

Results Conference Transcription 3T24

Ian: Good afternoon to all. This is Ian Nunes speaking. I am your manager of Tegma.

Welcome to the conference call for the earnings concerning the third quarter of 2024. This conference is being recorded and the replay may be accessed in the investor relations website of Tegma. We inform that all participants will be in listen-only mode during the presentation, after which we will have the Q&A session when further instructions will be provided.

For those listening in English, we have in the chat the link for the presentation in English because we will be showing only the version in Portuguese here on Zoom. I'd like to give the floor now to Nivaldo Tuba, CEO of the company, who will begin the presentation. Nivaldo, you may proceed.

Nivaldo: Good afternoon, ladies and gentlemen. This is Nivaldo Tuba speaking, CEO of Tegma. And on behalf of the entire company, I'd like to thank you once again for participating in another earnings conference call.

With me here are Ramón Perez, our Chief Financial Officer and IRO, as well as Ian Nunes, our Investor Relations Executive Manager. As usual, we start our presentation on slide two, where you can find our disclaimer regarding forward-looking statements. Moving on to slide three, I'd like to talk about the third quarter highlights.

First, we would like to highlight the payment of dividends and interest on equity. Approved at yesterday's Board of Directors meeting. The decision was, as it relates to the third quarter 2024, to pay 51 million BRLs, or 77 cents of a real or share, that could update to be November 7th.

Payment to be made on November 21st. This payout corresponds to 60% of the net income for the period, corresponding to a dividend yield for the last 12 months of 10.7%. The second highlight was the deployment of Oracle's ERP system to replace DataSource ERP, which is the current ERP we are using. A year after this announcement, we're very pleased to announce that on November 1st, Tegma successfully completed the deployment for the processes in the administrative and financial departments.

The success of this initiative reinforces the company's constant search for technological innovation and process efficiency, marking an important step in the evolution of our digital transformation journey that we call Tegma 5.0. Undoubtedly, this move will bring multiple benefits for the company, including improvement of the customer's digital journey, and above all, the development of new business models. The third highlight was Tegma's Investor Day, which we held on October 17th, and which we can say was a success with a qualified audience of almost 70 people, both in

person and online. We presented topics that were important both for those who didn't know Tagma yet and for more experienced investors.

Now moving to slide four, we show a short video summarizing our event. An Investor Day is an annual event for investors, an opportunity to reinforce our commitment to those who believe in our potential. A day among friends and partners, when we shared our progress and achievements in a quiz and collaborative way.

We presented strategies and results, showing how aligned we are with our growth goals in a clear and transparent way, always cherishing the trust our shareholders place in our company. We showed the future vision of the company, so everyone can know exactly where we want to go and how we plan to continue to innovate, as well as how prepared we are for the future. We shared our growth goals and expectations, making it clear that we remain focused on delivering value to our investors, and of course the excellent results that we achieved as a consequence of the work and dedication of our whole team.

We thank you all for joining us in this event and for trusting Tagma. Together, we will continue to build a successful future.

For those of you who couldn't attend the event, I'd like to remind you that both the presentation and the broadcast of the full event are on our IR website, and we're also sending you the link here in the Zoom chat.

Now moving to slide five, let's talk about the main data on the market of new vehicles in Brazil. As we can see in the top graph, domestic sales in the third quarter of 2024 were up 12% year-on-year. This performance is due to the continued improvement in economic conditions in the country, especially for fall in unemployment and higher income.

We would point out that the recent increase in interest rates, both CELIC and future rates, have not yet been translated into higher auto loan rates. One of the reasons for this behavior is believed to be the approval of the Legal Guarantees Framework in October 2023. As we detailed in our investor day, automotive credit indicators have improved successively since then.

There is also another factor worth mentioning related to the federal government's program for the acquisition of new vehicles last year, which inflated vehicle sales in July 2023, thus distorting the comparison base for the third quarter of this year. On the bottom left, we show that production grew by 18% in Q3-24. This increase stemmed from the performance of domestic sales as well as exports of vehicles from Brazil, which grew by 30% in Q3-24.

A consequence, in turn, of the depreciation of the Brazilian currency, BRL, and the positive reaction of some important markets. On slide 5, we present the main operating indicators of the automotive logistics division. The number of vehicles transported in Q3-24 totaled 202,000 units, in other words, up 19% in the yearly

comparison.

This increases a reflection of the growth in domestic sales and exports, as we explained before. Our market share grew one percentage point year-on-year to 25.7% in Q3-24. This increase in market share in the annual comparison was due to Tegma's increased share in automakers, to which we have significant exposure.

Lastly, average distance traveled in Q3-24 was 2% higher year-on-year due to the increase in the average distance of domestic trips. After these initial highlights, I will give the floor to our Chief Financial Officer, Ramón Pérez, who will talk about our results, cash flow, and other indicators.

Ramón: Good afternoon, everyone. Moving on to slide 7, let's talk about the results of the automotive logistics division. We can see in the top graph that there was a 46% increase in the division's net revenue in Q3-24, explained mainly by the 19% increase in number of vehicles transported and the 2% increase in average distance traveled, in addition to the transportation tariff adjustment in 2024. In this third quarter, Fastline, our operation focused on the logistics of used vehicles and new motorcycles, contributed positively to the division's performance, as did the yard management and vehicle storage operations, due to the high demand from OEMs.

Below is the evolution of EBITDA in the third quarter compared to the previous year, as well as EBITDA margin. Based on the concept of EBITDA excluding the apportionment of expenses for 2024, we see the margin increasing from 17.3% to 20.4%, by virtue of productivity gains in the automotive operation. With growth in operating indicators, revenues, as well as control of fixed costs and administrative expenses.

On slide 8, we have the results of the integrated logistics division. We can see that the division's net revenue in the third quarter increased by 2% year on year. This performance was mainly due to the lower-than-expected arrival of ships carrying sodium sulfate and soda ash, which drive the chemicals operation.

On the other hand, the 12% growth of the division's growth revenue in the nine months 24, also compared to the previous year, is the result of two new contracts to carry soda ash and the impaired comparative base, due to reduced operations as a result of the fleet renewal that took place in 2023. It is worth noting that the household appliances operation recently signed its second contract with the largest manufacturer of such equipment in the country. This contract initially includes a smaller scope of services compared to the current client, but we intend to expand our operations and turn it into a new avenue of growth for the division.

In the chart below, we can see that EBITDA margin in Q3 fell from 30.2% to 26.6%, excluding the apportionment of expenses. This retraction is explained mainly by the reduced volumes of the chemicals operation, as explained when we talked about the revenue dynamics. Now I'll hand the floor back to Nivaldo, who will comment on our joint venture, GDL.

Nivaldo: Thank you, Ramón. On slide 9, we show GDL's financial highlights. We can see in the top graph that net revenue for Q3 2024 grew by 81% year-on-year, totaling 75 million BRLs.

This growth is primarily the result of the 33% increase in sales of vehicles imported by Brazil in Q3 2024, which means a greater number of vehicles which are stored, nationalized and operationalized by GDL. We would also point out that the company's other services related to general and bonded warehousing posted growth in the period as a result of a positive dynamics in the sector. On the bottom charts, we show on the left the evolution of the joint venture's net income, which totaled 16 million in Q3 2024.

This performance is a reflection of the expansion in revenue combined with operating efficiency in terms of costs and expenses. Net margin shrank in Q3 2024 compared to the previous year due to a retroactive adjustment of the contract, which increased the yard rental costs in the third quarter of 2024. Lastly, in the graph in the middle, GDL has already paid 41 million in dividends in 2024.

I'll now hand the floor to Ramón, who will continue with the presentation of the consolidated results.

Ramón: Thank you, Nivaldo. Moving on to slide 10, we present the company's consolidated results.

Net revenue for the third quarter was 604 million BRLs, increasing 41% year-on-year, basically related to growth in the automotive logistics division in the period. Below, we see that in the third contract EBITDA margin expanded by 2.2 percentage points, reflecting the increase in operating efficiency in the automotive division, with improved operational indicators and control of costs and expenses in the period. And finally, net income for the third quarter stood at 84.4 million BRLs, up 50% year-on-year, with net margin expanding by 0.8 percentage point.

This performance is due to the improvement in the operating result, as explained before, coupled with growth in equity income. Moving on to slide 11, the graph on the left shows the company's cash-to-cash cycle at the end of the third quarter, which was 37 days, lower than the level of recent quarters. This was due to the settlement of overdue receivables and greater collection efficiency.

With regard to the company's CAPEX, in the third quarter of 2024, total CAPEX was 13 million BRLs, or 2.1% of net revenue. Among the most significant investments were, firstly, 4.9 million BRLs, which represents part of the total investment in deploying the new ERP system, and, secondly, improvements to the yard located in Cabo de Seto Agostinho, near the Port of Suape in Pernambuco state, with the aim of expanding storage capacity for imported vehicles, and those investments totaled 3 million BRLs. Finally, on the right, we show the company's free cash flow, which in the third quarter was positive at 54 million BRLs.

This cash generation is mainly the result of the positive operating result, combined with the reduction in the cash-to-cash cycle. In addition, we could use some tax credits, which amounted to 16 million BRLs. On slide 12, we present details of our capital structure.

In the graph on the left, we can see the company's current cash of 264 million BRLs, which is significantly higher than the gross debt to be repaid in the following years. In the third quarter, we didn't make any payments or raise any debt. In the table below, we can see that our net cash position in September of 2024 was 158 million BRLs.

Finally, on the top right, we present the history of our cost of debt, which currently stands at CDI plus 1.6%. Below, there's information on our rating, which was reaffirmed by Fitch in April of this year as A-local, with stable outlook. Moving on to slide 13, we show the company's profitability indicators. Return on invested capital for the third quarter, in grey, was 34.7%, an increase of 4.6 percentage points quarter-on-quarter, due to the performance of the automotive logistics division and the near stability of invested capital in the period.

Also, in the case of ROE, the orange line, we see an increase of 2.2 percentage points, both due to the same reasons for the increase in ROIC and due to GDL's greater contribution to the company's results via equity income. In the graph in the bottom left, we can see that EVA in the third quarter rose to a range between 94 and 124 million BRLs, depending on the weighted average cost of capital used as a base. This expansion is due to the improvement in operating results and the near stability of invested capital in the period.

On the bottom right, we show the history of dividends and interest on equity paid by the company. The black line shows the payout, which for the first nine months of 2024 was 71%, higher than the previous year, as well as the dividend yield for the last 12 months, which reached 10.8%. On the last slide, we show our share performance, the orange line, compared to the IBOV index in black and the small caps index in red, considering base zero to be last year's closing price. As shown in the top graph, Tegma's shares have outperformed both indices over the last three months, and this is due to the positive performance of the automotive market, as well as the company's results.

Finally, in the chart below, we present a history of the multiples at which Tegma's shares have been trading. Despite the robust indicators and results, we continue to show multiples below their historical average. With that, I would like to thank everyone once again for your participation and interest in the company, and let's start the question-and-answer session.

Ian: Thank you, Ramón. We are starting the Q&A session for investors and analysts. If you would like to ask a question, please press the raise hand button.

If your question has been answered, you can leave the queue by clicking put your hand down. If you would like to ask a question in writing, please type your question into the

Q&A field at the bottom of the screen.
We'll start with the questions by Pedro and Victor.

Pedro, can you hear us?

Pedro: Good afternoon, everyone. Thank you for taking my question. Can you hear me well? Yes, we can hear you.

That's good. I have two questions. The first, I'd like to understand how you see the OEMs talking about production of vehicles in 2025.

And I'd like to understand your revenue, your tariff for this quarter was surprisingly positive. So I'd like to understand first line, to what extent it contributed to the quarter. And I'd like to understand how recurring this result is, given that it was a little stronger than we expected.

These are my two questions. Thank you.

Nivaldo: Hello, Pedro. This is Nivaldo speaking. We are practically finishing the budget for 2025. We had a round of conversation with all OEMs and authorities.

And what you're seeing, all of them is very similar. Given the good results achieved in 2024, at least until now, they're expecting a very stable 2025. In other words, practically repeating the 2024 results or with a slight improvement.

As regards Fastline, we don't talk about one-time up results, but it's been growing. On a growing trend, increasing the number of vehicles carried. We expect to end 2024 with carrying 60,000 vehicles and vehicles registered, which is a record vehicle handling for us.

And more than that, a growth horizon that seems quite interesting. I'd like to say that the number of cars registered is normally five, six times the brand-new cars. So, we have a very positive evolution looking forward.

Pedro: Perfect. This is very clear. If I may ask one more question, could you give us some color in terms of the payout for this quarter? It was about 60%.

If we look at past quarters, we were talking about a little more than that. For the first quarter, about 80%. Do you have an intention to increase the payout? How should we expect dividend payout in the coming quarters?

Ramón: This is Ramón speaking. Good afternoon. Actually, an outlier was actually Q1. The payout that we're having now in Q3 is kind of in keeping with what we did in previous years.

In the previous quarter, we had a payout of 80%, but that was more like an adjustment we had to make to adjust our cash position. It doesn't necessarily mean a new level of

dividend payout because our policy is to pay 50%. So, this reduction now, actually, it wasn't a reduction. We actually returned to the previous level of 60%. And again, it's a consequence of our cash analysis given the demand for working capital. If you look at our working capital, year on year, it increased a lot, which is to be expected, considering the strong growth of sales of vehicles in the recent quarter.

And this is in a way related to cash demands in the short to midterm, given our M&A projects. Thank you.

Pedro: Super clear.

Thank you very much. Okay, now we have a question from Victor Velasquez from Prumo Capital.

Ian: I don't think your mic is enabled, Pedro.

I think Victor's microphone is muted. Victor, we cannot hear you. Your mic is off.

We are enabling your microphone here on Zoom, but it seems that you cannot open your mic. So just a reminder, if you want to ask a question via chat, we are available. Victor, if you want to ask a question in writing, writing in the chat, that's okay, because for some reason, we cannot enable your microphone.

Caio Barone joined the queue. While Victor is trying to solve his mic issue, let's enable the microphone of Caio Barone.

Caio: Good afternoon. Can you hear me? Yes. Congratulations on the results. I'd like to hear more about the Automotive Logistics Division, because I think it was the biggest highlight in the results.

When we do the method to look at the gross revenue per kilometer traveled, this number was very surprising. It draws my attention in the quarterly comparison and yearly comparison. So I'd like to get a sense of what led to that.

I know that there was an adjustment, which was high, but perhaps something regarding the mix. Perhaps you could speak about the mix. And I'd like to understand how recurring this is looking forward.

Yes, I understand the readjustments should be passed through up and down, but there's also a mixed effect that could be more recurring. So I'd like to understand this number this quarter.

Nivaldo: Hello, Barone. This is Nivaldo speaking. INTC, the National Index of Cargo Transportation in the last period, in terms of adjustments, was 10%. Coupled with that, there was significant increase in revenues coming from yard management and other logistic services that we provide for the automotive business line.

Additionally, our subsidiary, Fastline, also posted growth above that of the division. So, you put it all together, and we see this growth above inflation.

Caio: That's perfect. Thank you very much.

Ian: We have a question in writing by Iressê. Good afternoon.

Could you detail the outlook and guidance of revenue EBITDA in CAPEX for 2025? I'll turn the floor to Ramón.

Ramón: Thank you for the question. But unfortunately, it is not our policy to provide a guidance for revenue and EBITDA for the coming years or even for the next quarter.

However, I'd like to invite you all to visit our investor relations website, because in the website, we provide a correlation between volumes and margins. And that will give you a good insight of our future results.

Ian: Thank you, Ramón.

This is our last reminder for questions. Anybody else would like to ask a question? If not, I'd like to thank all of you for participating. I'll turn the floor to Nivaldo for closing remarks.

Nivaldo: Well, thank you very much, ladies and gentlemen, for joining us, for your attention. And indeed, we are very pleased with third quarter earnings and consequently with the year-to-date results until September.

I'd like to once again thank you very much for your attention, and I wish you a very good rest of the day.