International Conference Call

TEGMA GESTAO LOGISTICA S.A.

1Q21 Earnings Results

May 4, 2021

Operator: Good afternoon and thank you for waiting. Welcome to Tegma Gestao Logistica S.A. conference call to discuss the results of 1Q 21. Today with us we have Mr. Marcos Medeiros, CEO of the company and Ramon Perez, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company presentation. At the end we will have a Q&A session, when further instructions for you to participate will be given. Should you need assistance during the call please press star zero to reach the operator. The replay of this event will be available for a period of seven days.

Now we would like to give the floor to Mr. Marcos Medeiros, CEO of Tegma, who will start the presentation. Mr. Medeiros you may proceed.

Mr. Marcos Medeiros: Hello everybody. Good afternoon and I hope you are all enjoying very good health, and on behalf of my whole company I would like to once again thank you very much for participating in another earnings conference call.

In this quarter we formulated our presentation so that it may be more dynamic, and thus improving understanding of the company and its results by all of you. Today with us we have Ramon Perez, our CFO and investor relations officer; Ian Nunes, head of IR and William Santos, our investor relations analyst.

Very well. Starting on ***slide 2***, as you all know the COVID-19 pandemic has been impacting severely the global economy, making the environment very volatile and placing uncertainties about the forward-looking statements that will be made during this presentation. Tegma is giving you information as of this date and reserves the right not to update any forward-looking statements contained in this event.

Now let us go to ***slide number 3***, and before we talk about the highlights of the quarter, I would like to say a few words about the current moment that we are living. Our main market, new vehicles, is living in a very different moment, I very atypical moment; and on one hand we see signs that there is a very big pent-up demand for vehicles, be it from rental companies or fleet owners or individuals, reflecting in the increase in the sale of used vehicles and with a very long wait line.

On the other hand, automakers have been facing many challenges in production because of the shortage of bands, parts and the increase in production costs and limitations of mobility imposed to society because of the pandemic and the price of vehicles as well, and here at Tegma we are paying attention to the very short time - a very uncertain one - mainly 2Q 21, and when production resumes car-assembly companies will need the full support from logistics operators in order to review their inventories of the industry as fast as possible.

Starting by the first highlight, we have a new logistics flow of road deliveries of new vehicles to Chile that intensified in this quarter, and this operation is highly complex due to the fact that it crosses the Andes, and this becomes a new option for delivery for car companies here in Brazil; thus, they become or they start to rely less on issues such as delays in ports, or a lack of availability of ships in this moment of international logistics bottlenecks. Although it does not represent quite a lot in our revenues, it is another way for Tegma to prove itself as an end-to-end solutions provider to our clients, further improving our competitiveness.

And the second item has to do with the broadening of this global service for the current clients of our industrial logistics operation in the integrated logistics division. The expansion plan for this company or for this division is to offer more interconnected services for current and new clients. We were able to sign the road transportation service of sodium sulphate to the plant of a current client and sign an agreement for road transportation with another one. With that we were able to deliver growth at its best - contracts that are based on productivity and not only price, and increasing loyalty of our clients and generating value for them and for our shareholders.

And the third point is something that I have already referred before: the downtimes in the production of vehicles that occurred in 1Q 21 were caused mainly by the shortage of parts and semiconductors - and this crisis affects production of vehicles all over the world, and despite of the problem and the shutdown of the four plants in January 2021, the industry has been able to maintain stable production in this quarter when on a year-on-year comparison, due to the lack of availability that affected more some car companies and others.

General Motors that makes the most widely sold vehicle in Brazil, the Onix, interrupted the full-time production of this model in March, and according to the car company itself it will be keeping the Gravatai plant in Rio Grande do Sul inactive up to June 21, and other downtimes on the part of car companies should be considered and we are paying attention to any consequences on our operations.

And lastly, the fourth item has to do with a substantial change in the market share of automakers in domestic sales. If we look at the sales performance per brand in 1Q 21 one a year-on-year comparison, we can see that only two of the seven largest brands grew: FCA with Stellantis that grew 33% and already represents almost 1/3 of the market; and Hyundai and the others either remained stable or they had a drop in sales.

If we ignore Ford that discontinued local operations, General Motors, an important client of ours, was among with the worst performances in this comparison due to the temporary limitation in the production that was explained in the previous item.

Thus, I would like to give the floor to Ramon Perez, our CFO and investor relations officer, to continue this presentation.

Mr. Ramon Perez: Thank you Marcos, good afternoon everybody. Now let us go to ***slide number 4***, where we see the main statistics in the vehicle market in Brazil. Quarterly domestic sales were 7% lower on a YoY comparison and this drop is lower than the one that we saw in 4Q 20 vis-à-vis 4Q 19, which was 10%, or in other words it confirms the recovery of the market - and due to the all restrictions in place today because of the aggravation of the pandemic, we could consider this as a very important sign.

Now talking about production we can see on the lower part of the slide that 1Q 21 was stable on a YoY comparison, even considering the fact that the Ford plant was discontinued and all the restrictions regarding the supply of parts that was imposed by the pandemic, that were imposed by the pandemic.

And exports had a positive performance and they grew by 4% in 1Q 21 YoY, impacted mainly by the exchange devaluation that made exports more competitive.

Now let us go to ***slide number 5***. In slide number five we see the main operating indicators of the automotive logistics division. On the chart on the upper part we see the number of vehicles carried in 1Q 21, and it was 12% lower on a YoY comparison and this is translated into a loss of 2.9 p.p. in our market share, which was 22.8%, and this reduction is due mainly to the changes in the car companies' market share as was mentioned in the highlights of the quarter, due to the temporary production stoppage of an important client.

And the average distance on the lower part of the slide also had a negative performance in the quarter, and this can be explained mainly by the increase in the exports via port in the transport mix. It is also explained by the shutdown of the Ford plant in Brazil in January, and which means that there will be no more trips between the State of Bahia, where one of the Ford plants was located, coming down to the Southeast and the South regions.

Now let us go to ***slide number 6***, in which we mention the results of the automotive logistics division. We can see on the chart above that the net revenue of the company was 17% lower on a YoY comparison, mainly due to all the aspects that we have already mentioned, such as the drop in the number of vehicles carried and also the reduction in the average distance.

Besides, there was a drop also in the logistics services revenues due to the lower inventory in the industry; nevertheless, over last year and also during 1Q 21 we saw adjustments in tariffs that had a positive contribution to our revenue.

On the lower part of the slide on the left we can see the EBIT or operating income of the division in 1Q 21 growing by 37% YoY, or a 12.4% margin. Part of this increase comes from the expense and cost control that we implemented during the last few months; nevertheless, we should also mention that nonrecurring events also happened in 1Q 20, deteriorating the result.

On the other hand, in 1Q 21 these events improved the results, and if we were to ignore these events that are detailed in our earnings release we would have an EBITDA margin in 1Q 21 around 9%, which would represent a drop of 2 p.p. in relation to 1Q 20, also adjusted. This lower EBIT margin is due to the drop in revenue, which leads to a lower dilution of fixed costs.

Likewise, we can see on the chart on the side that the EBITDA of 1Q 21, which was 33 million with 13% growth, was affected by the positive nonrecurring events in 2021 and net of these events, these nonrecurring events, we would have an EBITDA of 27 million in 1Q 21, a reduction of 30% in relation to 1Q 20 (also adjusted) and that margin of 13.2% - that is to say 2.4 p.p. lower on a YoY comparison.

Now let us go to ***slide number 7***, in which we can see the main operating indicators of integrated logistics. Let us start by the two charts on the lower part, and we can see that volume transported of both solid and liquid bulk by the chemicals' operation was 3% higher in 1Q 21 on a YoY comparison, and this was due to the high inventory that was accumulated in this operation over 2H 20.

And on the chart on the side we can see that there was a drop in the average stored volume in 1Q 21 on a yearly comparison, and this was due to the consumption of the existing inventory and the non-arrival of ships in order to rebuild them - and these oscillations are normal and they are obviously aligned to the production strategy, and also the consumer demand and also the inventory formation of finished products of our clients.

And as a reflex of this movement, on the upper chart we can see that the number of trips was 8% lower, mainly due to the lower flow of chemicals transport between the port in the warehouse, in spite of a very slight increase in the trips in the home appliance operation.

On ***slide number 8*** we show the results of logistics, integrated logistics. On the upper part, on the upper chart, we see the net revenue of this division in 1Q 21, which was 15% lower YoY, and this drop is mainly explained by the loss of a client in the warehousing operation, as we published in our earnings release of 4Q 20.

Now let us turn to the chart below to the left, where we show the EBIT of the division and we see that there was a significant drop of 37% in the operating income in 1Q 21 on a YoY comparison, which represents a 5.7 p.p. reduction in the EBIT margin, and this performance is explained by the discontinuation of the warehousing client that, as we mentioned before, became unprofitable, in spite of all the cost adjustments that we promoted; and besides the industrial logistics services mix was temporarily less favorable with an increase in the number of services that have lower margins.

On the right of the slide we can see that the EBITDA of the division was 33% lower in 4Q 21 on a YoY comparison, resulting into a drop of 7.9 p.p. of the margin; and besides the same explanation that we gave about the drop in the EBIT, the EBITDA has a distortion coming from the implementation of the IFRS 16 currently, as it no longer contemplates the rental costs. If we were to draw the same comparison including the rental costs, that is to say if we were to calculate the EBITDA in the previous format, the margin for 1Q 21 would have been 23.8%, and then we would have a drop of only 2.6 p.p. in relation to the EBITDA - of course, calculated on the same basis for 1Q 20 and this would be in line with the mix of, in line with the unfavorable services mix mentioned.

Now ***slide number 9***, where we talk about the consolidated results and we can see that the net revenue of the company dropped by 16%, and this performance was mainly impacted by the reduction in the number of vehicles carried in the automotive division.

And in spite of this performance we can see a growth on the chart below to the left of the EBIT in 13% in 1Q 21 YoY, and an increase of 3.4 p.p. in the margin - and this performance, as explained before, is due mainly to nonrecurring events that occurred in both quarters; but also it is due to the cost and expense control process implemented over 2020 and also in 1Q 21.

In the middle chart we can see that the company EBITDA remained practically stable in 1Q 21, 43 million BRL, representing an 18.5% margin with an increase of 2.7 p.p. on a YoY comparison, and this increase was due to an extraordinary ordinary or nonrecurrent event in both quarters, and by the cost control implemented in the last 12 months.

And lastly on the chart on the right we show our net income, and we can see that in 1Q 21 we delivered 20 million BRL in net income, 5% higher than 2020 driven by all the previous operating variations that we described; a slight increase in interest expenses because of funding that was taken at a slightly higher cost at the beginning of the pandemic, in order to take preventive measures to strengthen our cash; and a slightly inferior equity income on a YoY comparison.

On the next slide, ***slide number 10***, we highlight a very important factor in a moment of uncertainties such as the one that we are living, which is the management of costs and expenses, and on the upper part you have a chart showing in the first two columns that the net revenue of the automotive logistics division, as shown before, was 17% lower in 1Q 21 on a YoY comparison; beside it we can see that the variable costs went down by 14%, showing the high correlation existing between them.

And lastly, on the right you can see that the fixed costs went down by 21% in 1Q 21 on a YoY comparison, and this was driven by all the efforts undertaken over 2020 and during 1Q 21, as well.

On the lower part, on the lower chart, we show the consolidated G&A. First, on the left you can see a comparison of expenses of 1Q 21, 18 million BRL, 33% lower YoY and on the side we show the same comparison, but vis-à-vis 1Q 20 with a reduction of 16%, showing the expense management is part of the reductions implemented by the management of the company over the last year in order to face the impact of the pandemic, and the savings have been incorporated permanently in the company.

And among the main items of these savings we can mention the reduction of our payroll expenses because of the adjustments carried out over last year, as the drop in expenses with outsourced services such as consultancy services, and also a reduction in severance cost, among others.

And on ***slide number 11*** we show on the left the company's free cash flow. As you can see, in the last three years this has been growing consistently, and talking about 1Q 21 we had 44 million BRL in free cash flow, a level that is slightly inferior to the previous year due to the reasons that we have already referred to, and operating issues and also due to the fact that there was a lower compensation of the tax credit in 1Q 21.

In the middle chart we can see that the consolidated cash cycle is 39 days - and this is a recurrent level in the company - and you can see it in the recent quarters also, due to the normal receiving days and also because of the centralization of payments to our suppliers that we did and that extended the average payment days.

And lastly, on the side we have the investments made by the company in 1Q, 7 million, a rebound of investments going back to levels similar to the pre-pandemic levels in percentage of the net revenue close to 3%, and the main investment in the quarter was the acquisition of packaging for the home appliance operation.

On ***slide number 12*** we show details of our capital structure. On the first chart you can see it is evident that the over 300 million BRL cash (305 million BRL in March 21) is much higher than our current debt amortization for the next four years, and this amount is due to our capacity to generate operating cash and also the reduction in the need for working capital because of the lower level of operations; besides, this is also a strategic decision on the part of the company.

This cash position when compared to our gross debt results a net cash of 111 million BRL, reflecting the deleveraged structure of the company.

On the upper-right, you can see that the increase in the average debt cost is due to the funding that we had to resort to in the beginning of the pandemic as explained before, and that aimed at strengthening our cash; and the cost of debt in March 21 remained at CDI+2.9%.

And lastly, we show that our rating by Fitch remained at 'A local' with a stable outlook. It is important to mention that this rating has just been confirmed by the agency last Friday, and this confirms the sound financial position, situation of the company, and in our opinion that ratifies the corrections of our strategic guidelines, the way that we lead our businesses and the perspectives for growth.

And lastly let us go to ***slide number 13***, in which we show the evolution of our return. We are talking about ROIC, as well as ROE: ROIC 17.8% in 1Q 21 reflects a reversal in the downward trend that we had since 1Q 20, and this confirms the recovery of the automotive market over 2H 20; and it also reflects all the costs and expense control done by the company that allowed us to bounce back to operating margin levels that are similar to the ones delivered in 2019.

And at the same time ROE was maintained at 11.6, practically stable vis-à-vis 1Q 20.

On the lower left we show the history of interest and, of dividend and interest on equity paid out by the company. On the gray line the payout for 2020 bounced back to a level higher than our minimum 50% established in our policy, and you can see on the orange line below it, we can see that the dividend yield that was 2.4% in 2020.

And on the charts beside we see information related to our shares, and we believe that the current levels of multiples, market multiples are due mainly to the uncertainties that are related to the automotive market, and which had a major impact on the depreciation of the price of our stock - but we remain confident in the recovery and the positive signs that are coming from the market already, and especially the pent-up demand for new vehicles.

And lastly, on the lower part we can see the performance of our stock in a comparison with the IBOVESPA index. I think we should highlight that as of April we can see a recovery in the confidence of investors, probably based on March market data and also the believe on a more consistent recovery of the automotive market.

And with that I would like to give the floor back to Marcos.

Mr. Medeiros: Ramon thank you very much, and you can see on the ***last slide*** on the left we see the next events where we will be participating and we expect the all too participate; and on the lower part we mention the most recent events, and one of them can be revisited at YouTube.

And before we open for questions I would like to remind you to evaluate our results by means of the QR code, so that we may further improve our communication with you - and this is very important for us. Thank you very much.

Q&A Session

Operator: Ladies and gentlemen, now we are going to start our Q&A session. In order to ask a question please press star one. In order to remove your question from the queue please press star two - and questions asked through the webcast will be read.

Pedro Zaniolo from Condor Insider.

Mr. Pedro Zaniolo: Good afternoon, thank you very much for the question. Could you give us more color about April in the integrated logistics division and the automotive division as well?

And do you see any recovery in automotive logistics, or do you believe this will happen only in the next semester?

Mr. Medeiros: Pedro thank you very much, this is Marcos and the April result FENABRAVE has just published, and we have already read it and we carried out our pre-analysis. You can see that sales were 7.5% lower than March, and we do not have the total amount, only the nominal one because in April, April had three business days less.

But on the other hand we see that this is about these daily sales 6% higher than March. This is a good indicator for demand, which means that demand is going up; and it is important to mention that the March sales were impacted by sales that happened in January and December, and they were only delivered in March - and this is the reason why we had this effect in March.

And just to give you two examples of some of our clients, some of our automaker clients: we saw once again Fiat for instance, Jeep with regular growth and drawing a lot of attention and having a very big impact on market share; and also Toyota with some new moves, mainly the last launch or the most recent launch - and April we have just analyzed the data and we are following our clients very closely in terms of outlook - and that is it Pedro.

Mr. Zaniolo: Thank you.

Mr. XXX: Pedro could you repeat your second question please?

Mr. Zaniolo: If you see some recovery already in automotive logistics.

Mr. Medeiros: Oh okay, so I have already answered altogether. Yes, we already see that and the daily sales indicator is very important, because it shows demand, you can see that it is already starting to take off, thank you Pedro.

Operator: Victor Benier from Vinci Partners.

Mr. Victor Benier: Good afternoon, thank you for the presentation. It is a quick question: I would like to understand the effect of integrated logistics on your EBIT. It had been coming at a strong level, and there was an impact on this quarter and what was the reason for that?

Interpreter: The interpreter could barely hear the question.

Mr. Perez: Thank you for the question. In fact there was a drop in revenue; but I think it is important to explain the fact that from the accounting viewpoint - although the EBITDA is not necessarily an EBITDA indicator - we have a perverse impact of the application of IFRS 16 because the loss of this client in warehousing that represented a major part of the drop in our revenues, led to a drop of 53% in our costs with rental, in our rental costs. So when we compare the EBITDA in the current format you take the drop in revenue, but you do not consider the drop in the rental.

If we were to calculate according to the previous format, that is to say if the rental costs could be deducted before calculating the EBITDA, we would have a drop of 2.4, 2.5 p.p. only, because of the loss of the client and also the lower inventories of chemicals in our warehouses, and which led to a lower dilution of our fixed costs.

So in summary we had a loss and margin; but the loss that you see is artificially inflated, I would say, by this methodology that uses the IFRS 16.

Mr. Zaniolo: Thank you very much. Just continuing, we saw during the calls of the automakers, over 1Q the expectation of normalization, or going back to normal has been, is being further delayed. Do you believe this will happen in the beginning of 2H TY? What is your opinion?

Mr. Medeiros: This is Marcos. We have a positive outlook, and in the last call we said that there was a 450,000-vehicle backlog; and what we have been reading about is that the fleets are getting old and the operating cost increases, and there is a need on the part of rental companies to buy new equipment.

So automakers do not want to lose this demand and there was a fight in the past trying to hold prices down; but I think rental companies will have to rebuild their inventories and this is something that we are reading about all the time, and they cannot even sell the cars because if you sell the used car you will have no card to rent.

And rental companies are living a very positive moment from the revenue viewpoint because the ticket, the average ticket, went up quite steeply because of a shortage of vehicles available; but there is a pent-up demand and now I would say it should be around 500,000 vehicles and no longer 450,000 - and the important point is that the fleet is getting old. So we see a scenario of resumption of volumes on the part of rental companies.

Mr. Zaniolo: Thank you very much.

Operator: The next question will come from the webcast.

Mr. Medeiros: We received it in writing, so am going to read it. The question comes from Rafael Maisonnave thanking us for the presentation and he asks about the EBITDA margin for automotive logistics, and he asks if we were to ignore the nonrecurring events or it has been badly hit in this quarter, and he asks us to expand on that.

So part of the explanation here, I will try to explain this: it is also due to IFRS 16 that I have already referred to; but here we have a perfect storm, because there are many factors that ended up contributing to this take-through.

I am referring to the drop in volume that has already been explained leading to a drop in our market share; but also in this quarter we had a major drop in the total distance traveled. We must keep in mind that our revenue comes from the number of vehicles carried and also the average distance traveled. For reasons that we have already referred to the distance was smaller: exports via ports and also transfer from Bahia, and a lower volume from an important client that has a plant in the South - so there were many factors that came into play.

Just to give you an idea: if we were to compare the total distance of this quarter it was only observed or similar in 2016, when we were living another crisis that was very important here in Brazil as well.

And we did some math in order to measure this, and at the time in 2016 we had an EBITDA margin that was around 7% - and I would like to remind you that there was no IFRS 16, so we are talking about the "old" EBITDA.

In 1Q 21 net of the nonrecurring effect, and if we remove the effect of the IFRS 16 in order to be able to draw a comparison of apples to apples, it would be an EBITDA margin of 9.5%. So I think it makes very, makes things very evident because with the same level of operation, with the same kilometers traveled we would have 9.5 vis-à-vis 7 in 2016.

And this comes because of the increase in productivity in the company as a whole. So our margins today they are even better than they were in the past, and we are prepared to tap into this wave of recovery that we all believe will be happening in the next few months.

Operator: Marcelo Audi from Cardinal Partners.

Mr. Marcelo Audi: Thank you. You talked about demand going back to normal; but I would like to know about production going back to normal. How do you see production and supply normalization, so to say, on the part of the carmakers from now on?

Mr. Medeiros: Marcelo this is Marcos. Just to give you an update, because as you can see this has a global impact, and this paralysis that we had here in Brazil in the beginning of April that we had so many stoppages, it was really to recover the level of inventories; but it will still have ripplings in this quarter, the current quarter. We do not see major impacts; but each automaker has a different strategy.

And we talked about General Motors for instance, that the Onix almost two and a half with the downtime in production; but that should come back at full steam at the beginning of July, and there is an impact. So you have a supply chain that is very complex and you rely on imported products to a great extent - but logistics adapts and we expect this impact as of June to be absorbed, I would say, in a more natural fashion - and in synchrony with demand.

This is a very important point; because you have to synchronize production with demand. As I said before, demand is giving signs that it exists and that we already have this increase, or each automaker has a different strategy; for instance Fiat is managing the parts issue very well. It is not really only the shortage in the availability of parts; but also very big price increases in steel and in tires.

But we believe that May and June will still remain a little bit complex; but after that I would not call it going back to normal; but there will be a bigger balance between the need for production and supplying the stores with items.

Mr. Audi: Thank you.

Operator: Ladies and gentlemen, I would like to remind you that in order to ask a question you should press star one.

The Q&A session has come to an end and I would like to give the floor back to Mr. Medeiros for his closing remarks. Mr. Medeiros you may proceed.

Mr. Medeiros: Thank you very much. I would like to thank you all very much for participating in our call and this 1Q 21, as you have seen, suffered impacts in volume in automotive logistics and integrated logistics as well, especially in the chemicals part and the white line; also in 1Q we had some difficulties regarding the availability of parts - and this is not only a problem for the automotive sector; also for home appliances and electronic products, as well.

So 1Q had an impact on volumes; but as you can see we think what was very important for us last year was that we made Tegma leaner, more flexible, more nimble - and we have to be flexible, and this was a very important lesson as you saw in the indicators that Ramon presented with a very strong expense reduction.

And what we did last year was because of the pandemic; but it was based on process improvements, and technology and reductions that we had to carry out in our headcount, unfortunately. We are prepared to go back to normal volumes with a reduced headcount, and this shows an increase in productivity in fact.

So I would like to say that Tegma is ready to support our clients in the recovery of the volumes and we have been able to prove that we have the capacity and that we have resilience in our results. The volume goes down, the revenue goes down; but the strong action taken in the reduction of the fixed costs and costs and expenses in general is a very important agenda and that is with us permanently.

We continue to focus on investments in technology, and Ramon said something about it when he talked about CapEx and operating efficiency, because we have to become more and more efficient in everything that we do.

With that thank you very much, we wish you a very good week and please stay healthy, please take care.

Operator: Tegma's conference call has come to an end. We thank you for participating and wish you a good afternoon and thank you very much for using Chorus Call, thank you.