

2Q24 Results conference transcription 08/06/2024 – 15h BRT

Ian: Good afternoon to all. Welcome to the conference call of Tegma for the earnings concerning the second quarter of 2024. This conference is being recorded and the replay may be accessed in our website. We inform that all the participants will be in the listen mode only, and after that we will have the Q&A session when further instructions will be supplied. For those who are hearing in English, we have in the chat the link of the presentation in English because we will be projecting only the version in Portuguese. I'd like to pass the floor to Mr. Nivaldo, who will begin the presentation. Mr. Nivaldo. You can proceed.

Nivaldo: Good afternoon to all. My name is Nivaldo Tuba, CEO of Tegma. And on behalf of the whole company, I would like to thank you for participating in our earnings conference call. I have with me Mr. Ramón Perez, CFO and Director of Investor Relations, and Ian Nunes. As you can see, we changed the layout of our presentation to commemorate the 55th years of Tegma. The company is developing in you. The company has a commitment with sustainability in our vision of the future. Our objective is to reinforce Tegma and the logistics as a logistics partner and with solutions for the needs of our clients. As usual, we begin our presentation on slide number two, where you can find our disclaimer concerning our declarations involving the future. Now going on to slide number three we show the highlights of the quarter. First we would like to highlight the distribution of dividends and JCP on our own capital. Approved by Administration Council yesterday, it was decided to pay for the first semester of 2024, which will be 80 million reais, to be paid on August 21st, corresponding to 80% of the net profit in the period, approximately 4.8% dividend yield. The second highlight the expansion of yards with our joint venture with GDL to take care of the higher volume of imported vehicles in Espírito Santo. This shows our flexibility to take care of a greater demand for electrical and electrified vehicles in Brazil. The third highlight also the expansion of area due to our operation of vehicles at Tegma due to higher demand for services. We will invest 17 million in the two yards in Pernambuco and in Rio Grande do Sul states. The fourth highlight is our second integrated report, a landmark for the company, increasing our transparency with indicators and goals aiming at sustainability. Apart from this, I invite you to check our document with the results with other highlights. Now going on to slide number four, let's talk about the main data of the vehicle market as we can observe on the graph at the top, domestic sales in 2024 were 19% higher in comparison with the previous year. This performance is due to an improvement in the economic conditions of the country and with lower unemployment and better income. We would like to mention also the greater domestic competition due to the entry of Chinese players in electrified cars. There is another factor that should be the announcement of a new program for acquisition of vehicles by the government, which had a negative impact on sales in part of April and also May. So the production had a drop of 2% in the second quarter of 2024. As we can see in the graph below and on the left, this is due to the performance of exports from Brazil, which had a drop of 30% in Q2 24 with an increase of 40% of imports vehicles in the period. The performance of exports is linked to the reduction of sales of vehicles in the main countries in Latin America, and greater competition from Chinese OEMs. On slide number five, we see the main indicators in the automotive logistics division the number of vehicles transported in the second Q2 2024, 167,000 units, 6.4% higher than in the annual comparison. This increase in the volume transported is due to the growth in domestic sales. Our market share dropped 0.9 percentage points, reaching 24.9% in this Q2 2024, but was stable if compared to the previous quarter. The reduction in market share had a drop due to lower performance in, on average of the OEMs.

Finally, the average distance of transportation in the quarter was 14% higher due to the increase in participation and average distance of domestic trips. Now, I'd like to call Mr. Ramón Perez, who will speak of our results, cash flow and other indicators.

Ramón: Thank you Nivaldo. Going on to slide six. Let's talk about the results of the Automotive Logistics division. As we can see on the graph, there was a growth of 29% in net revenue in this division in Q2 2024, explained by the increase in 6.4% in the number of vehicles transported and 14% in the average distance transported, apart from price increases for transportation in 2024, in the second semester Fast Line our operation focused on used vehicle transportation and logistics contributed positively below the evolution of EBITDA in this second quarter of 2024 and also the margin. The increase of the margin, EBITDA margin for 14% to 17% with the apportionment of expenses is due to gains in productivity in the automotive division, with the growth of operational indicators, revenue, and also control of fixed costs. On slide seven, we show the results of the Integrated Logistics Division. We can see that the net revenue in Q2 24 went up 27% due to the growth of the operation with chemicals, especially due to new contracts to transport Soda Ash, as explained in Q3 23, Q1 24. And also the expansion of home appliances, which has a record demand in Brazil. Home appliances. In the first semester of 2024, as can be seen in an article of Valor Econômico Newspaper, Valor Econômico Newspaper, and also Eletros association. In the graph below, we can see that EBITDA margin in Q2 2024 dropped by from 32.4% to 27.2%. This drop is due to the increase in emergency freight emergency transportation, which has higher costs for home appliances, demobilization of old storage and also more expenses with insurance. Now we will talk about GDL. Slide eight. We saw we see the financial highlights of GDL. We can see that net revenue in Q2 2024 grew 102% in comparison with the previous year, with 71 million. This is due to a 40% increase of imported vehicles in Brazil in Q2 2024, a greater quantity of vehicles that are being stored in Brazil. Most of these is to an aggressive strategy of Chinese OEMs coming to Brazil. Also, the increase on July 1st 2024, a new import tax for electrified electric vehicles in Brazil. The government did this. Thus, OEMs began to increase their inventory in Brazil with imported cars. We can also highlight other services of the company linked to storage, and bonded storage, had a growth in the period due to the positive situation in the sector. In the graphs below, we show on the left the evolution of the of net profit in the joint venture 19 million in Q2 2024 with an increase in net margin. This is due to growth of revenue and operational efficiency. Here, on the graph on the left, GDL distributed 6 million in dividends. Now I pass the floor to Ramón who will continue with the presentation of consolidated results.

Ramón: Well, going on to slide nine, we see the consolidated results. Net revenue of Q2 2024, 473 million reais, that growth of 29% in the annual comparison due to the growth of both divisions in the period. We'd like to highlight that this revenue in Q2 24 is the highest quarterly revenue of the company in the last five years in real terms, showing the recovery of the automotive market and positive performance of industrial logistics and integrated logistics. Below, we see that in Q2 24 bit the margin expanded by 2.2 percentage points, showing the increase of operational efficiency in the automotive division. With the growth of operational indicators and cost control in the period. We'd like to remind you that consolidated expenses are not affected by the apportionment. Finally, the net profit in Q2 24, 64 million, 59% higher with an expansion of 2.5 percentage points in the net margin. This performance is due to the improvement of operational results as explained previously. Together with the growth of equity and the increase in financial results. On slide ten, we see in the graph on the left the cash cycle at the end of Q2 24, 40 days. Same level as seen in the previous quarters, and which is the current normal, considering receivables in the company.

Concerning CapEx of the company. Total investments in Q2 2024 was 12 million, or 2.6% of net revenue. Among investments of greater relevance in the quarter, we had the acquisition of equipment for logistics of chemicals and also renewal of equipment totaling 2.7 million reais and the investment in the installation of the new ERP 2.8 million. Finally, on the right, we see the free cash flow of the company in Q2 24, 28 million. This cash generation is a consequence of positive operational results, together with a reduction in the cash cycle in the quarter, the reduction in the of the cash flow in 2024 happens due to greater demand for working capital with rapid growth of revenues, which compensated part of the gains. On slide 11, we see the details of our capital structure. On the graph on the left, we can see current cash 283 million reais, which is significantly higher to the amortization of the gross debt of the following years. Concerning the debts, we made a payment of 10 million reais, and we used a credit line of 8.7 million and an interest rate of CDI, plus 1.69%, and payment until 2040. For acquisition of silo trucks in order to renew our fleet for transportation of chemicals. On the table below, we see that our net cash position in 2024, 177 million. Finally, at the top, we see the cost of our debt CDI plus 1.6%. This is the level of debt. Below our rating was confirmed by Fitch in April as a local and prospective stable. Going on to slide 12. We show the indicators of profitability of the company. The return on invested capital in Q2 in gray was 30.1%, an increase of 2.6 percentage points in relation to the previous quarter due to the good performance of the Automotive Logistics division and the stability of the capital invested in the pier. Also, in the case of ROI on the Orange Line, we see a growth of 2.2 percentage points due to the same reasons of the increase in ROIC, with a greater contribution of GDL in the results of the company via equity. On the graph below, we see that the EVA in Q2 2024 rose between 69 and 96 million. Basically, due to the improvement of the operational results which were explained and almost stability of the capital invested in the period. On the right, we see the history of dividends and JCP paid by the company. On the black line. We indicate the payout of the distribution of first semester 2024, which was significantly higher than in the previous year, 80%, and also dividend yield of the last 12 months, which reached 10.2%. Finally, the last slide 13, we show the performance of our shares in comparison with the stock market index in Bovespa. On January 2nd, 2024, the shares of Tegma, as shown on the on the graph above, had a lower performance in the stock market since April. The impact was due to capital market situations, which affected the attractiveness and liquidity of small caps and in spite of the resilience of the company, as shown on the graph below, the shares of Tegma, as we can see with most of the companies listed in Brazil, are being negotiated at multiples a little lower than the average, historical average. Thank you very much. And we would like the Q&A session.

Ian : Okay, Ramon. Thank you. We will begin the Q&A session for investors and analysts. If you wish to ask a question, please press the button "Raise hand". If your question is answered, you can leave the queue by lowering your hand. If you want to send a question in English, please please key in the question at the Q&A. We have some questions. I will pass the first two from Marcelo Arazi from BTG Pactual.

Marcelo: Good morning. Thank you. Two points we'd like to address. Do you have any update concerning the Cade situation? And also the second question, we see a gradual improvement in the margins. How far can this go apart in spite of the effects you showed? And what are the perspectives for the medium and long term in terms of higher margins?

Nivaldo: Hi, Marcelo. Thank you for the question. Let's talk first about the the administrative process in the county is now in a new phase with an investigation. And

this due to what happened in 2019. Not only us, but other participants too. It's not the first time that we suffer these accusations. We are working on this, showing our arguments, defending ourselves. We trust in a positive outcome for this process in court. We cannot tell you when, but now we will defend ourselves and this will take some time. And this will finish through another report from the Cade which will be judged. In other words, it's an administrative process by the government CAD. We will defend ourselves and we have had this in the past. It's not the first time. The second concerning logistics. With new accounts in the logistics division for chemicals, we had renegotiations in rates and prices, and we were able to have a better. a level that is a little better in terms of margins. There we have new routes, acquisition of new silos, new equipment. So in the chemical division we are in a stable position concerning margins and concerning the white line, home appliances, where we have logistics for packaging. In the past, we had a problem with our margins due to lower sales in home appliances and the change in the distance between these suppliers, which gave us less revenue. All of this was corrected with renegotiations of contracts. Our margins are not growing. Our margins are stable.

Marcelo: Thank you.

Ian: Thank you Marcelo. Now I'd like to pass the floor to Pedro.

Pedro: Good afternoon. Congratulations for the results. I have two questions. One to understand for Q3. I saw that you had some points at the end of Q2. Can you give us an idea about the results in Q3? We had the impact of the floods in Rio Grande do Sul in the south of the country. But we see in a market that is improving, we see better demand. And the second is about GDL concerning investments being made in capacity. For 2026, we see taxes of 35% on electric vehicles, higher taxes on electric vehicles. How do you see the volume of imports from China in the future with higher taxes on imported vehicles?

Nivaldo: Okay, Pedro. The current situation of the automotive market is very positive. With everything that we saw. The level of activity, the economy in Brazil with lower and employment, better income and Fenerbahce also showed this in the last few days. So it's a good situation for the sale of new vehicles. Recently, we noticed an improvement in the sector, which is the reduction of delinquency on the part of individuals in the country, and this happened in June. This can help increase sales, credit, through credits, and also the warranties, which gave more speed to financial financial institutions to recover the goods where there are delinquency. We see, we see, we can say that we don't see relevant problems to reach sales that are 15% higher. On the other hand, the exports, the exports are suffering with competition from the Chinese OEMs in the markets where we export. These markets also have a bad economic situation. Also, the devaluation of our currency can help us in this, devaluating the real. In the short term, the sales in July were the best since before the pandemic. They grew 5% on the annual comparison in July last year. The situation was very strong. There was an incentive program with lower taxes for vehicles. So even with the strong basis of last year, we had a growth of 5% this year. Also, you mentioned the flood in the south of the country. It's difficult to evaluate because the deliveries suffered a strong drop in May due to the flood, 50% in relation to March and April, but June 17% higher in relation to March. So it's difficult to see how much this how much the floods accepted the market as a whole. So, we had the problem, but we also had a recovery after the floods. In terms of GDL, you are right. There is the hope that with electric and electrified vehicles the taxes will be higher. This can bring a drop in imports in the following years because of higher taxes. We are in touch with the current OEMs, car

companies, and they're very they are very optimistic because they may open plants in Brazil. The investments made in Brazil are investments we made yarns that were rented from third parties. So, I don't believe we will have problems in the medium and long term. Okay, Pedro.

Pedro: Thank you. Perfect.

Ian: Thank you. Pedro. We received two questions in writing. First, Eduardo the situation of the automotive market. This was answered. This question was already answered. Lucas Xavier asked the question about our payout. So, what do you intend? Do you intend to continue with a payout of 80% in 2024? Ramón? Than

Ramón: Thank you. I'd like to begin explaining that the increase in the payout is due to the positive performance, as you saw in our results, operational results. The increase of our capacity in terms of financial leverage for inorganic growth. We're investing a lot of time and energy. Looking for interesting targets. And obviously if these studies were more advanced, the payout. I can tell you that this is not written on stone. We maintain our policy to distribute at least 50% of the results, and we have the right to adjust the amount according to what we believe is the best allocation of capital.

Ian: Okay. Thank you. Ramón. We have no more questions from the webcast or via audio. Would anyone else like to ask a question before I pass the floor to Nivaldo for his final comments? No? Nivaldo, your final comments.

Nivaldo: Well, thank you very much for being with us in this presentation of the earnings. A different day. It's a very happy day. After we had we had our meeting yesterday. But today, the world is going back to a better situation and our shares had an important reaction. The price went up. This shows that we continue on the right track with a lot of resilience, looking for opportunities in the market and maintaining a governance and cost management as a focus. Thank you very much. We wish you a good day.