro Barbosa Leite Júnior	Secretary
Compliance, Accounting and Risks Committee	Title
Oscar de Paulo Bernardes Neto	Chairman
Flávio Brandão Resende	Member
Stefano Bonfiglio	Member
Edmar Vidigal Paiva	Secretary
Ethics Committee	Title
Eugênio Pacelli Mattar	Chairman
Daltro Barbosa Leite Júnior	Member
Eugênio Maria Rafael de Oliveira	Member
Marco Antônio Martins Guimarães	Member
Priscilla Soares Duarte Vitória	Secretary
Disclosure Committee	Title
Roberto Antônio Mendes	CFO, Chairman
Antônio Hiroyuki Hyodo	Member
Bruno Moreira Andrade	Member
Eugênia Maria Rafael de Oliveira	Member
João Alberto Mazoni Andrade	Member
Marco Antônio Martins Guimarães	Member
Nora Mascarenhas Lanari	Member
Edmar Vidigal Paiva	Secretary

Localiza still has not instituted a Fiscal Committee, which is responsible for supervising the directors' acts, evaluating the proposals to be sent to the Assemblies for discussion and approval, examining the company's financial statements and denouncing to the Board eventual frauds and errors that it may found. Its absence is Localiza's most serious fault on Corporate Governance.

Appendix B5. Corporate Governance Standards

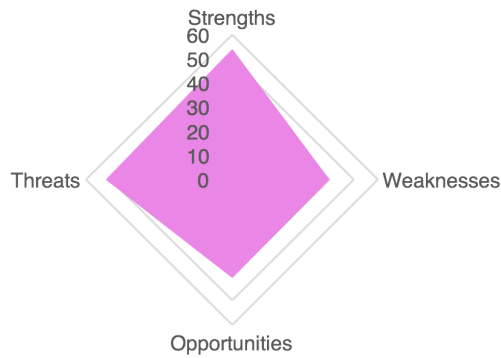
Localiza is signatory of IBCG (Brazilian Institute of Corporate Governance), which determines standards for disclosure, fairness, accountability and compliance – from the 39 standards, Localiza meets 37 (the other two are board members elected by minority shareholders and the creation of a Fiscal Committee).

Furthermore, Localiza is part of Bovespa's (São Paulo Stock Exchange) Novo Mercado, a group of companies that adhere to certain governance principles, among which are 100% ordinary shares with tag along rights, minimum of 20% of independent board members (Localiza has 50% - 4 out of 8), minimum of 25% of free float shares (Localiza has 57.9%), quarterly disclosure of results (including cash flow statements and with revision of an independent auditor), adherence to the internationally accepted accounting principles (Localiza uses IFRS since 2010, and adopted USGAAP before that) and monthly disclosure of shares transaction by directors, key executives and shareholders. Localiza has also adhered to the Market Arbitrage Chamber, according to which conflicts among shareholders, board members and managers must be resolved to negotiation in the terms or Brazilian Law nº 6.404/76.

Since it is intrinsically related to cars, Localiza adopts high sustainability standards. Among them, Localiza offers hybrid cars, acquires flex cars (cars that are moved by gasoline and ethanol), adopts a dry washing process that save 99.9% of water, promotes campaigns to reduce the usage of paper in the offices, adopts a broad Environmental Management Plan in order to design its processes according to green principles, offers a sustainability driving training in its website, and adopts the most efficient actions in water saving and recycling in its stores and business centers.

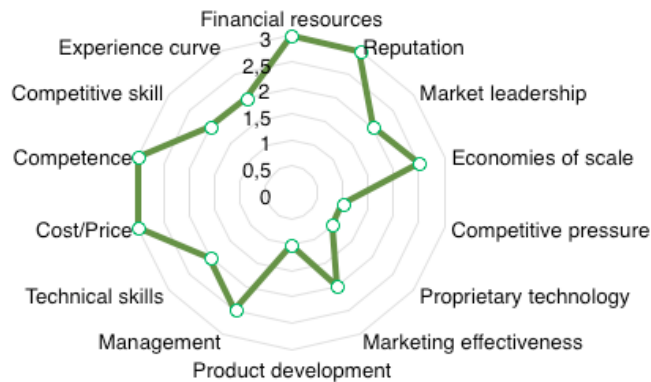
Source: Localiza Rent-a-Car

Appendix 13: SWOT Analysis

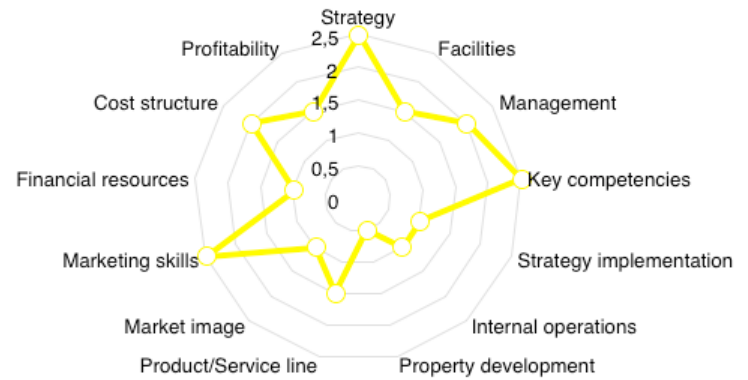


The SWOT analysis was performed in order to assess Localiza's market positioning. It is based on a series of categories within each section, which are ranked according to their likelihood. The analysis resulted in the SWOT matrix below, in which Localiza's overall position is evaluated.

Strengths



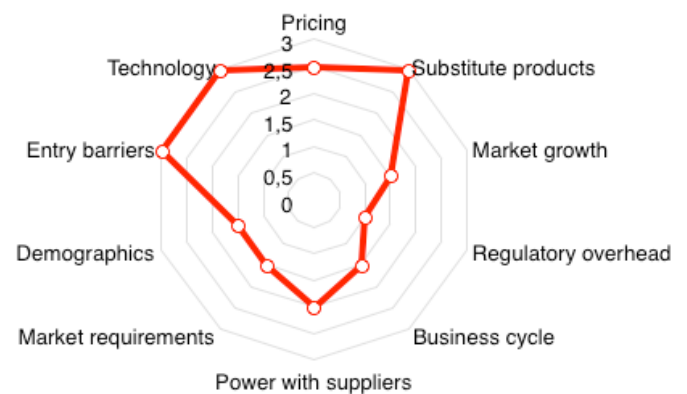
Weaknesses



Opportunity



Threats



Appendix 14: Macroeconomic Assumptions

Factor	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	Long run
Real GDP (y/y) ¹	3.01%	0.10%	-3.85%	-3.14%	1.30%	3.06%	3.12%	3.5%	3.6%
Inflation rate ²	5.91%	6.41%	10.67%	7.23%	5.07%	4.50%	4.50%	4.50%	4.50%
Selic rate ³	10.00%	11.75%	14.25%	13.85%	10.75%	9.23%	8.88%	8.75%	8.75%
CDI ⁴	9.78%	11.51%	14.14%	13.38%	9.98%	8.63%	8.55%	8.38%	8.38%

Sources: Brazil's Central Bank (Bacen), Bloomberg

Brazil's macro has experienced harsh times since 2013, with inflation rates reaching levels as high as 10.67%, far above Central Bank's 4.5% target, which was accompanied by high inflation rates (14.25% in nominal terms). Former president Dilma Rousseff's anticyclical policies – elevated government expenses in order to foster consumption – deviated economy from productivity gains and artificially increased monetary levels in the market. In addition to the resulting recession, Rousseff's Worker Party was involved in a major corruption scandal and lost most of its popularity. Due to illegal fiscal policies, Rousseff was impeached, and the current president's Temer measures to improve government expenses and regularize economy resulted in optimism. Market perspectives, summarized in Bacen's Focus report, are of GDP increase from 2017 and inflation decrease (achieving center of the target in 2018).

(1) Based on Brazil's Central Bank Focus report in 2016-2017 and calculated for 2018 and on as average of 10 of Brazil's financial institutions projections

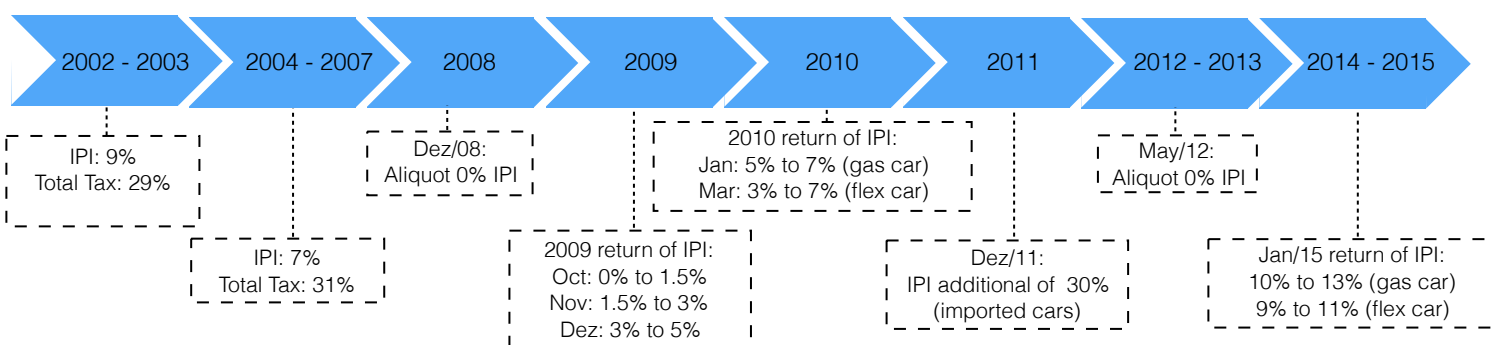
(2) Brazil's IPCA (consumer price index) Based on Brazil's Central Bank Focus report in 2016-2017 and calculated for 2018 and on as average of 10 of Brazil's financial institutions projections

(3) Brazil's interest rate based on Brazil's Central Bank Focus report in 2016-2017 and calculated for 2018 and on as average of 10 of Brazil's financial institutions projections

(4) Interbank deposit rate (CDI) calculated as average of 10 of Brazil's financial institutions projections

Appendix 15: Tax Impact

Exhibit 15.1 IPI Analysis



Source: Federal Government

In 2008 and 2012, the Federal Government decided to temporarily lower the tax rate on Industrialized Products (IPI), ranging from 7% to 0% in order to increase the activity in the industrial sector. According to our analysis, the IPI impacts Localiza's business in three different ways:

Impact on cash flow: With the lowest rate of IPI, the company can buy cars at a reduced price, but must sell them at a low conceited too, mitigating the positive impact.

Impact on Income Statement: Due to reduction in the value of new and used vehicles, Localiza adjusted the book value of the vehicles to market value, negatively impacting the income statement because there was a significant depreciation expense at once, which occurred in the second and third quarters of 2012.

Impact on the company's strategy: The increase in demand due to lower prices resulted in an imbalance between supply and demand for new cars, leading to Localiza to postpone the renewal of their fleet.

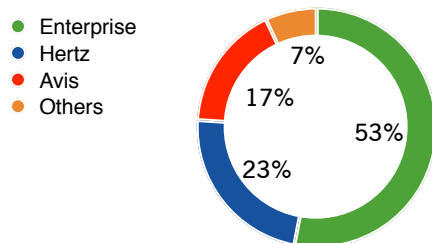
Appendix 16: The Rent a Car Market in the USA

Exhibit 16.1 US Market

US Market		
Company	U.S. Cars in Service (Avg. 2015)	# US Locations
Enterprise Holdings	1,166,828	6.250
Hertz	499.100	5.410
Avis Budget Group (Ex-Zipcar)	365.000	3.250
Others	150.620	6.157
Total	2,181,548	21.067

Source: Auto Rental News estimatives

Exhibit 16.2 Marketshare US (Fleet)



US Market			
Region	Hertz	Avis	Enterprise
West	38%	17.8%	44.4%
Mountain	43%	17.4%	40%
Central	32.3%	15.6%	52%
East	32.3%	16%	51.6%

Source: Companies' website

To a better understanding of our projection for Localiza, it is indispensable to deeply understand the RaC market in the United States as, according to our analysis, the Brazilian Rent a Car market will continue its consolidation process and we believe the national market will assume several characteristics that are present on more developed RaC markets like the north-american.

Consolidated and dominated. As we can see on exhibit 16.2, the market is very consolidated in 3 major companies which together have more than 90% of the market. This kind of competition make very hard for new companies to join competitively the market as the main companies have several advantages over the small players: i) capilarity in a very large country with very distant population centers; ii) diluted SG&A and COGS; iii) higher spread of car sold over car purchased; iv) lower interest on debt issued; and others.

Very competitive among the main player. Our first impression was that the main players didn't compete in all states but we were wrong. As you can see on exhibit xx, we can't see a regional dominance of any player. All of the main players have strong presence on each state, specially on the more touristic, populated and financially stronger ones like Florida, California and New York.

Under attack. As the exhibit 13 shows, Taxis and the RaC sector have been losing market to the Ride Sharing Apps and we believe that they may cause even more damage to the RaC sector, specially on short and medium trips.

Very valuable but still growing. The car rental market was valued in US\$ 72.74 billion in 2015 although the market still has a lot of expectation the sector will keep growing, specially with the raise on the demand for MUVs (Multi Utility Vehicles), a type of car which resembles a van.

What do we expect for Brazil? Looking at the more developed countries we can expect that Brazil may follow the same path to consolidation of the market in a few major companies with Localiza assuming the same role that Enterprise assumed in the United States as the two companies have several similarities such as the market leadership and ROIC above the cost of debt. However, we expect that the competition among the major player continue on the long run, what may impact negatively on the average price for daily rental Localiza charges as it has to maintain its marketshare competing in price. We also expect the Brazilian market to keep growing indefinitely as we can observe there is still space to grow even in a much more developed market like the North American. But we also expect some difficulties due the entrance of new substitutes such as the car sharing and pay to ride apps.

Appendix 17: The Rent a Car Market in the USA

Net Working Capital: a competitive advantage for Localiza

Localiza presents a negative net working capital (BRL 272.2 mn in 16Q1), which shows that the company actually generates cash from its operations (see the Exhibit aside). This derives from the fact that Localiza does not bare the risk of default in the car selling business, since it operates through a financial intermediate, and obtain longer periods of payment with OEMs. However, Movida has systematically present positive NWC as well, which poses a threat to Localiza's position as market leader.

Exhibit 17.1 Net Working Capital Peers

Net Working Capital	1T14	2T14	3T14	2014	1T15	2T15	3T15	2015	1T16	2T16
Localiza	8.8	-165.1	-180.3	-442.8	-161.9	-148.1	-134.1	-287.4	-19.6	-272.2
Movida	-44.0	42.90	45.80	-54.40	-48.3	-155.7	-232.2	-165.7	-252.60	-322.60
Unidas	156.6	108.2	175.9	150	196.38	230.1	164.5	139.6	130.9	164.6
Locamerica	-17.4	-82.9	-47.2	51.4	-53.6	32.6	-20.1	17.4	62.6	

Appendix 17: Margins Comparasion

Exhibit 17.1 Peers Comparasion

	2010	2011	2012	2013	2014	2015
Gross Margin						
Localiza	36%	38%	39%	37%	36%	36%
Movida					30%	22%
Unidas	12%	20%	20%	27%	30%	31%
Locamérica	30%	41%	29%	26%	27%	27%
EBITDA Margin						
Localiza	26%	28%	28%	26%	25%	24%
Movida					31%	20%
Unidas	18%	25%	31%	34%	33%	20%
Locamérica	35%	40%	35%	30%	32%	31%
EBIT Margin						
Localiza	19%	20%	15%	19%	19%	19%
Movida					16%	13%
Unidas	-2%	7%	8%	14%	16%	33%
Locamérica	20%	29%	17%	16%	19%	18%
Net Margin						
Localiza	10%	10%	8%	11%	11%	10%
Unidas	-16%	-10%	12%	7%	6%	39%
Locamérica	4%	6%	1%	3%	4%	3%
Tax Burden						
Localiza	29%	30%	26%	29%	29%	24%
Unidas	0%	0%	0%	24%	8%	10%
Locamérica	36%	26%	100%	16%	20%	17%
Invested Capital Turnover						
Localiza	96%	91%	94%	95%	89%	79%
Unidas	84%	55%	52%	50%	57%	89%
Locamérica	77%	49%	44%	36%	41%	36%

Appendix 15: Depreciation

In the RaC, the depreciation method used is the straight-line method, which the depreciation expense is equally recognized during the estimated useful lives of the vehicles. On the other hand, in the Fleet Management Division, cars are amortized by the method of the sum of digits, also known as the exponential method, which better reflects the pattern of consumption of the economic benefits that are declining throughout the useful lives of the vehicles.

In case the value to depreciate the vehicles is underestimated, the residual value of the cars would be higher than market, which would lead to the recognition of loss on the sale of the vehicles. On the flip side, overestimating the value to depreciate the vehicles, could lead to an increase in the rent prices to customers, which would reduce the competitiveness of the company.

Straight-Line Method*

Example 1

Localiza buys car for \$100 and estimates the sale price at \$88. The accumulated depreciation would be \$12, which will be monthly expensed in equal amounts of \$1. At the moment of the sale, Localiza would profit \$0 in the semi-sale segment.

Depreciation - Straight-Line Method												
Months	1	2	3	4	5	6	7	8	9	10	11	12
Dep.	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Residual Value	99	98	97	96	95	94	93	92	91	90	89	88

Example 2

Localiza buys car for \$100 and estimates the sale price at \$98. The accumulated depreciation would be \$12, which will be monthly expensed in equal amounts of \$1 until the sixth month. At the moment of the sale, Localiza would profit \$4 in the semi-sale segment.

Depreciation - Straight-Line Method												
Months	1	2	3	4	5	6	7	8	9	10	11	12
Dep.	-1	-1	-1	-1	-1	-1	0	0	0	0	0	0
Residual Value	99	98	97	96	95	94	94	94	94	94	94	94

Example 3

Localiza buys car for \$100 and estimates the sale price at \$90. The accumulated depreciation would be \$12, which will be monthly expensed in equal amounts of \$1 until the sixth month. At the moment of the sale, Localiza would lose \$4 in the semi-sale segment.

Depreciation - Straight-Line Method												
Months	1	2	3	4	5	6	7	8	9	10	11	12
Dep.	-1	-1	-1	-1	-1	-1	0	0	0	0	0	0
Residual Value	99	98	97	96	95	94	94	94	94	94	94	94

*As per explained by Localiza's Investor Relations Staff

Exponential Method

Example 1

Localiza buys car for \$100 and estimates the sale price at \$88. The accumulated depreciation would be \$12, which will be monthly expensed. The total useful life is 3 years. At the moment of the sale, Localiza would profit \$0 in the semi-sale segment.

Useful life: $3 + 2 + 1 = 6$

First year of depreciation: $\$12 \times (3 / 6) = \6

Second year of depreciation: $\$12 \times (2 / 6) = \4

Thirds year of depreciation: $\$12 \times (1 / 6) = \2

Depreciation - Exponential Method			
Years	1	2	3
Dep. Expense	-6	-4	-2
Residual Value	94	90	88

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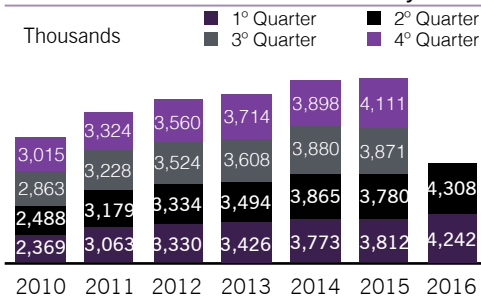
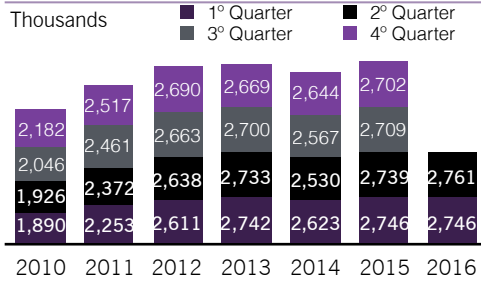
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CFA Institute

CFA Institute Research Challenge

Exhibit 11. RaC: Number of Rental Days

Exhibit 11. Fleet: Number of Rental Days


Source: Localiza

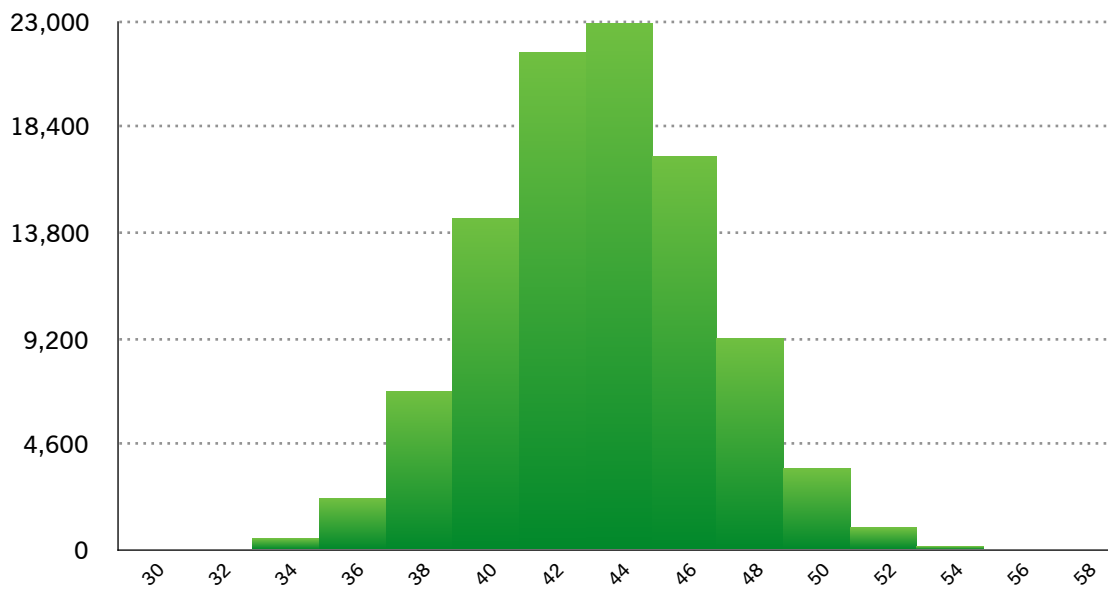
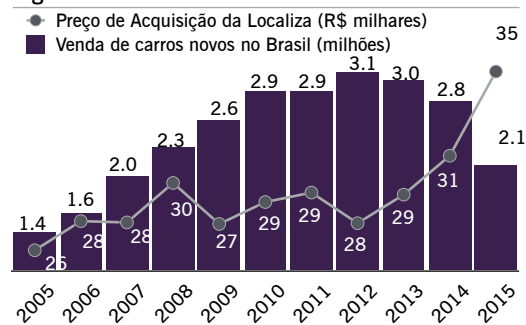
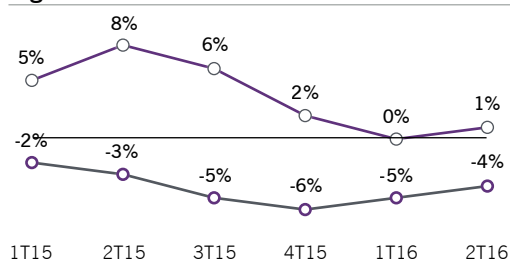


Figura 15. Mercado de Venda de Carros



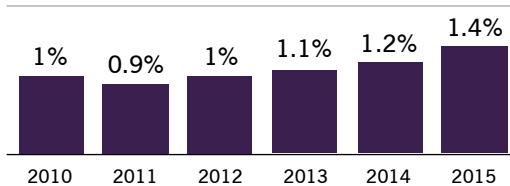
Fonte: Fenabreve, Localiza

Figura 11. Crescimento de GDF e PIB



Fonte: IBGE, Localiza

Figura 16. Participação das Locadoras nas Vendas de Seminovos



Fonte: Fenabreve e DFs das empresas

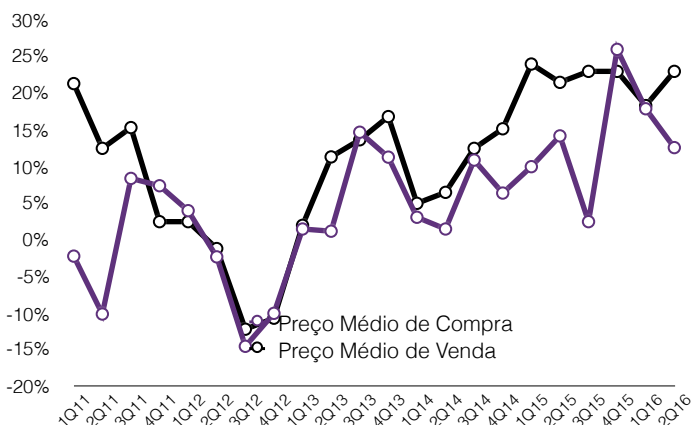
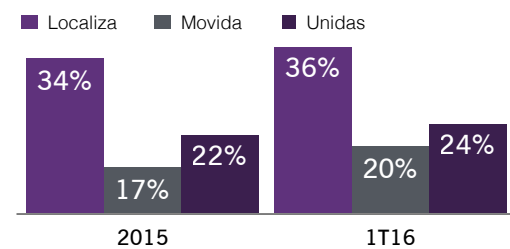


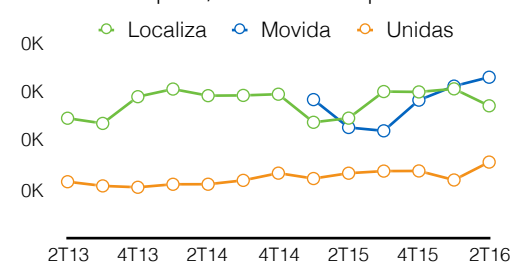
Figura 9. Margem EBIT RaC*



Fonte: RI das Companhias

* EBIT inclui venda de seminovos provenientes do RaC

Receita Líquida/Frota Média Operacional RAC



Receita Líquida/ Frota Média Operacional GDF

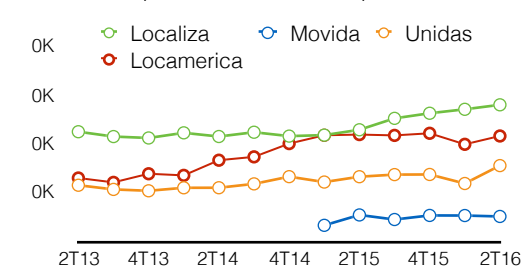


Figura 38. Matriz de Riscos

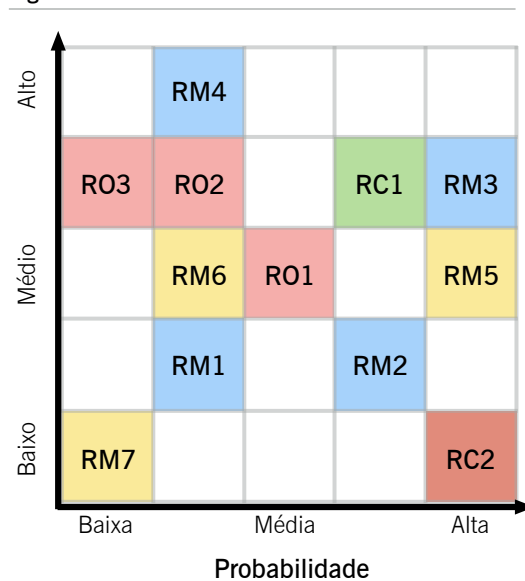
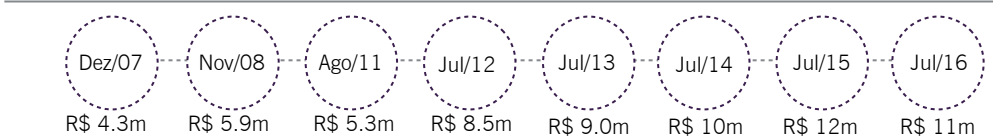


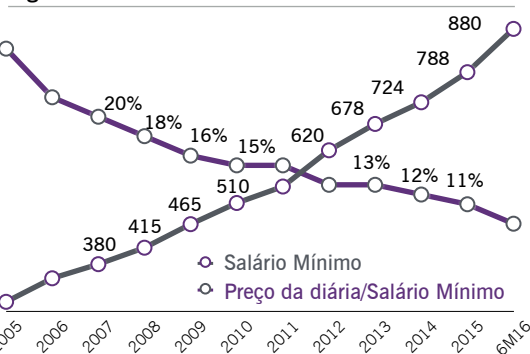
Figura 22. Histórico de recompra de Ações



Fonte: Fatos Relevantes Localiza; Elaboração Própria

Executive	Biography
Eugênio Pacelli Mattar CEO, 63 years of age	Mr. Eugenio is one of the Company's founders. It occupies the Company Advisor positions and CEO of Localiza and its subsidiaries. He graduated in Civil Engineering from UFMG. It also acts as an advisor Junior Achievement, OMNI Air Taxi and Pottencial Insurer.
Roberto Antônio Mendes, CFO IR Director, 64 years of age	Mr. Roberto Mendes is Director of Finance and Investor Relations Officer of the company, which he joined in 1985. He graduated in Business Administration from UFMG. He began his career as an auditor at PwC and KPMG and was Controller at Valep and Mendes Junior. It has extension at the Wharton Business School.
Bruno Moreira Franchising Director, 57 years of age	O Sr. Bruno Andrade is Executive Director of the Franchising segment, which he joined in 1985. He graduated in Civil Engineering. He began his career in the Relationship field, and has held several management positions to reach the position he has held since June 2008.
Eugênia Maria de Oliveira Executive Director, 59 years of age	A Sra. Eugênia Oliveira is the Company's Executive Director, which she joined in 1980. She graduated in business administration from PUC-MG and completed postgraduate studies in marketing at UNA. Mrs.. Eugênia Oliveira participated management program in 2003 by the Kellogg School.
Edmar Vidigal Paiva Executive Director, 41 years of age	Mr. Edmar Paiva graduated in Accounting from PUC-MG, in 1998 and studied Business Executive MBA from Fundação Dom Cabral. Was controllership manager Leader Aviation and Audit Manager of Deloitte Touche Tohmatsu.
Heros di Jorge Executive Director, 59 years of age	Mr. Heros Di Jorge graduated in economics and business administration and has a graduate degree in finance. He began his career in the company in 1987, took over the management of sales Localiza Fleet Management São Paulo, and the board of retail sales Car Sales division. In July 2016, he assumed the position of Executive Director.

Figura 6. Acessibilidade do RaC



Fonte: IBGE, Localiza

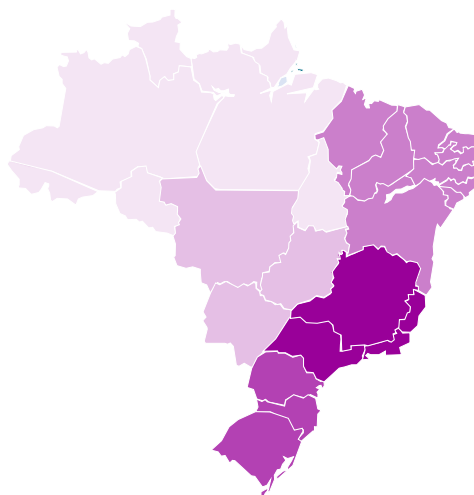


Figura 41. Múltiplos

Múltiplos dos <i>peers</i>					
	País	Mkt. Cap.	Net Debt/ Ebitda	PE Forward	EV/ EBITDA
Hertz	EUA	3,952	17,2 x	15,4 x	21,6 x
Avis	EUA	3,404	13,9 x	12,4 x	17,9 x
Sixt SE	ALE	2,458	2,6 x	18,4 x	5,6 x
Car Inc	HK	2,387	2,0 x	16,2 x	7,5 x
Europcar Groupe	FRA	1,278	7,7 x	9,0 x	12,3 x
Northgat	RU	738	1,2 x	9,2 x	3,5 x
eHi Car Services	CHI	722	1,1 x	110,3 x	6,0 x
Locame-rica	BR	110	3,3 x	9,8 x	4,7 x
Mediana			2,6 x	12,4 x	6,0 x
Média			5,5 x	23,3 x	9,1 x
Localiza	BR	2,649	1,6 x	21,2 x	10,1 x

Figura 42. PE Forward (12 meses) histórico

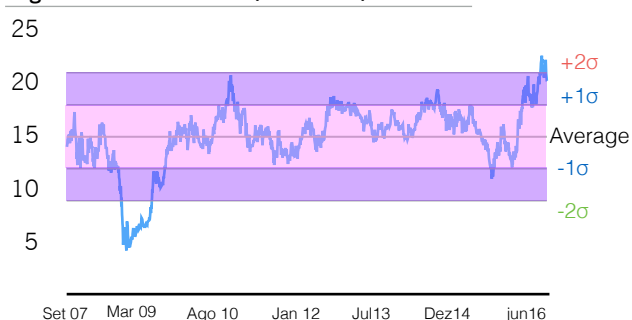


Figura 42. PE Forward (12 meses) histórico

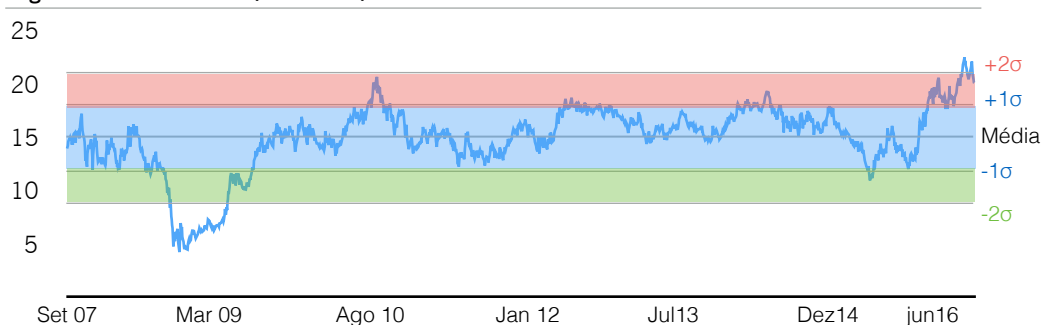
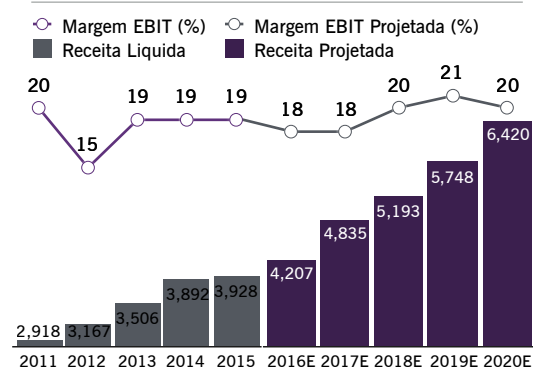


Figura 43. Mercado de Venda de Carros



Fonte: Fenabrave, Localiza

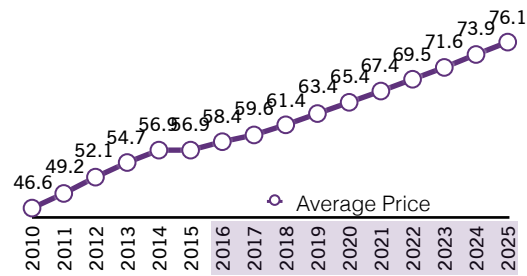
Figura 44. Cálculo da taxa de desconto

WACC	
US risk-free rate (10-year bond yield)	2.0%
Beta (Mensal - 5 anos)	1.1
Prêmio de Risco de Mercado	5.3%
Taxa livre de risco Brasil (EMBI)	3.1%
Inflação BR	4.5%
Inflação EUA	1.5%
Diferencial de inflação	3.0%
Ke	13.8%
Kd	10.0%
% of Debt	43.0%
WACC	12.1%

Figura 45. Análise de Sensibilidade

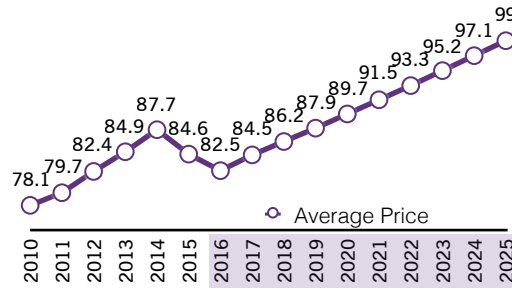
Crescimento na Perpetuidade (g)	WACC						
	11.85%	11.95%	12.05%	12.15%	12.25%	12.35%	12.45%
	6.2%	36.32	35.51	34.74	33.99	33.27	32.57
	6.3%	36.87	36.04	35.24	34.47	33.73	33.01
	6.4%	37.43	36.58	35.76	34.97	34.21	33.47
	6.5%	38.02	37.15	36.30	35.50	34.70	33.95
	6.6%	38.64	37.73	38.86	36.02	35.22	34.44
	6.7%	39.27	38.34	37.44	36.58	35.75	34.95
	6.8%	39.93	38.97	38.05	37.16	36.30	35.47

Exhibit 11. Fleet: Revenue per Daily Rental



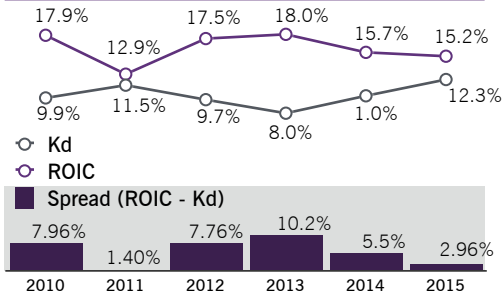
Source: Localiza

Exhibit 11. RaC: Revenue per Daily Rental



Source: Localiza

Exhibit 11. RoIC vs Kd



Source: Localiza

Exhibit 11. EBIT, Net Revenue

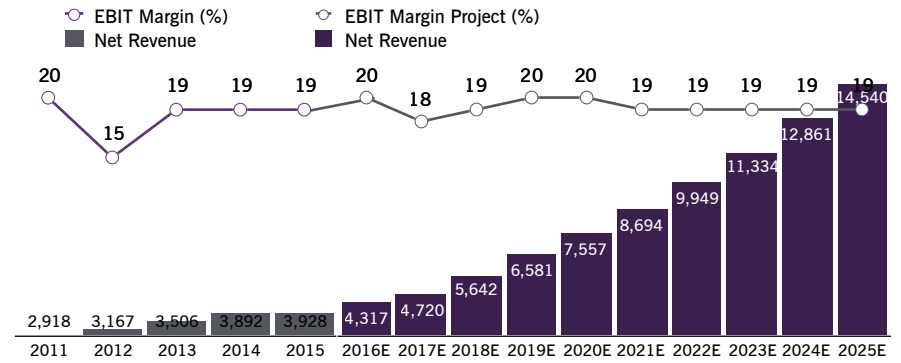
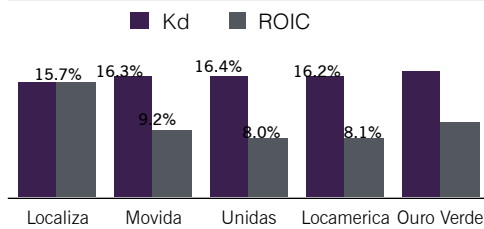
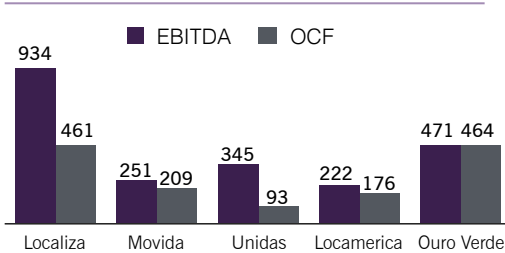


Exhibit 11. RoIC vs Kd



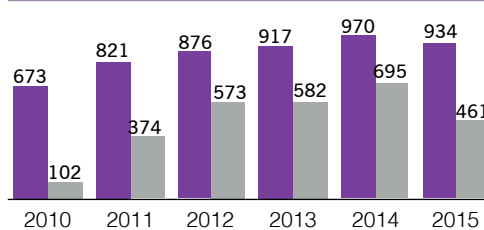
Source: Companies's IRs

Exhibit 11. EBITDA vs Operational Cash Flow

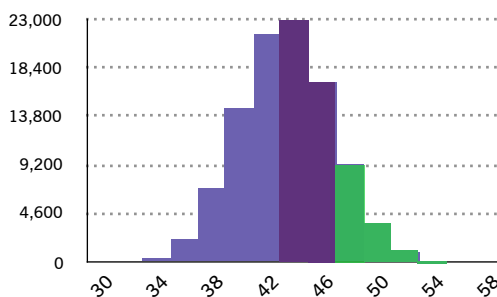


Source: Companies's IRs

Exhibit 11. EBITDA vs Historical Cash Flow



Source: Localiza



4.8x

2.4x