International Conference Call

TEGMA Gestão Logística S.A.

2Q 21 Earnings Results

August 5, 2021

OPERATOR: Good day, thank you for waiting. Welcome to TEGMA Gestão Logística S.A. conference call to review 2Q 21 Earnings Results. Today we have Mr. Marcos Medeiros, CEO of the Company and Mr. Ramón Pérez, Chief Financial Officer and Investor Relations Officer.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After TEGMA's remarks are over, there will be a question-and-answer session and further instructions will be provided. Should you need assistance during this conference call please dial star zero (*0) to reach the operator. The replay of this event will be available right after the end of the conference call for a period of seven days.

Now I will turn the conference call over to Mr. Marcos Medeiros, TEGMA's CEO, who will start the presentation. Mr. Medeiros you may begin.

Good day everyone. I am Marcos Medeiros, TEGMA's CEO, and on behalf of the whole company I would like to thank you all for joining us for another earnings conference call. Here with me is Ramón Pérez, CFO and IRO, as well as Ian Nunes and Felipe Silva from our investor relations team.

As you well know the COVID-19 pandemic has had a global economic impact, making the business environment extremely volatile and adding uncertainty to all forward-looking statements to be made during this presentation. TEGMA is providing information valid for the date of this webcast and reserves the right not to update any forward-looking statements contained in this presentation.

Now moving on to Slide 3, we start communicating the approval of a dividend payout referring to 1S21. As the financial flexibility of TEGMA permits payment of R$ 22.2 million was approved, considering dividends and interest on equity, corresponding to 59% of the adjusted 1S21 net income and to a 1.5% dividend yield (or 3.8% LTM). Dividends shall be paid on August 19 and the cutoff date will be August 9.

Another positive highlight in the quarter corresponds to the recognition of tax credits resulting from the right to exclude ICMS tax from the PIS/COFINS base of the company that operates integrated logistics for the chemicals sector. This resulted in a positive impact of R$ 5.7 million on the division’s EBITDA, a positive R$ 3.2 million of monetary restatement in the financial result, plus R$ 6 million on our net income.

The third bullet item addresses the renewal of one of the most relevant industrial logistics contracts which had, according to services provided, two end dates: in 2021 and 2022. Now with this renewal the contract will have one single end date in 2024, marking a 17-year partnership with this transnational company.

The fourth bullet item, as has been widely publicized, in the beginning of July TEGMA received an unsolicited business combination proposal from JSL. Advised by legal and financial consultants, the members of the board of directors unanimously decided to reject the proposal, as it did not reflect the intrinsic economic and financial value of the company.

The fifth highlight in 2Q has to do with supply issues faced by car manufacturers, with auto parts and components remaining a problem for them to manufacture enough vehicles to supply the pent-up demand. This is one of the reasons explaining a substantial change in the industry's market shares. The operation, the interruption of GM's plant in Gravataí since March of 2021 is the main reason for GM's market share to be in it historical low. They are expecting to resume production on August 16.

On the other hand, carmakers which had different and more agile strategies to cope with the problem, such as Hyundai and Fiat FCA, are back to producing and selling at pre-pandemic levels. This dynamic had a negative impact on the volumes transported and on our market share in 1S21.

Lastly, we invite you all to visit our new institutional website - www.tegma.com.br, which brings TEGMA's new visual identity and recent news on our operations.

Well, moving to Slide 4 please. Here we have some important steps that we are taking to improve the impact of our operations as regards environmental, social and governance aspects - ESG. In July we submitted to the Brazilian GHG Protocol the greenhouse gas emissions inventory for 2019 and 2020, an important step towards having more transparency regarding the impact of our operations on the environment and to guide our initiatives to reduce the intensity of our emissions in the future.

To the second point on the slide, we announce that we ran some tests with VNG-powered truck in the chemical’s operation, so we could measure the technical and economic feasibility of less polluting equipment in our operations. We will always be seeking new initiatives, as the one we had in 2017 with the creation of a more efficient semi-trailer with less environmental impact.

The third point on this slide is the submission of our environmental, social and governance best practices to two important certifying platforms: CDP and Ecovadis, which verify compliance of these ESG practices with the best global and sector benchmarks. These submissions are some more indicators to guide our future initiatives.

The fourth point addresses the approval of related-parties’ transactions and anticorruption policies. These are important policies to further improve transparency in our business and to increase the level of trust in our processes.

Last but not least, an audit called together for sustainability was conducted at the company's chemical operation unit to assess environmental, health and safety of our employees, as well as human rights. The result was 99% compliance with the applicable requirements with 1% of nonconformity.

With that I turn the floor to Ramón to proceed with more information on our operations and on our financial and economic performance.

Thank you Marcos, good day everyone. On Slide 5 we can see the main statistics of the automotive market in Brazil. I would like to remind you that because 2Q 20 was very much impacted by COVID-19, we are comparing 2Q 21 against 1Q 21. As we can see in the top chart, despite the resilience of car manufacturers in coping with auto parts supply issues, domestic sales in 1H 21 still remained 20% below sales in the same period of 2019. On the other hand, we could see a slight increase in domestic sales quarter-on-quarter.

On the bottom left-hand chart, in 1H 21 production was a little over 1 million units, a mark recorded in May of 2019 resulting from all the effort made by car manufacturers to adapt to the current scenario. Due to some downtime and due to natural oscillations, we can see that in 2Q TY production was 10% lower compared with production in 1Q.

On the other hand, on the chart on the right we can see that vehicle exports in 1H 21 is reaching levels close to those of 2019. In our view this is due to a rather competitive foreign exchange rate, among other factors.

On Slide 6 now please, here we can see the main indicators of the automotive logistics division. On the top chart we see the market share in 1H 21 that was the lowest in the last two years, on the back of auto parts supply chain issues, which has had more market impact on TEGMA's primary clients. The number of vehicles transported in 2Q 21 was down 7% QoQ and market share remained at 22.8%.

Average distance traveled in the bottom chart also recorded the lowest number in the last three years, as a result of production interruption by Ford in the State of Bahia, which used to generate longer trips; also as a result of increased the share of exports via the port, which entails a shorter average distance traveled, as well as a temporary suspension of activities at the Gravataí plant.

Now moving to Slide 7, we see here the results of the automotive logistics division. On the top chart the division's net revenue in 2021 remains well below that posted in 2019, down 27%. Quarter-on-quarter revenue stability is explained mainly by the negotiation of transportation tariffs in May of 2021, despite a reduction in number of vehicles transported and reduced average distance.

On the bottom we see that EBIT and adjusted EBITDA margins are still below 2019 levels, mainly due to lower revenues and lower dilution of fixed costs. A quarter-on-quarter drop in margins in 2Q21 is explained in turn by an important positive nonrecurring event in 1Q 21 and by a negative nonrecurring event in 2Q. Excluding these events the adjusted EBITDA margin of this division would be between 12 and 13% in both quarters.

Now moving to Slide 8, here we have the main operational indicators of the integrated logistics division. Starting with the chart on the bottom of the page we see that the number of times of dry and liquid bulk transported by the chemical's operation in 1S21 returned to 2019 levels, considering the atypical volume handled in 2020 on account of the facts of the COVID-19 pandemic.

In the yearly comparison, in 2Q21 there was a drop reflecting the previously mentioned correction, as well as natural oscillations of the business, which depends on the arrival of ships. Average bulk tons stored by the chemical operation remained high. A reduction seen in 2Q21 YoY reflects this correction versus the peak of the crisis in 2020.

Now talking about the top chart we see stability in the number of trips run by this division in the last 3 1/2 years, including the home appliances operation and we see an 8% increase QoQ. This stemmed from more trips needed to replenish the low inventory of bulk chemicals in March of 2021.

On Slide 9 we can see the results of the integrated logistics division. On the top chart net revenues decreased in 6M 21, which reflects the end of a contract of the warehousing operation. The contract was not renewed, as it did not meet our minimum profitability requirements.

On the other hand, the most important highlight is the gross revenue of the industrial logistics division, at record levels in 2021. The quarter-on-quarter reduction in 2Q21 is also explained by the end of that warehousing contract that we mentioned previously.

The operation's EBIT in 2Q21 seen on the bottom-left chart was impacted by an extemporaneous tax credit of R$ 5.7 million, which drove EBIT up both in 1S and 2Q21. In turn, adjusted EBITDA on the bottom-right graph had this effect excluded, and thus posted a margin loss year-over-year. This reduction is explained primarily by the effects of IFRS 16, which does not include a significant reduction in a rental costs of the operation. Ex-IFRS 16 EBITDA margin in 2Q21 would be close to that of 2Q20.

On Slide 10 we will speak about our consolidated results. We see that the company's net revenue in 1S21 remains below the same period of 2019, mainly due to the problems that the automotive industry has been facing. In 2Q the 1% increase versus 1Q is explained by the resilience of automotive logistics and by revenue recovery of integrated logistics.

The company's EBIT in 1S21 was impacted by positive nonrecurring events totaling 12.4 million. If we were to exclude them, we would see a loss of margins in the comparison with 2019 - and this despite all our efforts to control costs and expenses during the recent crisis.

Adjusted EBITDA in 2Q21 totaled 35 million BRL over of the 14.9% EBITDA margin, down 3.6 p.p. versus 1Q21. However, we should remind you that 1Q 21 EBITDA was positively affected by events linked to the operation, which reduced expenses by R$ 6.7 million. Although these were classified as nonrecurring, they do influence the comparison.

Lastly, we have net income on the bottom right with a net margin of 10.2% in the quarter and 9.4% in the half-year. Both were influenced by the previously described positive effects, which in the half-year totaled a net effect of up R$ 10 million. Net of these effects the company would have had a 2.1 p.p. loss in the net margin compared with 2019, on the back of a reduction in net revenues in the period.

This kind of reduction is explained primarily by cost cuts carried out during the crisis and the significant improvement in equity income results, stemming from the good performance of the GDL joint venture in the last two years.

Moving on, now on Slide 11 we show on the graph on the left the company's free cash flow. As can be observed it has shown resilience in the last three years, even in periods of crisis. 2Q21 cash flow was negative, a worse result compared with 2Q20 mainly due to a longer cash-to-cash cycle, as shown on the middle graph. 2Q21 cash-to-cash cycle was 46 days, the highest in the last four quarters with around 39 days. This increase resulted for commercial reasons from the postponement of transportation payment in the vehicle logistics operation. We in the company do not believe that this will be a recurring event.

The company's CapEx totaled R$ 6 million in 2Q and 13 million in 1S21, around 2.7% of net revenues. These amounts correspond mainly to the acquisition of new packaging options for the industrial logistics operation. This operation requires packaging that meets several different specifications and this investment is part of the contract with clients, and this is of course duly monetized according to the company's cost of capital.

On Slide 12 we have more details on our capital structure. In the first graph it becomes clear that cash amounting to R$ 245 million in June of 2021 is way higher than the current gross debt payment amortization in the next four years. In 2Q21 the company settled 40 million of its debt and the remaining debt maturing in 2021 of R$ 25 million was fully paid just now, in July of 2021. With that the company carries no more debt payable in 2021.

As regards the composition of our net debt, in the bottom table we can see that in 2Q21 we had a net cash of R$ 93 million, reflecting that TEGMA's capital structure remains very much unleveraged.

On the top right we see the evolution of TEGMA's cost of debt, which increased in the middle of last year due to new loans taken, new loans taken to guarantee the company's cash. In June of 2021 the cost of debt was reduced to CDI +2.6%, resulting from debt payment as we mentioned before.

Lastly on this slide, we highlight that our Rating by Fitch remains of ‘Local A’ with a stable perspective.

Moving on now to the last slide of the presentation, first we highlight the performance of the company's return on invested capital - ROIC and return on equity - ROE. ROIC at 23.4% in 2Q 21 reflects a change in the declining trend that started to recover in 1Q 21. This recovery reflects both the recovery of the automotive market itself along 2H, 2H 20 and the company's measures to control costs and expenses, which resulted in higher operating margins, similar to 2019 levels.

Simultaneously and for the very same reasons plus good equity income results, return on equity recovered to 15.7% in 2Q 21. Adding to all of these effects, we should also consider that 2Q 21 does not include in the last 12 months the worst quarter of the COVID-19 crisis, i.e. 2Q LY, 2Q 20.

On the graph below on the left we have the history of dividends and interest on equity paid by TEGMA. As shown in the quarter highlights, payout of 59% of net income was approved excluding a reserve provision made for tax incentives in 1H 21, which corresponds to a dividend yield of 3.8% LTM.

In the two charts on the right we present information related to our share performance. First in the top chart, the chart on multiples, price-earnings in great is at the lowest level in recent quarters, just like enterprise value/EBITDA at 5.6 in 2Q 21, mainly due to uncertainties related to the automotive market.

I would like to remind you that estimates by sell-side analysts were made or calculated in the end of 2020 and beginning of this year, and in our view they do not reflect many of the changes which are occurring along the year of 2021.

Lastly down below, we see the performance of TEGMA's share vis-à-vis the Ibovespa index. Also due to great uncertainties regarding the automotive market, TEGMA's shares have performed below the Ibovespa index.

On Slide 14 and before we move to the question-and-answer session, I would like to remind you of our request: please rate our results using the QR code displayed, so we can improve the way in which we disclose our earnings. Thank you very much.

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press star one on your touchtone phone now. If at any time you would like to remove your question from the queue press star two.

Mr. Medeiros will read the questions coming from the webcast.

Our first question comes from Guilherme Nunes with Condor Insider.

Mr. Guilherme Nunes: Can you hear me?

Mr. XXX: Yes, yes we can Guilherme.

Mr. Guilherme Nunes: I have two questions, the first is related to the attempt to combine business by JSL. You have a good capital structure. Do you see yourself as the consolidator in this market moving towards acquiring players, or do you want to stay as you are trying to focus on organic growth?

You also commented that some of the companies that you have contracts with are suffering some pressure due to lack of products, among other reasons. How do you see this playing out in the next quarter? Is the situation improving or does it remain similar to what happened in 2Q TY? Thank you.

Mr. Ramón Pérez: Thank you for the questions, this is Ramón speaking. I will answer the first question and then Marcos is going to talk about the second one. If I understood well, your first question has to do with our strategy and mainly with our growth strategy, either organic or inorganic growth.

Organic growth, of course, is part of our DNA. We have devoted ourselves to develop new business with our current clients, with whom we can increase the number of services that we provide to them, and even provide similar services to other clients in the same sector.

But in your question you asked about TEGMA being a market consolidator, and you asked about inorganic growth. Well, the first point I would stress is that as we have been mentioning for quite a few quarters now, this is part of our strategy. We have dedicated a lot of time and energy to look into such options.

TEGMA, given its operating structure, given the fact that we are not that capital intensive, we are a cash generating company. This can be seen in our operating cash and this can be seen in the level of dividend payout that we have been practicing in recent years. So that gives us a vocation to use our ability to leverage resources to grow inorganically through M&A deals and truly consolidation processes. So what I can say is that yes, it is part of our strategy and we are working hard to finalize some kind of deals, M&A deals.

Mr. Marcos Medeiros: Guilherme this is Marcos. I am going to answer the second part of your question. As you could see in our results indeed the shortage auto parts, components and semiconductors has been impacting production. What we could see is that these impacts varied among the carmakers; some carmakers reacted differently than others depending on their inventory strategy, supply chain and so on and so forth; but the impact was strong for all of them - however, some of them were able to mitigate the impact.

For us here GM resuming production in August is excellent news. As you know, GM is very important for us. The car requires a lot of semiconductors, Onyx, and it suffered a great impact. So we were impacted with the interruption of activities by GM, and once they resume activities this will improve.

Generally speaking, talking to carmakers trying to understand what is happening and even talking with some supply chain operators this "normalization” is actually a normalization process. What we will start seeing looking forward in the second half of August and September looking forward, the normalization process will begin. The carmakers will start getting their auto parts and they will gradually increase their production. So I think this is it. There will be a recovery, but a gradual one and this is what we are expecting as of September in 2H TY.

Mr. Guilherme Nunes: Perfect, thank you very much.

Operator: Our next question comes from Victor Demier with Vinci Partners.

Mr. Victor Demier: Good afternoon Marcos and Ramón and thank you for taking my questions. I have two questions in my end, first in your results you mentioned the renewal of the contract for the chemicals logistics. I would like to understand what can you disclose to us regarding the conditions of the renewal of the contract. That would be nice for us to understand more of the dynamics of integrated logistics for the coming years.

And my second question is kind of a follow on to the previous question, it has to do with Onix production. From what I have heard on 16 August GM would start, or would resume production. I just want to get a sense from you of what you are thinking. Are they going to resume operation with just one shift or more shifts? Will they be producing hard? Can you give us some color on that please? Thank you.

Mr. Marcos Medeiros: Victor this is Marcos, thank you for the question. Well, these contracts that we renewed you could see that one contract would end now in December of 2021 and the other in December of 2022, and because this is a client with whom we have a long-standing relationship, we organized the contracts in such a way that both of them now will mature in 2024, and with that we have an opportunity to make new investments, we have the ability to revitalize some equipment and even adopt a more sustainable equipment, as we mentioned the task that we had.

Of course, I cannot give you any more detail for confidentiality reasons, commercial confidentiality; but what I can tell you is that to us contract renewal was very, very important. It shows the trust the client has in TEGMA, we built a trustworthy relationship, and with that renewal we can improve our technology, we can create dashboards, control tower; in other words, we renewed the contract - but raising the bar, bringing more technology and operating excellence, because this is what we want for our clients.

This is our goal. We pursue such contracts that are able to create value to our clients and us. So the renewal was very good for us. It was a warehousing and a transportation, two contracts and they are now consolidated and ending in the same date.

You asked about Onyx. Well, we still have the same date in mind of August 16 and in principle they will resume operations with one shift, and as they get supplied by the auto parts, like I said Onyx incredibly consumes a lot of semiconductors; but depending on how supplied they are they will move, they will move on with a second shift or even a third shift; but they will start with one, Victor.

Mr. Victor Demier: Understood, thank you Marcos.

Operator: Ladies and gentlemen as a reminder, if you want to ask a question please dial star one.

Our next question comes from the webcast.

Mr. Ramón Pérez: This is Ramón. I understood that I should read the questions from the webcast, yes? And the question is - question by Gustavo - how do we assess the sell-side estimates regarding the company? To fulfill those estimates 2H would need to be very strong, right?

Well, I think I mentioned very briefly when I was commenting on our multiples that the sell-side estimates are very much affected by projections made in the end of last year and beginning of this year, and these estimates by sell-side analysts they do not reflect the impact on the automotive industry for example, given the shortage of auto parts and components.

I cannot give you any details on the numbers; but I can tell you that our projections for volume growth in 2021 were obviously much higher when we prepared our budget in the end of last year, compared to now.

But to speak about the market and to reflect the need for the estimates to be updated, I remember that in the end of last year, I think when ANFAVEA was talking about 15%, 15% growth for 2021, several analysts considered that this was a very conservative estimate, and today this very conservative estimate would be seen as optimistic.

We have another question from the webcast, which I will read: given the profile of high cash generation by TEGMA, why do not you operate with a more leveraged capital structure? Question by Gustavo Romi.

Well, this is a recurring discussion that we have in the company. We are aware that our cost of capital is higher because we have a low leverage; but the capital structure that we have today is linked to a strategy that we have been describing, which is growth-focused, especially inorganic growth.

If on one hand it leads to a situation where we have a higher weighted cost of capital which limits our competitiveness in some organic growth processes, on the other hand it gives us more flexibility to act quickly in case we find a target that makes sense for our operation in M&A strategy. So these strategies are combined.

Mr. Marcos Medeiros: I have another question here by Marcos, I am going to read it. Actually it is a question by André: what about the acquisitions pipeline? How is it progressing? What sectors in logistics are a priority for TEGMA?

I think Ramón mentioned that yes, M&As are a process that are underway. We have been considering this and this is an active agenda for us.

But when we talk about sectors of course, logistics is one, because TEGMA is a logistics company and we want to maintain our position in logistics. But one thing which is certain that we have talked about this diversification. It does not make sense to make inorganic moves to increase our exposure to the automotive industry. So naturally our maps of opportunities always guide us or direct us to different industries, other segments that have an added value, this is another important point.

These possible targets that we might be monitoring following the market and the whole process which is unfolding before our very eyes, we have the challenge to maintain our results, our margins, which in a way positions us to move into sectors that have a higher added value.

That is a big array. So what I can tell you is that if we move ahead with an M&A it will not be in the automotive industry; but there are other opportunities in logistics, particularly companies with integrated logistics, which we can enhance the position of our integrated logistics division.

Mr. Ramón Pérez: This is Ramón again. A question by Pedro Pimenta: how do you see the interests increase scenario?

Well, this is kind of positive in the sense that this indicates that the economy is heating up, particularly in 2H TY. The last position by Copom yesterday increasing the interest rates to 5.25% that signals that Copom is considering a persistent inflation and they are signaling, they actually mentioned that the economic outlook is heating up.

So that is the positive side of the interest rate increase, because we believe that there is a pent-up demand, especially in the vehicles industry - and we are prepared to supply the demand. It is always important to stress that we never lost our structural ability to serve the market with much higher volumes.

But then again going back to interest rates, the flip side of the coin of an increase in interest rates is that it ends up impacting the attractiveness of business, and influencing our evaluations for organic and inorganic growth - but in my view, particularly considering that we are unleveraged today, it is nothing that could actually impact our strategy.

Mr. Marcos Medeiros: This is Marcos. I am going to read the question by Ricardo: how do you see the recomposition and strengthening of inventories of your clients in integrated logistics? Does this trend continue?

No Ricardo, no; and you could even see in the presentation inventories are now reduced a little. They are being reduced to get back to the 2019 levels, because what happened? In 2020 when the pandemic began we had a lot of unpredictability, no one knew what was going to happen; particularly the home-care clients they did not know what was going to happen, so they were overstocked.

Perhaps the carmakers should have overstocked their semiconductors and they would be in a better position; but these clients they did that, increased their inventories in 2020. We operated with record inventories in our warehouses; but in December of last year they started normalizing the inventories, because that is very working-capital intensive for them.

So I would say no, not for chemicals; chemicals they are normalizing their levels of inventory and it remains normalized. And there was some doubt regarding the frequency of ships and vessels. In 1Q, you will remember, we were somewhat impacted by delays in the arrival of ships - but this is already rescheduled, it is getting normal again. That is for chemicals.

Now for home appliances, another important sector for inventories, they did not have peak inventories; but you will remember, last year they stopped for just 10 days their production and since then, as Ramón mentioned, we are now buying more packaging options because in the contracts that we have with them, since they are producing more and producing other products, we need to have different packaging to meet different specs.

So that is positive, that is what they want, is to sell more, increase of their turnover; but the inventories should be normalized from now on.

Operator: Ladies and gentlemen as a reminder, if you want to ask a question please dial star one.

We are ending today's question-and-answer session. I would like to invite Mr. Medeiros to proceed with his closing statements. Please go ahead sir.

Mr. Marcos Medeiros: Well, to begin with thank you very much for your participation, for your questions and like I normally say your questions make us think and ponder more at the management and at the board level. So thank you for the questions.

Once again I would like to thank you all for your participation, and stress that we are confident that the automotive industry will manage to overcome the current difficulties related to shortage of auto parts and semiconductors; also as we progress in the vaccination effort in Brazil and around the world the market will recover to a stronger, solid state as before.

I think we have a very positive sign of this pent-up demand that we hear from the carmakers and you know, there is a waiting line for some of the car models.

We learned a lot in the last few months and we are now more prepared and motivated to serve our clients as they resume growth, gradually or not.

We will maintain our strategy to invest in operating excellence and technology. Everything we said about reducing costs, operating and administrative costs, all of that aims to have operating excellence and technology. Of course we cannot improve processes without technology. We believe in the pillars of logistics 4.0.

And we will reinforce even further our mission to create value for our shareholders and clients alike. Our investor relations team and I will remain available. Thank you very much and have a good rest of day.

Operator: This concludes TEGMA's conference call for today. Thank you very much for your participation and have a good afternoon.