

International Conference Call

Tegma

3rd Quarter Earnings Results

November 7, 2023

Operator

Good afternoon, thank you for standing by. Welcome to the teleconference of Tegma Gestão and Logistics SA to discussion of results with reference to the 3rd Quarter of 2023. We have with us today:

- Nivaldo Tuba - CEO of Tegma
- Ramón Pérez - Administrative Director and Financial Director and of Relations with Investors

We mention that this event is being recorded and all participants will be only hearing the teleconference during the presentation of the Company. Following that, we will start the question-and-answer session when instructions will be given about how to make your questions. If any of you, please solicit the help of an operator if you need any help during your conference dialing *0.

This event, the recording of the event will be available after the event for seven days. We would now like to start passing the word to Sr. Nivaldo, the director-president of Tegma, who will begin the presentation. Sr. Nivaldo, please go ahead.

Nivaldo Tuba - CEO

Good afternoon to everyone. I am Nivaldo Tuba, CEO of Tegma, and in name of the entire company. I would like to thank you once again for your participation in our teleconference, our earnings call. I have with me Ramón Pérez, our Financial Director and our Investor Relations Director, along with Ian Nunes and Felipe Fogaça of the IR area.

As usual, we will start our presentation with slide 2, where the participants can find our disclaimer with respect to our declarations, prospective declarations. Going to slide 3, we'd like to talk about the highlights of 3Q, and the first point we mentioned about the approval of the payment of dividends and interest on equity intermittently, reference to 3Q23. We will distribute 35.6 million or BRL 0.54 BRL/share, which corresponds to a 72% of the net profit, adjusted net profit, adjusted by the by the reserve for fiscal incentives. These payments will be made on the 23rd of November, benefiting those stockholders who have a stockholder position as of Thursday, November 9th.

For the second highlight, we like to talk about the important projects was initiated in the month of October of this year. Tegma started the process of the implementation of a

new ERP from Oracle Cloud, which will substitute the ERP of Datasul. This new ERP is a solution which would best attend the needs of the company, innovation, modernes and ease of use, cost and ease of use, beyond having the highest portfolio, large portfolio of logistics solution and it's one of the first steps of the digital transformation of our company, focusing on the administrative and financial areas, and which will serve as a basis, a foundation for the second step, expanding to other fronts of the company. We have a provision that the implementation of this project will take it from 12 to 14 months.

The third highlight is an important award that Tegma won, the Open Core, 100 Open Core, the 5th year (inaudible 03:57) is most involved in innovation in the country. This award always seeks to find opportunities to add new logistics solutions, adding benefits towards our solutions and for our clients.

Finally, (inaudible 04:20) inventory of the greenhouse gases by Tegma. This is we received the gold seal from the GHG protocol, which has as one of its demands, the external auditing of the informations. Testing this, in this way we get the quality of the information supplied. This conquest is a recognition of the efforts that the company has made in this area of sustainability, and we could say with respect to transparency with our emissions, reinforcing our strong intention to always seek the best ways to evaluate and reduce our impact in terms of climate change.

Going to slide 4, we talk about the principal data in the vehicle market in Brazil. As we can observe in the first chart, the domestic sales in 3Q23 were 10% above those with the annual comparison. This reflects the growth of sales, of retail sales in that quarter, with the availability of components, especially semiconductors. We should point out that the sales in July were positively impacted by the program of discounts on new cars of 120 thousand BRL of the federal government. However, we can no longer, we cannot quantify if these sales were anticipations or are actually new sales.

The production for its turn presented a reduction of 3% in 3Q23 on the annual comparison, as we can see in the graph below on the left. This fall is explained by the readequation, the resizing of the rhythm of production to current levels, and the stocks of industries and the fall off in in exports which came, which fell 20% in the quarter, as well as the growth of 31% in the sale of imported vehicles in the country.

Looking at slide 5, we present the principal indicator, operational indicators in the division of logistics, of automotive logistics. The quantity of vehicles transported in 3Q23 was 170,000 units, 2% above on a compare, the compared annual comparison, reflecting the growth of domestic sales as explained in the previous slide.

On the other hand, our market share was reduced in 3Q, in 3Q compared to the annual basis to a level below 25%. This retraction of market share was due to the loss of participation in the market of relevant clients for the company in the month of July, when there was, when the government's program of discounts for new cars of the federal government; however, it's important to mention that in the following months after July, we can observe a normalization of our market share among these clients.

Finally, the average distance of our trips of 1.4% higher than in on an annual basis due to the growth of export trips and highway transport to other countries in the Mercosur; and also the increase of domestic travel overall. It's important, after these highlights I'm going to pass the word to Ramón Pérez, our financial director, who will talk about our results, cash flow and other indicators. After that, we will open for any questions you might have. Thank you.

Ramón Pérez – CFO and IRO

Thank you, Nivaldo. Good afternoon to everyone. Looking at slide 6, we can talk about the results in the Logistics division, Automotive Logistics division. We can see on the graph above that there was growth of 3% in net revenue of the division in 3Q23, which is explained principally due to the increase of 2% in the number of vehicles transported in the quarter and 1.4% in the distance traveled. Is worth mentioning also that the grand, the great oscillation in the price of diesel fuel in the last 12 months has caused readjustments in the tariffs, both positive as well as negative during this period.

Finally, we have to point out the good, the good results of Fastline, our unit of logistics for used vehicles, which has had continued evolution of revenue, which has been quite positive.

Below we have the evolution both of the EBIT as well as the EBITA in 3Q23 on an annual comparison, as well as of their respective margins. We should also maintain, keep in mind that the margins in 3Q22 are adjusted by the event, a non-recurring event which increased in 6.6 million BRL the expenses of that division in that period. The reduction of the EBITDA margin in 3Q23 reflects the normalization of the profitability of logistics services, as well as the administration of the services, auto services and the patios, as well as the realignment of the tariffs of the division to the current levels of fuel prices.

Additionally, there was growth in the costs with personnel above the rate, the growth of revenue, due to the increase in the headcount and operational headcount in the division, which not always, does not always accompany linearly the growth in the number of vehicles transported; nonetheless, the proportion of expenses with personnel relative to net revenue in 3Q23 is below the average of the last five quarters.

Also, we see the reduction of the, it also clears the reduction in the EBITDA margin, an increase of expenses, SG&A expenses, especially people, expense with personnel due to the wage increase of the year of 2023 and new hiring, as well as the increase of expenses with consultancies and law legal fees.

Slide 7, we show the results of the division of Logistics of Integrated Logistics. We can observe that the net revenue of the division in 3Q23 reduced by 3% on the annual comparison. This reduction is due to the operation with chemicals due to the instability in the operational flows caused by the renewal of the fleet of silo, of tank trucks, as well as in 2Q23, which caused a reduction in in in the amount of products, chemical products transported. This renewal of the fleet has already been practically finalized and by the

end of November it will be and we expect a gradual normalization to the volumes in 4Q23.

In this quarter, the operation of chemicals of Tegma conquered an important contract for the transport of barrilha, in which we will be responsible for attending the flow between the States of Santa Catalina and Sao Paulo. This contract has a 12-month period and the potential to add 10% to the revenue of the operation, considering the level of 2022 and maintaining our margins in line.

The operation of electro domestics, which has also electrical appliances, recovered its revenue especially due to the recomposition of tariffs.

On the graphs below, we can see that both the EBIT margin as well as the EBITDA margin presented retraction in 3Q23, and on an annual basis. Both were impacted negatively by the operational event mentioned, which compromised the dilution of costs, fixed costs in the quarter.

Looking at slide 8, we would like to present our consolidated results. Net revenue was 427 million BRL in 3Q23, which represents a growth of 3% on the annual comparison, reflecting the growth in the division of Automotive Logistics during the period.

Below we can see that both the EBIT as well as the EBITDA presented retraction on the annual comparison, as well as their margins reflected in a fall off of margins in both divisions due to the factors previously mentioned.

Finally, net profit for 3Q was 56.3 million BRL, 5% higher on an annual basis, an expansion of 0.3% p.p. in the net margin, in the evolution of net margin, which occurred in spite of the retraction of the EBIT margin. It is fruit of the result, financial results which are still more positive, consequence of the generation of cash and the structure of capital, of a deleveraged capital structure and of the positive results of our joint venture with GDL.

The performance of GDLS's, recent GDL performance reflects the growth in the storage of imported vehicles accompanying the increase in the sales of these vehicles in Brazil. Beyond that, the performance of the activity of storage in general of consumer goods also benefited these results.

Looking at slide number 9, we present on this graph on the left the cashflow cycle in September of 23, which was 36 days, 5 days shorter than the cash cycle in the previous quarter due to an improved dynamic in receivables.

With respect to CapEx of the company, the total of investments in 3Q23 was 11.9 million BRL or 2.8% of total, of net revenue, pointing out that the investment of 4.8 million in the renewal of the fleet of company owned vehicles, of tank vehicles for the operation with the chemical sector.

Finally, on the left we look at the cash flow, free cash flow of the company which was of 50 million positive in 3Q23. This cash generation is the fruit of the operational performance allied with the reduction in the cash cycle, as well as the utilization of 4.8 million BRL of tax credits, which contributed positively to our operational cash flow.

On Slide 10, we present the details of our capital structure. In the first graph we can see that the annual cash, the current cash of hand on hand of 259 million BRL, which is above the payments on the net debt for the coming years. In the over 3Q23, we liquidated loans in the amount of 45 million BRL in principle, as well as the capture of loans and financing that total is, total of 51.3 million.

As a result of these payments and new, and new fundraisings, we can see on the graph on the side that the cost of our debt has been reduced compared to the previous quarters reaching CDI + 1.55% in September of 23. In September 23.

On the table below, we can see that our position of cash, net cash position in September of 23 was 163 million BRL in cash, higher than the position of June, and due to the operational results, positive operational results and the reduction in our cash cycle.

Finally, on the right is our rating, which was reaffirmed by Fitch in April of this year and maintained at A Local with a perspective of stability.

Looking at slide 11, we can see the indicators of profitability of the company. Our return on capital invested capital in 3Q23 in in Gray was 28.7%, slightly below that of 2Q, as well as the ROE, the orange line. These variations were due to principally the reduction of the operating margins of Tagma in this quarter.

On the graph below, you can see that the EVA in 3Q23 has also been reduced due to the level of the previous quarter, basically due to the same factors that impacted negatively the ROIC in the quarter.

On the right, we see the story of dividends and interest paid on equity paid by Tagma. On the Gray line, we indicate the payout of these distributions. The payment of dividends enters first with the year, during the year 2023 was of 73.2 million BRL, 65% of the net profit without considering the constitution of the reserve for fiscal incentives. (Inaudible 18:20) corresponded to 8.2%.

Finally, on the last slide we see a performance of our stock compared to the IBOVESPA Index. The stock, Tagma's stock shown in the first graph showed a performance above that of the market overall, and as of, until July, middle of July this this performance is reflection of the resilience operations of the company and the tendency of the recovery of the automotive market.

As is shown in the graph below, stock in Tagma, as well as happens with a lot of the companies listed in Brazil, are sold at multiples below their average, influencing by the macroeconomic scenario, which is still in recovery.

With that, I thank you all for your attention and we open for the session of questions and answers.

Q&A Session

Operator

Ladies and gentlemen, we will now start the session of questions and answers. To make a question, please type *1. To remove your question from the line, from the list, please type *2. Sr. Nivaldo will read the questions sent in during the webcast.

Our first question is from Luis Capistrano, Itaú BBA.

Luiz Capistrano - Itaú BBA

Good afternoon. Thank you for the space to and also for the results. I wanted to hear from you two things, and I think which is the first thing is an update of how you see the market for next year. In the last month, we've had a downturn in the part of interest rates. Perhaps things won't come back as quickly as was hoped for. I'd like to understand what's your humor, the humor, the attitude of clients in the association of vehicle manufacturers and your relationship, any information that might help be useful for us.

And the second question is regarding Fastline. If you have continued to point out about the good performance of the subsidiary, and perhaps the idea is that I wanted to look what could help to have more growth in this segment, and if these possibilities could have an M&A to accelerate this area, if this makes sense. And if you have structure for this type of inorganic growth, those are my two questions. Thank you very much.

Nivaldo Tuba - CEO

Luiz, thank you for your questions. Good afternoon. It's a pleasure to have you here with us in our conference. Let's go. In 24, there are still very few indications of growth out in the market; however, we will give you an overview, the input that we are using in our budgeting. First of all, it's a question of logistics. We estimated small growth in new vehicles, in the national, in the domestic production; and a bigger growth in imported vehicles because the base of imported vehicles in 23 will be smaller. We have, we have BYD looking at good quantities and with a good market acceptance and a marketing program which is quite aggressive. And other big brands that I can mention which are public also, such as Volvo and Porsche, with positions which are quite optimistic for growth this year.

The question of used vehicles, as well as other areas, we understand is the growth which will be disconnected from what we can call the vegetative growth. We're looking at it. It's still a new business, which is in expansion, and we are looking at 2024 with growth in that area. Strong, interesting, strongly interesting growth.

The question of chemical transportation, we're going to have a recovery, and due to 23 compared to 2022, since at the end of this year and in the beginning of 24, a normalization of our fleet. And also, we made an announcement of a big contract which

we signed recently and which will come into effect in 2024, the operation of barrilha with a new player who was not in our portfolio.

On the of electro electronic appliances, transportation, you see the stability of the market in 24, or perhaps is slight retraction of the market due to the readequation of the, of two suppliers and our principal clients making it possible that the average distance run by our fleet will be slightly lower.

Also talking about GDL, our subsidiary in the Espírito Santo, which in the year of 2023 did very well, with results disconnected, positively disconnected from our budget; and there is a sign in 24 of this scenario, have inputs when vehicle projections with our patios full due to the general cargo, which is also moving very well.

Talking about Fastline, we have, has been transforming itself into a very interesting business with good growth, relevant annual growth, and we are looking, we're working on investing in that company and principally to bring it up to speed technologically. We know that right now is the time for the technological advances in the company, which will facilitate a lot the work and consequently the performance will improve and we will be able to mark a growth in the market. That the market might support. Thank you, Luiz.

Luiz Capistrano - Itaú BBA

Very well, thank you, Nivaldo. One last point in relation to M&A in the market of Fastline. Would it make any sense an acquisition in that segment?

Ramón Pérez – CFO and IRO

This is Ramón speaking now. Yes, I believe that we've even mentioned this at some point in time, and within the targets that we have been analyzing there are possibilities connected with the market of vehicles to see some growth in that area, it's part of our strategy.

Luiz Capistrano - Itaú BBA

Very well Nivaldo, Ramón, thank you for your answers. Good afternoon.

Operator

The next question is from Marcelo Arase, BTG Pactual.

Marcelo Arase - BTG Pactual

Afternoon, everybody. Thank you for the opportunity. One point about the impact that you had on the margin in 2023, especially in the dynamic of fuel costs and the pass-through of these costs. How do you negotiate with the clients this passthrough and how has this affected both in 23 as well as 24 with greater volatility in fuel prices?

Nivaldo Tuba - CEO

Good afternoon. We have contracts with the car companies are case by case. There's, even though it's they're independent, there's practically a rule that permits the control of these costs. We define percentages of triggers; when these triggers are reached above or that or below, they are set off, and this has happened with greater relevance in 22. In 23, we also (incomprehensible 27:23) 23 and we understand we've been having success in the negotiations, being able to pass through all of the increases in fuel costs.

For 24, a lot of our contracts are renewed or in the process of renewal. We don't see many surprises there and the same concept will be in effect: a trigger which will increase by as a percentage, whether upwards or downwards on prices, raising or lowering rates due to that. And this we looked at our operational area in the new, in the vehicle sector.

Marcelo Arase - BTG Pactual

There is something that you consider a one-off, not recurring, it's something that should maintain itself going forward?

In relation to the expenses that you've had with personnel in this quarter with the higher number of hiring, and also the increase of in wage contracts, do you think that this is, will continue going forward or is this more of a one-off in the third, affecting 3Q numbers?

Ramón Pérez – CFO and IRO

This is Ramon speaking. I would say, I would call it one-off. We tried to explain this, I am not sure it was very clear, that these readjustments, the size of our team, operating team, they do not happen linearly. So this could have an effect, higher or lower effect in a certain quarter, and this is adjusted over time. So it has a lot to do with the size of our team.

In 3Q, we had a ramp up, increase in cost due to the contract or wage readjustment, but this was a nonlinear adjustment in our costs which will not be repeated in the next quarter.

Marcelo Arase - BTG Pactual

OK, that's very clear. Thank you very much.

Operator

Our next question is from Victor Demier of Vinci Partners.

Victor Demier - Vinci Partners

Thank you. Congratulations on the results Nivaldo and team and thank you for taking my question. I would like you to comment a little bit more on this new contract in the chemical sector. We see that you're also, that you would comment of what to expect in the next quarters in this ramp up, both in revenue and as well as margin for this part of the, for this part of operation, the chemical part of the operation. If you expect their recovery, a lost volume due to the renewals of these trucks, the of the purchase of new trucks. And if you could pass any information about this ramp up in revenue, that would be very interesting for us. Thank you very much.

Nivaldo Tuba - CEO

Hi, Victor. Good question. Based on that contract, that could bring an increase of up to 10% in our revenues in 24 with the chemical sector. It is a very interesting characteristic. The operation of Tegma in a geographical area in which we were not working, not operating. It is new question, one that's very, very relevant, a large client. We're starting their operations with us. Operates with other players. It's also the possibility of growth within the same client. The contract, one year contract and we're putting a new fleet at the service of this client and we're going to see the results.

As you said, starting more specifically, in this last quarter and last days in end of November, we can see almost the new fleet operating at full speed, highly renewed, with a number of new vehicles - and this will be continuing during 2024.

We expect. independent of the chemical market, within the chemical market as a whole, does not see relevant growth. But Tegma, due to its, the actions which you're taking adding to our fleet, placing new trucks in our fleet and having wealth and growth and have a result which will be better than that which we saw in 2023.

Victor Demier - Vinci Partners

Thank you very much.

Operator

Ladies and gentlemen, remembering that to make a question just type *1. We will now pass the word, now look at the webcast questions.

Ian Nunes - IR Manager

Hi people, this is Ian from RI. I would like to mediate the questions which came in during the web press, some of which we've already answered, but we're going to try to answer the others.

The first is from Eduardo: the best cash, the better cash cycle was important for the company and the generation of cash in this quarter. Why there was such a reduction in such, in this quarter? And can we expect that this will continue in coming quarters.

I'd like to pass this question to Ramón.

Ramón Pérez – CFO and IRO

With relation to this reduction, the improvement in our cash cycle, it's very much connected to the reduction of receivables and a mix of sales, which had an improvement in participation with lower payment, shorter payment terms. It is also worth mentioning that the reduction of these, of administrative losses, questions that internally, operational questions which we work with constantly to reduce eventual lateness in payments sometimes, due to systematic systemic questions or lack of proof of payment, but that question is not credit questions; on the contrary, some of the, one of the strengths of Tegma is that we have a portfolio, is the quality of our clients, and that in all of our divisions.

Specifically in this quarter, we had this situation. In the following quarters there's nothing that we can really indicate as being a constant, diminution of, to verify personally the same rhythm of diminishing costs, which ratifies our efforts here, and that which is within our control, under our control, the so-called administrative payments. This is part of the dynamic of our business, of our businesses.

Ian Nunes - IR Manager

Question from **Caio from Vinci Partners**: When we talk about GDL, I pass this question to Nivaldo and ask him to answer about GDL.

Nivaldo Tuba - CEO

Thank you. Really, GDL in this 3Q23 as a component, very important component of investment, due to the imported vehicles in the Port of Vitória, and the Great Wall and BYD have had exponential growth in sales here. Other clients also have contributed, such

as Volvo and Porsche. It's very important and when I look at BYD it is not simply a client in the automotive area. Almost all of the imports that they make through the Port of Vitória, and Vitória concentrates a lot of BYD's imports are removed and operationalized through GDL. GDL has also had a relevant growth revenue through general storage, merchandise which come into our warehouses and are quickly passed through and then are dispatched through our system. This merchandise, other merchandise, which is produced in Brazil, which are brought to our net, our patios or as from our patios are then distributed as well.

It's also worth mentioning that in the in the world, it's not only flowers; we've had results that we considered a little bit below that which was expected. When we look at storage, the tax, import tax, warehousing of the GDL's, the logistics of the new cars and the logistics of general storage, which has reached, compensated clearly the small negative results which were generated.

Ian Nunes - IR Manager

Some questions from Caio which was partially answered already: Do you think about increasing the payout for next year or to make any distribute, extraordinary distribution, considering the possibility of the extinction of the JCP in 20, in the following year?

Aking Ramon.

Ramón Pérez – CFO and IRO

Caio, due to the possibility of the extinction of the of the interest on equity in 2025, there is no definition of extraordinary distribution specifically related to that. We're going to be accompanying this subject and finally the decisions which we will distribute to the market if necessary - but there's nothing decided in that in that sense. What we do have, and it's been happening in this 3Q, is that we brought our payout, which normally has been about 70%, roughly 70%, tax incentive reserves, to something above 70% in this quarter. This is more connected to a question of management of our available cash.

In relation to our strategy of growth, inorganic growth, we always like to remember that our cash on hand, which is due to the capacity of the company to generate operating cash, also due to our low level of CapEx and investment, this cash on hand will be administered due to the velocity with which we evolve in our strategy of growth, of organic through, of inorganic growth through M&A, which we continue to work hard on so that we can put into practice in the near, in the near future, thank you.

Ian Nunes - IR Manager

Next question comes from Guilherme, for Ramón: Congratulations on the results. Can you tell us your expectations of market share for 2024, especially in relation to the

automotive operation? What's the dynamic that this will have for the domestic shares? Will have an effect on domestic shares for vehicles, for domestic vehicles and export vehicles?

I would like to ask Nivaldo.

Nivaldo Tuba - CEO

Thank you, Guilherme. The perspective for 24, what we have, we have results and our attempts with the car companies. It's premature, it's a scenario of, for the chemical sector as well. In the beginning of 23 when we talked about 22, we're talking about growth of 4 or 5%, and today we're looking at, we're looking at 7% growth - and that's actually a conservative number. Within our, we're looking at numbers of growth, we consider those numbers to be very conservative.

As far as the question of exports, we look at the volatility and we look at an average historic reactions in countries such as Peru, Bolivia, Colombia, where the level of exports and cargo has been growing, has been growing.

Ian Nunes - IR Manager

Thank you, Nivaldo. Next question from Victor: Good afternoon and congratulations on the results. As you see, in the environment of pricing in the in the dealer, car dealers and along the chain, how has been, how has this affected the demand, the retail demand? Do you think that this is sustainable, this level of price increases is sustainable?

Nivaldo Tuba - CEO

Yes, we understand that the level of sales recently, sale recent level of sales is sustainable. There is, there are aggressive campaigns on the part of the car manufacturers, together with their dealers. We can look at them and I cannot also quantify the type and the value of these discounts.

The daily sale in October of 23 were 17% higher than the sales in 22, and without any type of government incentive. This shows that there is an incentive from some other side.

Operator

Ladies and gentlemen, we remind you that to make questions, all you have to do is type *1.

We now close the session of questions and answers, and we would like to pass this to Nivaldo for his final comments.

Nivaldo Tuba - CEO

Thank you all very much for participating in our teleconference. We presented the results in 3Q quite similar to all those which were budgeted, very positive in relation to our budget. We're initiating 4Q expecting, working to maintain this level and this dynamic of business. Thank you very much.

Operator

The audio conference of Tegma is now closed. We thank you all for your participation. Please have a good afternoon and thank you for using Chorus Call.
