International Conference Call

TEGMA Gestão Logística S.A.

3Q21 Earnings Results

November 5, 2021

Operator

Good day and thank you for waiting. Welcome to TEGMA Gestão Logística S.A. conference call to review 3Q 21 Earnings Results. Today we have:

- Mr. Marcos Medeiros, CEO, and
- Mr. Ramón Pérez, CFO and IRO.

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, when further instructions will be provided. Should you need assistance during the 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 presentation 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.

Mr. Marcos Medeiros – CEO

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

As you all 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.

Well, moving now to slide number 3 we start with the highlights of the quarter. We start communicating the approval of an interim dividend payout referring to 3Q 21.

As the financial flexibility of TEGMA permits, payment of 17 million BRL was approved, considering dividends and interest on equity corresponding to 55% of the adjusted net income, equivalent to 50% of 3Q 21 net income and to a 4.2% dividend yield LTM. Dividends shall be paid on November 19 and the cutoff date will be November 9.

The second positive highlight in the quarter was the awarding of TEGMA, which ranked among the top five in the transportation and logistics segment of the 100 Open Startups, a ranking that brings together the companies most engaged in open innovation in the country. In addition, TEGMA is in the general top 100, a list that includes all categories.

As detailed in the operational excellence section of the 3Q 21 earnings release, the fruits of TegUp are concrete and are already generating benefits for our processes and customers.

The third highlight addresses the recognition of tax credits related to the legal decision, prohibiting the collection of income tax and social contribution on the monetary restatement and interests of overpaid taxes. This Court ruling caused us to record 12.9 million BRL of credit on the income tax line this quarter, related to the monetary restatement of the exclusion of ICMS tax from the PIS COFINS base, accounted for at the end of 2019.

The fourth topic is related to the well-known global crisis in the supply chains, which has been hitting the automotive industry hardest. 3Q 21 was the worst in terms of sales since 2005, reflecting frequent production stoppages during the months of July and August. Currently there are four automakers with shift reduction for their teams - but non-completely stopped.

The fifth bullet item is a significant increase in diesel prices since the last renegotiation of transportation tariff for TEGMA's vehicle division. This led us to open another round of negotiations, which was concluded in October. The diesel price increase between the date of the 2021 tariff negotiation in April and the month of September totaled 9.1%; but the increase currently stands at around 16% considering recent price increases.

Likewise, in the integrated logistics division renegotiations of transportation tariffs have been carried out throughout September and October, to try to recompose the impact of the recent increase in diesel prices.

Well, moving to slide 4 here we have some important steps that we are taking to improve compliance of our operations to the best practices in social and environmental responsibility and governance. In 3Q we approved the material themes that will be managed by the TEGMA's ESG program.

These main topics are: one, emissions, fuel consumption and climate change; two, relationship and management of truck drivers; three, people management and diversity; four, health and safety of employees and partners; five, governance and anticorruption; six, relationship with communities around our operations; and seven, technological development and innovation aimed at sustainability.

With these topics defined we will develop an integrated and integral management to be able to advance in these aspects. Additionally, we published the 2019 and 2020 greenhouse gas inventory, thus increasing the transparency of our metrics, impacts and evolution.

On the next slide, slide 5, we would like to give you a tangible example of one of the main initiatives aimed at minimizing the impact of our operations on the environment. This is a project that has already been implemented to steam wash our semi-trailers after loading calcium sulfate and calcium carbonate.

This was previously done with water. In the images you can appreciate the before, during and after this new process that uses only water vapor, which reduced by approximately 90% the amount of water used. Since its implementation in 2020 we have stopped consuming water and disposing of effluents in a volume of approximately 10,000 m^3. This is just one example of how innovation can bring economic and environmental benefits for the company and for the community at large, community as a whole.

Now I would like to turn the floor to our CFO Ramón Pérez, who will continue the presentation.

Mr. Ramón Pérez - CFO and IRO

Thank you, Marcos. Once again I would like to thank you all for your interest in our company.

On slide 6 we can see the main statistics of the automotive market in Brazil. As can be seen in the top chart, domestic sales for 9M 21 were up 13% compared with the same period in 2020, although it should be noted that 2Q 20 was the most affected by the COVID pandemic. When we compare the same period to the 9M of the pre-pandemic period in 2019 we see a 24% drop in domestic sales. Comparing 3Q 21 with 3Q 20 we find a 14% reduction in domestic sales, reflecting the greater supply difficulties that the automakers had throughout the months of July and August, the same reason that explains the 21% drop in the graph below for vehicle production.

Exports, which had been showing a positive performance until 1H TY faced a lack of vehicles once again, and dropped 15% YoY. In any case, it is also worth mentioning that although also influenced by the weak performance in 2Q 20, we found positive performance when comparing 9M 21 production in exports with 9M 20, both increasing 21% and 31% respectively.

On slide 7 we see the main operational indicators of the vehicle logistics division. On the top chart we see that market share in 9M 21 was the lowest in the last two years, on the back of issues in the automotive industry supply chain, which has had a more marked impact on one important TEGMA client. It should be noted that according to publicly available data, this carmaker in question has been recovering its market share with the recent resumption of operations. We expect that this will bring a positive impact in the near future.

The number of vehicles transported by TEGMA in 3Q 21 was down 30% QoQ, and our market share remained stable at around 22%, not yet fully benefiting from the return to production, which happened only in September, of an important plant of one of our main clients.

Average distance traveled in 9M 21 in the chart below returned to a level very close to that of 9M 19, although 10% lower than the same period, 9M 20, due to the interruption of Ford's production in the State of Bahia, which generated longer trips, in addition to the increased share of exports in transportation, ex-exports having lower average distance; nevertheless, there was an improvement in average mileage in 3Q 21 over 2Q 21.

Now moving to slide 8 please. Here we see the results of the vehicle logistics division. We can see in the top chart that the division’s net revenue in 9M 21 still remained well below that recorded in 2019, down 30%, although for the same reasons explained before it shows a positive performance, up 4% compared to 2020.

Right next to this, the 21 decrease in quarter revenue in the year-over-year comparison is mainly a reflection of a reduced number of vehicles transported and in average distance traveled in 3Q.

Just hold on a minute, there is some noise here. Please hold. Please hold as we try to stop the background noise.

Good. I think that some people were celebrating something, perhaps a soccer game, but let us continue.

We are still on slide 8. The bottom-left graph shows that the YTD EBIT margin shows a significant improvement compared to 9M 20, although it does remain low when comparing with the same period of 2019, due to lower revenue and lower dilution of fixed costs, the same reason why 3Q 21 margin was impacted compared to 3Q 20.

In the chart on the bottom right we can see that the current YTD EBITDA margin is much higher than that in 9M 20 - although it still remains below 2019 levels, with 3Q 21 also showing an adjusted EBITDA margin reduction versus 3Q 20.

Moving on to slide 9 we have the results of the integrated logistics division. Starting with the top chart, the division's net revenue year-to-date still reflects the loss of one major warehousing client, which justifies, which explains this decline. It should be noted that in this case 9M 20 were positively affected by the strategic increases in inventories of chemical products and also the sales volume of some of our clients. However, this performance goes against the industrial logistics revenues, which are now at record levels in 2021. In 3Q 21 the quarter-on-quarter decline also reflects the loss of that important warehousing client.

Turning to the chart below on the left, the division's EBIT decline in 3Q 21 in the annual comparison is explained by a less profitable logistics service mix for chemicals, as well as biodiesel price increases.

The year-over-year drop in adjusted EBITDA for 3Q 21 on the graph on the right is explained by the same reason which impacted the EBIT margin. In addition, we highlight that there is some distortion arising from IFRS 16, which does not consider rental costs, which is considered, which showed a lower decline.

Please turn to slide 10 for TEGMA's consolidated results. We can see that the company's net revenue in 9M 21, although in line with the same period in 2020, is still well behind when compared to 2019, by virtue of the problems the automotive industry has been facing. In 3Q 21 the 20% drop versus 3Q 20 is due to the reduction in revenue for both, the vehicle logistics division and the integrated logistics division, for the reasons mentioned before.

The company's EBIT and EBIT margin in 3Q 21 in the bottom-left chart, although also better than in 2020 were impacted by the global automotive crisis and by the integrated logistics service mix of integrated logistics. Adjusted EBITDA in 3Q 21 in the bottom, in the middle, totaled 37 million BRL with a 16.2% EBITDA margin, down 2.9 p.p. versus 3Q 20 for the same reasons, impacting EBIT.

Lastly, net income on the bottom right as explained in the quarter highlights benefited from positive nonrecurring events in 3Q 21 that resulted in a net impact of 13 million BRL. Net of this effect the company would have posted a net income of 21 million

BRL with net margin of 9.2%, a level consistent with the company's historical resilience, despite the challenging outlook for the industry.

It is noteworthy that to this result there is an important contribution, a positive result of our GDL joint venture.

Moving on to slide 11 we show on the graph on the left the company's Capex totaling 10 million BRL in 3Q 21 and 23 million BRL YTD, corresponding to 4.4% and 3.3% of the net revenue respectively. This amount in 3Q 21 corresponds mainly to the acquisition of trucks for the vehicle logistics operation, in accordance with the fleet renewal plan underway since 2019. In addition to this investment, Capex for 9M 21 also includes the acquisition of returnable packaging for the industrial logistics operation. This move results in new revenues. Besides these most relevant investments, there are investments also in IT and in maintenance.

In the middle we can see 3Q 21 cash-to-cash cycle of 43 days, 3 days lower than the previous quarter. This drop occurred despite the fact that we had delays in receipt of payments in the vehicle operation. These delays were related to outsourced transportation services provided by other logistics operators, which negatively impacted the company's cash-to-cash cycle by 6 days in September 2021.

Lastly, on the right we see the company's free cash flow, which just like in the last 3 years has been resilient, even in years of crises. 3Q 21 cash flow was positive by 21 million BRL, despite the higher Capex and the cash-to-cash cycle still under pressure, mainly due to the resilience of both of the company's operations, even in difficult times.

Now moving to slide 12 here we have more detail on our capital structure. In the first graph it becomes clear that cash amounting to 221 million BRL is way higher than the current gross debt amortization in the next 4 years.

In 3Q TY 25 million of debentures were paid, which explains the increase in average cost of debt in the graph on the right. These newly paid debentures were cheaper and had a cheaper cost than the company's average debt, resulting in an average cost of debt of CDI +2.8%.

As regards the composition of our net debt, in the table below we can see that in 3Q 21 at the end of 3Q we had a net cash of 94 million BRL, reflecting that TEGMA's capital structure remains un-leveraged.

Lastly, on the right of the slide we highlight that our rating by Fitch remains as Local A with a stable outlook.

Moving on now to the last slide, we first show the evolution of our return on invested capital and return on equity. We highlight that the ROIC of 20.4% in 3Q 21 reflects an inflection in the upward trend we have since 4Q 20. This reduction mainly reflects the difficulties, the difficulties that have been mentioned.

The ROE for 3Q 21 in turn recorded an increase quarter-on-quarter ending the quarter at 16%, mainly due to the tax credit in the amount of 12.9 million BRL, as previously mentioned.

In the bottom-left chart we show the history of dividends and interest on capital paid by the company. As shown in the quarterly highlights, it was decided to distribute 50% of net income or 55% of 3Q 21 adjusted net income, which corresponds to a dividend yield of 4.2% LTM.

In the charts at the right we have information related to our stock. First in the chart above of multiples, price earnings in gray is at its lowest level in recent quarters, about 9.8x, as the enterprise value/EBITDA, which was 5.3x in 3Q 21 mainly due to uncertainties related to the automotive market.

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

Well, with that we would like to once again thank you all for your attention and I would like to open the floor to questions and answers, thank you.

Q&A Session

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please dial star one. If you want to remove your question from the queue please dial star two star two.

Our first question comes from Aline Gil with BTG Pactual.

Ms. Aline Gil - BTG Pactual

Hello, thank you for the call. I have two questions, first considering the difficulties of the automotive industry do you consider increasing your exposure to semi-used vehicles or will you continue to focus on new vehicles?

The second question regarding the market share the company. With the resumption of production by GM, what is your expectation in terms of market share for the next quarters? Thank you very much.

Mr. Marcos Medeiros – CEO

Hello Aline this is Marcos talking, thank you for the questions. Regarding used vehicles, I think that every quarter we report the evolution of this business of ours. This is something that started very small and now is kind of gaining momentum. We are also creating a marketing strategy and a commercial organization to have greater focus on that, and why?

Well, because as we have seen, the automakers are not demobilizing a lot of fleet. We have been feeling this for a while, and that is why we started developing new types of clients: large fleet orders and even individuals. Our market communication strategy for this kind of business is increasing. We even developed communication on Instagram and LinkedIn to capture opportunities from individuals, who also might need to transport their vehicle. So yes, this is a focus of ours.

In addition to marketing, commercial, operational structure, we are investing strongly in our platform, because this kind of business needs scale. We do not think that we can meet the demand with quality and with the expected profitability if we do not invest in technology in the platform. So to answer this question yes, this is a focus of ours that tends to increase.

As regards the market share, as you know we have clients that have a greater or smaller impact on our market share. So we believe that yes, in the next months one of our main clients has resumed the production of one of their vehicles, one of their best sellers. There is even a TV spot saying "the champion has returned".

And we believe that the moment that this client and another to clients start gradually producing, well, we know it is not going to go back to normal quickly, it is going to be gradual; but as soon as this happens we believe our market share will be back in the previous levels.

Ms. Aline Gil - BTG Pactual

Thank you very much for the answers.

Operator

The next question by Gabriel Rezende with Itaú BBA.

Mr. Gabriel Rezende - Itaú BBA

Hello everyone. I have two questions on my side, first a follow-up regarding the question one market share and the performance of market share in the future. I would like to hear from you whatever you can share with us, how should we expect 4Q compared to 3Q? How quickly should you resume operations and evolve towards the end of the year? That could be helpful.

And still on that in your earnings you talk about unfinished inventories, vehicles that are being manufactured but need to go back to the assembly line for one or two components that are missing. This means that the numbers we see every month reported by ANFAVEA regarding inventory are underestimated, they consider only finished inventory and there is a lot of unfinished vehicles, I think. That would be my first question, I will ask the second one later.

Mr. Marcos Medeiros – CEO

Gabriel, this is Marcos again. Well, regarding the market share, of course it is very hard for us in the short term to have a trend; but I would like to say that we see positive signals. There was a meeting in October with the participation of the main automaker executives and all of them, each with a different level of optimism, were optimistic. So I am talking about gradual growth here and not an exponential curve. We know that this is a growth curve for the midterm, along 2022.

In the short term what I can tell you is as one important client that we have, which has a relevant impact on our market share, is going back strong with their main the best-selling vehicle in Brazil we believe that yes, there might be an impact; actually we already feel this impact. As the production of this vehicle started towards the end of September, we cannot feel the impact yet; we cannot feel the impact yet, but in 4Q we should have a better view of the market share.

And there is another client, once the reinstate the third shift of work I think in the next weeks of November or by the end of November they will definitely have an impact on our market share. So Gabriel, I think for the short term the signaling is positive and in the long-term is kind of what I answered in the first question.

About inventories, Gabriel, you know, when we assemble a car and there is a part missing and they put the car in the yard - that is not the generalized practice. We hear from our clients that the supply of some models of some carmakers in some situations; because can you imagine this? The car is ready but not truly ready? But there are cases where the car is ready, they take the vehicle to a yard and they remove one or two parts - the semi-conductor - and they go back to production, they go back to production to continue the assembly line. Can you imagine the kind of rework that entails? So this is not generalized action; these are one-time off cases that we have identified with our clients.

Now that generates an opportunity for us. We should be careful when we use the word opportunity, we do not want to be seen as opportunistic; but some clients are asking for yards from us to store the vehicles while they wait for the auto parts. We have clients asking for more room to store their vehicles waiting for a part, specific auto part - but these are exceptional cases and we will have a gradual recovery little by little, and I do not think that this is going to continue to happen, Gabriel.

Mr. Gabriel Rezende - Itaú BBA

Okay it is great, very clear. My second question has to do with the margins. When we look at the vehicle logistics segment and we compare the margin of 3Q 21 quarter-on-quarter (adjusted margin) we see any improvement of almost 1 p.p.

So I just want to understand, given the reduction of volume in the quarterly comparison how can we explain this improvement of almost 1 p.p. in the margin? Is this is structural thing, a one-time off event, a cost reduction that we can include in our modeling? I would like to hear more about that please.

Mr. Ramón Pérez - CFO and IRO

This is Ramón speaking. It is a structural thing. I cannot break down the expenses details; but if we compare 9M21 with 9M20 there is also a reduction that is significant, even considering that last year we used a Provisional Measure that allowed us to suspend temporarily some contracts, and we could stop paying some costs and salaries; but even with that comparison we are below, and this is why the measures that we adopted last year since the beginning of the pandemic crisis, these are measures that well, we put together a crisis management committee, we reviewed the number of expenses and costs, and now we are reaping the fruits of these measures, our structure is now leaner. This is what I can tell you.

Mr. Gabriel Rezende - Itaú BBA

Thank you, excellent.

Operator

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. Go ahead sir.

Mr. Marcos Medeiros – CEO

Once again, I would like to thank you for your participation - and I am sorry for the background noise, those were some fireworks, most likely they were celebrating some kind of soccer game.

And I would like to stress that we are confident that the automotive industry will manage to overcome the current difficulties related to shortage of auto parts and semi-conductors. Also with the progress in the vaccination effort in Brazil and around the world, perhaps Brazil will be in a better position than other countries looking forward - but believing in this progress the market will recover to a solid state as before.

We learned a lot in the last few months, I have been saying this over and over. We are now more lean and agile. I think that this has been a positive byproduct. A company can be big; but it has to be lean and agile, and we are now more prepared and motivated to serve our clients as they resume growth. Again, we know it will be a gradual process, it is not a turnkey thing; it is a gradual but steady process.

We will maintain our strategy of to invest in operating excellence and technology, reinforcing our purpose to create value for both, our shareholders and clients.

Also, as shown in our presentation we will keep our eyes and attention focused on ESG projects. I think ESG is now an active agenda in the company in terms of developing our employees in the operating area, all the way to the Board of Directors.

Well, myself and the IR team will remain available. Thank you very much and have a good day.

Operator

This concludes TEGMA's conference call for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.