International Conference Call

TEGMA Gestao Logistica S.A.

3Q20 Earnings Results

November 9, 2020

Operator: Good day and thank you for waiting. Welcome to TEGMA Gestao Logistica S.A. conference call to review 3Q20 earnings results. Today we have Mr. Marcos Medeiros, CEO and Mr. Ramon Perez, CFO 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 Q&A session, when further instructions will be provided.

Should any participant need assistance during this conference call please press star zero 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.

Mr. Marcos Medeiros: Good day everyone. We thank you all for joining us today to discuss 3Q earnings of TEGMA Gestao Logistica. Myself, Marcos Medeiros, CEO of the company and Ramon Perez, CFO and IRO, will be presenting the most important highlights and explaining our main numbers for the quarter.

As you all know, the rapid dissemination of the coronavirus pandemic has had a large-scale and global impact, making the business environment extremely volatile and adding uncertainty to all statements made so far. 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.

On slide number three we have 3Q highlights, starting with an update on COVID-19 at TEGMA. I am glad to inform that fortunately up to now none of our employees had serious complications. All safety protocols remain in place with all the necessary measures to prevent dissemination of the virus.

The second bullet item on the slide is about the Supplier’s Award granted by home appliances manufacturer Electrolux in 2020, in which we were finalists in the category Operational Excellence as a Service Provider. This global recognition attests to the way in which TEGMA's competitive advantages are built through high-quality services, which are known to lead to savings for clients and for long-term relationships with mutual benefits.

The third item is another important recognition that we received also in this quarter. TEGMA was ranked in the Top 100 Open Corps. as one of the companies which interact the most with startups in Brazil. TEGMA landed the 20^{th} position in the general ranking among the top 100 companies selected; but in the category by industry TEGMA was number one in the transport and logistics sector, in other words the company in this sector that leads in open innovation with Brazilian startups. This award is the result of work that began in 2017 with the creation of TegUP, a startup accelerator and the company's open innovation arm.

The fourth item refers to the move to a new site for the warehousing operation of our Sao Paulo integrated logistics. This operation is currently located in the city of Barueri and will be transferred to a logistics condo in Itapevi - SP with characteristics which best fit the current operations, allowing for a capacity expansion and flexibility to provide new services and serve new clients.

In the fifth bullet item I will inform the resumption of payment of dividends and interest on equity. I would like to remind you that because of the pandemic we suspended the payment of 2019 interim dividends to be made in April of 2020, as well as the early payment referring to 1H 20 in August. Thus, in November we will be paying 50% of the first nine months 2020 net income totaling 22.4 million BRL, 0.34 BRL/share and 1.5% dividend yield to be paid on November 24.

Lastly, we announced that we are publishing today on our IR website a new sustainability section, where we cover all of our initiatives related to the environment, road safety, social responsibility and governance. In this section it is possible to see TEGMA's level of compliance with sustainability practices, showing how relevant these topics have become, how relevant these topics have become for the company's management and future strategy.

With that I turn the floor to our CFO and Ramon Perez, who will continue the presentation.

Mr. Ramon Perez: thank you Marcos. On the next slide we can see the main indicators of the automotive market and of TEGMA's automotive logistics division. On the table on the left we highlight domestic vehicle sales in 3Q20, up 132% QoQ, attesting to the sector's elasticity and capacity to resume growth; however, year-over-year we still see a 22% reduction given the impacts of the most critical phase of the pandemic, already behind us.

This strong quarterly performance can be attributed to several factors, among them: reopening of the economy; postponed sales in the months when we had the restrictions - but also to greater consumer confidence; consumers' preference for private transport over public transport; low interest rates and savings due to the fact that consumers postponed spending on services, leisure and travel.

Nevertheless, this scenario goes on the opposite direction of several negative factors which still impact the Brazilian economy, such as high level of unemployment; reduced household income with MP 936, the emergency employment maintenance program by the federal government; fiscal risks looming in the horizon and currency devaluation, leading to a cost increase of imports already reflected in price increases in Brazil, including of brand-new vehicles. We also highlight inventories, which continue to shrink to very low levels, raising even further the challenge for logistics operations to transport these vehicles to the dealers.

Down below we can see that the numbers point to a quantity of vehicles transported by the company behaving in a similar fashion to the market, although we had a slight loss of 0.7 p.p. in market share in the annual comparison, on the back of the individual performance of some key clients.

Lastly we can see a positive evolution in average distance traveled in the annual comparison, mainly due to the positive performance of sales in the North, Northeast and Midwest regions of Brazil in the post-crisis period compared to the rest of the country.

On the next slide you see on the left table a strong recovery in gross revenue, up 181% in 3Q20 over 2Q 20, although we still see around 17% reduction in the annual comparison. Still the company reported a gain of 1.3 p.p. in gross margin and a reduction of only 0.8 p.p. in our Ebitda margin, which ended 3Q at 15.8%, very close to the percentages posted during 2019

On the graph on the right we see a strong gross revenue recovery in the automotive logistics division in 3Q20 compared to the prior quarter; nevertheless, even with a lower revenue in the yearly comparison, cost cut and expense control measures adopted in the last six months led to a solid adjusted Ebitda margin recovery, as we can see in the bottom graph.

Moving on to slide six we have a break down by month in 3Q. Despite a month-after-month increase in volume of vehicles transported, the high average distance traveled in August propelled even further the revenue for that month. On the right we see the division's gross profit month-by-month, as a result of the resumption of volumes and control of the operation's fixed costs.

And in the bottom graph we have our adjusted Ebitda, which grew substantially on the back of expenses control during the quarter.

Now talking about the integrated logistics operational highlights, on the following slide we can appreciate the main metrics influencing this division. We highlight the top left-hand corner table showing a 4.7% reduction in the number of trips run by this division, despite the positive impact of the industrial logistics operation for home appliances sector, which has been growing in these pandemic times given the high volume of online sales. On the other hand, this indicator was negatively impacted by increased inventories of inputs for the chemical operation in 2Q 20 due to uncertainties brought along by the COVID-19 pandemic, thus reducing the demand for trips in this quarter.

For these same reasons we can see on the graph on the right a 13.2% reduction in tons transported and consequently in the bottom graph a 21.8% increase in tons stored in 3Q20.

On the next page we can see the results of the integrated logistics division. We start with the income statement on the left showing gross revenue increasing by around 7% in the yearly comparison. This stems from similar growth for warehousing and industrial logistics operations. The gross margin gain of 6.4 p.p. in the year-over-year comparison results from this division's growth with better fixed costs dilution and improved mix of services and clients in the industrial logistics operation.

The graph on the right shows the revenue growth trend since 2Q 19 and the bottom graph shows stability of adjusted Ebitda at a high level of 38% for the last three quarters.

Slide nine we have our consolidated results. The table on the left shows that mainly due to the pickup of activity in the vehicle logistics division we posted a gross revenue recovery of almost 124% in 3Q20 over the previous quarter. Once again, due to the severity of the crisis faced we still see a reduction of approximately 14% in the annual comparison. Despite that, year-over-year we posted a gain of 2 p.p. in our gross margin, because of cost control initiatives in the automotive operation and a gain reported in the integrated logistics division. The same applies to the 0.2 p.p. gain in Ebitda margin resulting in a consolidated Ebitda of 53.3 million BRL in 3Q20.

In the graph on the right side we can see that gross revenue has not yet returned to normalized levels, although it is already possible to see margins slightly higher than those of 2019.

On the next slide we can see on the left-hand corner graph the reconciliation of net income in 3Q20 starting with the Ebitda and the comparison with 2Q 19 to the right. The highlight here goes to the equity income in this quarter with a positive 2.7 million BRL, reflecting the good results of GDL joint venture, which coupled with the other already mentioned effects resulted in a net income of close to 30 million BRL in 3Q20. In other words, a solid reversal of the net loss of 4.4 million BRL recognized in 2Q 20.

On the next slide we can see the breakdown of our consolidated results by month in 3Q20. For the same reasons explained when we spoke about the evolution of the automotive logistics division, we can see in the graph on the top left-hand corner some stability in consolidated monthly gross revenue in 3Q, despite the continuous increase in number of vehicles transported. The revenue performance of the integrated logistics division posts a very small monthly variability.

On the right 3Q20 consolidated Ebitda totaled 55 million BRL, supported by months at the 18 million BRL level, 2Q stability of revenue and reflecting a result that is consistent with cost cuts and expenses reduction measures. In turn, the company's net income had a practically flat monthly performance along 3Q20, slightly affected by higher interest expenses and lower equity income over the quarter.

On the next slide we show you our free cash flow on the left at a -8.7 million BRL, influenced by working capital consumption due to the rebound of the vehicle logistics operation compared with 2Q 20. It is also important to mention that net cash generated by investment activities was positively impacted by the almost 4 million BRL explained by dividends received from the GDL joint venture.

On the right we can see the company's cash-to-cash cycle, the orange line, which returned to 39 days, the same that we saw in the end of last year, and this resulted from a dilution of average terms given the revenue increase of vehicle logistics. Our net cash in the end of the quarter totaled 54.4 million, thus greater than the company's gross debt for the second consecutive quarter, stemming from a high cash generation in 2Q 20 and also stemming from a significantly improved operational result in 3Q20.

Moving on to the next slide please, we see that the company's ROIC excluding the extraordinary PIS COFINS credit posted in 2019 was 17.4%, therefore lower in the quarterly comparison. ROIC was mainly affected by the impact of the coronavirus pandemic on the automotive logistics division. The pandemic started on in March 2020.

On the right we see the performance of our share TGMA3 vis-à-vis the IBOVESPA Index. Our share performance this year reflects in our view the uncertainties regarding the automotive market, although we have shown our strong resilience, our ability to protect our cash and our ability to adapt more adverse scenarios.

In the bottom left-hand corner graph we can see the company's multiples and how TGMA has been traded in the recent quarters.

With that I would like to thank you for your attention on behalf of TEGMA and begin the Q&A session.

Q&A Session

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 your question has been answered and you want to remove yourself from the queue press star two. As a reminder, if you want to ask a question please dial star one.

We have a question by Lucas Marchiori with BTG Pactual.

Mr. Lucas Marchiori: hello gentlemen, good afternoon, thank you for the call, congratulations on 3Q results. I have two questions, Marcos, Ramon and the whole team: first we have seen recently after a strong performance of heavy vehicles more recently, particularly ANFAVEA shows a rebound of the numbers for lightweight vehicles. I would like to understand what you are thinking regarding the performance of lightweight vehicles, because we were expecting a 15 to 20% drop this year and now what is your expectation for next year? What is your expectation in terms of recovery of the lightweight vehicle market? I want to understand the addressable market of TEGMA. That is my first question.

The second question: with TEGMA resuming the payout of dividends what should be the payout this year and for next year, so we can refine our modelling? Thank you.

Mr. Medeiros: hello, thank you for the questions. We have been following the news, particularly the recent ANFAVEA publication and we have been talking a lot with our clients. I think an important element is production, but also consumption; so behavior, curves, number of new license plates licensed.

You mentioned -15 to -20. You are much more optimistic than ANFAVEA itself. We believe, given the numbers that we have heard and of the numbers in our 3Q, you could see consolidated growth month-by-month in 3Q. If we compare October -15, October last year was a very strong month, so -15 was an important indicator.

In our view I think that -30 would be a pessimistic view. We believe it would be something between 25 to 30, trending more to 25. That would be the number for

2020. We just have to consider, realize the numbers, publish numbers. If we do a simple math we cannot get to -30 mathematically, it is almost impossible to get to -30; so it is going to be something close to what you are thinking.

Regarding 2021, next year, well, we started working on our budget and running exercises for 2021. So I am going to highlight some negative signs that we see ahead of us - but of course, it is still very hard to say what is going to happen; but there are some important signs that we are capturing in our interactions with the market.

Well, firstly an increase in prices. Vehicles will become more expensive as the exchange rate and also auto parts, production costs. I think all of that will be a challenge next year. The scarcity of auto parts is impacting production lines. We believe that in 1H 21, or at least in 1Q 21 we should still feel an impact of that until they can stabilize their supply chain. We believe that will have a negative impact; but it will start recovering along 2Q 21.

Uncertainties regarding the emergency relief by the Federal Government. I think that the emergency relief helped many segments, but it is uncertain how this will continue next year. It depends on how the pandemic will stretch and if the relief will continue.

Unemployment. We still see some sectors terminating employees, we see some industries starting to hire; now we have the Black Friday effect and the holiday season. So we have to be over that period so that we can capture what is going to happen about the unemployment rate, which is already very high.

And the big mystery is the possible second wave of COVID-19. We are following what is happening abroad. I highlight this is a negative point; but when we look at what is happening abroad the first wave in the United States and in Europe happened in summer. They are having now the second wave in the wintertime, here it is going to be the opposite: we are going to have a possible second wave in our summer and that can mitigate the impact. So we think of this as a negative point; but it might not be that negative given our favorable weather.

And the possibility of a vaccine. The are many vaccine candidates and something might be coming up in that regard. So we have negative signs, but some mitigation.

If I were to list the positive points well, to start the demand. We see even rental companies finding it hard to receive vehicles. Many automakers have waiting lists and we believe that as of next year we are going to have an additional volume, both for end customers, for rental companies and for the dealers. So I guess that we are going to see this positive effect, in addition to the regular demand.

Car rental companies are expecting an important resumption of their rentals. All of the car rental companies are renting more to the point that they sometimes lack vehicles in some cities. That is another important point for next year, this strong rebound.

And fleet owners. Well, we realized that this is something that happened with us during the pandemic, we have not been doing any renewals; we simply extended our contracts and we have seen this happening as well, so this fleet renewal should happen next year, and that can reinforce the numbers for next year.

And again, we have this trend of private transport being preferred over public transport, and particularly with the coronavirus outbreak people do not want to use public transport. So these are signs that point to a 2021 that will be more positive, perhaps more in line with 2019 - but again, it depends on our analysis for the next two months. If you have anything else I will be here; but I will turn the floor to Ramon to answer the second part of your question.

Mr. Ramon Perez: hello Lucas. Regarding dividend payout, even before I talk about the payout I would like to highlight that the fact that we are resuming dividend distribution that we had suspended in 1H and even the supplementary dividends referring to 2019, aim at reaffirming our confidence in the economic rebound. I think that the worst phase of the crisis is behind us, we are now in an ascending curve. So we will pursue our indicative policy, which is distributing a minimum of 50%. We do not intend to keep cash in the company if we do not have use for it that will generate value for the shareholders. So our expectation is that we will keep to our indicative policy.

I take this opportunity to highlight the fact that our debt, the maturity between July and August around 75 million BRL in the beginning of the year, at the beginning of the pandemic, we had signaled that we were going to roll over this whole debt; but again, as a demonstration that TEGMA is confident in the recovery we chose not to do that. We repaid part of that debt, we rolled over approximately 45 million BRL only - and of course we are monitoring the company's cash.

In a nutshell, we will continue with our indicative policy for dividend distribution; but more than the amount (22 million BRL) that we are distributing I want to stress the signaling that this means. It means we are confident in our recovery.

Mr. Marchiori: perfect Ramon thank you. If you allow me a follow-up question before I turn the floor to somebody else, recently in the sector we saw one of the rare opportunities for consolidation with the entry of a new player - a well-known player - that acquired are relatively small player in the sector, Transmoreno, and I would like to understand: what are you thinking? Are you expecting greater competition? Because I only want to try and understand what are the entry barriers that TEGMA has to other competitors. How do you see this change in the competitive landscape in the automotive industry? Thank you.

Mr. Medeiros: Lucas yes, this is an important player. I think that they are in an inverse path of ours, one of the diversification. They had a small share, so it is only natural that they want to increase their business. When you look at these player's entry, given the company that they acquired they operate for a client that we used to operate for; so when you work at this client - we used to have an operation with this client - but when we compare with our market share their scale is totally different. There is productivity that impacts our costs, our operating structures. So I think that they are an important player. We have to see this with good eyes, particularly because they are a listed company with a very good governance, very similar to what TEGMA's is. So we can welcome this kind of player that will help us evolve even more the sector.

Mr. Marchiori: perfect, thank you very much to both of you.

Mr. Ian Nunes: I am Ian, IR from TEGMA and I will be mediating questions that we received over the webcast. We received a question by Vicente: could you speak a little about how the semi-new vehicle division is evolving during the COVID pandemic? And could you compare the regions volume this year versus last year? And what are you expecting when the corona voucher ends? And I refer this question to Marcos, our CEO.

Mr. Medeiros: thank you Vicente for the question. Let me just consult my notes please, give me a minute. Semi-new vehicles: how is TEGMA positioned regarding semi-new vehicles that transport between our rental company, let us get the example of a car rental company, a company that is going to mobilize a vehicle for sale as a semi-new. That is where TEGMA offers transport as a service, making some improvements in the vehicle.

In recent months, particularly in 3Q, we did not have that happening. We saw a lot of used cars being sold, consumers leaving the car rental companies driving their vehicle - and we do not operate with that. So during the pandemic the numbers for semi-new vehicles were not great; but we believe that this volume will rebound now - again, now that the car rental companies are getting more business again.

And also because of the fleet owners. The fleet owners for that period day just sat still renewing and extending their contracts; but now we see them moving in terms of acquiring new vehicles and moving vehicles across regions - and this is also going to happen with the car rental companies, because there is some tourism picking up again and when we have more tourists they start renting more cars. So I would say that this last quarter was more impacted in terms of semi-new vehicles - but we do see signs of recovery in the coming months.

You asked about differences in regions. Well, North, Northeast and Midwest were the regions that had more resumption of activity, undoubtedly supported by the Government incentive, by the Federal Government, or what we call emergency relief effort, contributed to that because of that heats up the market. You get 400, 600, 1200 BRL depending on the situation, of course that puts the whole motion, the whole engine in motion.

And just to give you a comparative idea: if we get this half-year there was a reduction in the South of 45%; in the Northeast we had a reduction of 30%, North and Northeast on average. So it was really surprising what we saw in the North, Northeast and in the Midwest of Brazil.

Mr. Nunes: there is another question that we received by Gustavo regarding automotive logistics and the question goes to Ramon, our CFO: the company had an operating margin and Ebitda margin, given still very low volumes, below normal. Can we expect higher margins, higher Ebitda margins once you resume sales volume?

Mr. Perez: this is Ramon. Yes this is our expectation; but we cannot be sure of that and not guarantee anything, because like I said before we had a reduction of almost 17% in the yearly comparison in terms of gross revenue and we lost 0.8 p.p. in Ebitda margin. Well, that stems from many adjustments that we made.

What I can assure you is that many of these adjustments were made and are here to stay. We adapted our fixed cost structure, which is now lighter; we obviously made adjustments in a variable costs, because these, or part of these will come back as volume increases; but we are back practically to the margin that we had in 2019 (17%), a margin of 16%. So of course we need to consider, as we always say in our prior conference calls, that in the process of negotiation we always have to deliver some productivity; but this is our expectation given the resulting effects of all of the adjustments we made along the year, and we expect that we will have a margin increment when volumes do return to the 2019 level.

Mr. Nunes: thank you Ramon. I have another question by Gustavo: integrated logistics has presented excellent results. Could you comment on the commercial pipeline? Marcos, this question goes to you.

Mr. Medeiros: the results have been very solid. I think that we do a simple exercise: we get the positives that we have in terms of products, services, long-term contracts and we are replicating this in the market. So the idea is to accelerate this so that we can have more diversification to other segments - and we want to replicate our services and products that we have already consolidated.

In addition we are creating new products. Most likely for the next quarter we will be announcing new products, new options and like I mentioned before and as we said in the presentation, we are going to change the site from Barueri to Itapevi. Again, the idea behind this is to come up with different solutions, because of course we want to accelerate our agenda, yes; but we also want to offer services, differentiated services to other segments.

So we will not engage in a price war. For example, when we ask for a quote for freight, for a pallet position in a warehouse, you have your proposal plus another twelve. So yes we want to grow, we want to accelerate; but we want to maintain our margins, particularly diversifying to other segments.

Regarding the commercial pipeline it is overheated even during the pandemic and also because of everything that happened, the great volumes we were able to operate in terms of employee health or in personal care products, food, etc., e-commerce sales. Thanks to that we were able to have an important pipeline.

These sales take a little longer. When you sell an integrated chain solution it is not a fast sale; it takes some time, it is time-consuming; but the great advantage is that you have very few players. Not every company can offer an integrated solution and have an integrated solution for clients. So the answer is yes, the pipeline is overheated. Yes we are going to accelerate - but we want to continue to add value and diversify to other segments.

Mr. Nunes: thank you Marcos. Operator I turn the floor back to you for other questions via the phone.

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

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

Mr. Medeiros: Well, we would like to thank all of you for joining us in this conference call. We would like to stress that myself and the IR team are available always, 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.