Results Conference Transcription

Ian: I am your manager of Tegma. Welcome to the conference call for the earnings concerning the fourth quarter of 2024. This conference is being recorded, and the replay may be accessed in the company's website after the call. We inform you that all participants will be in listen only mode during the presentation, after which we will have the question-and-answer session when further instructions will be provided. Again, for those listening in English, we have in the chat the link to the presentation in English because we will be showing only the version in Portuguese.

I'd like to give the floor now to Nivaldo Tuba, CEO of Tegma, who will begin the presentation. Nivaldo, please, you may proceed.

Nivaldo: Good afternoon. This is Nivaldo Tuba speaking, CEO of Tegma. And on behalf of the entire company, I thank you once again for participating in another earnings conference call.

With me here are Ramón Perez, our CFO and the IRO, as well as Ian Nunez, our Investor Relations Manager. Very well. As usual, we start the presentation on slide 2 where you can find our disclaimer regarding forward-looking statements.

Moving to slide 3, we have fourth quarter highlights. First, we highlight the proposal for payment of dividends and complementary interest on equity referring to fiscal year 2024 to be submitted to the shareholders meeting to take place on April 9th.
A distribution of 39 million BRLs or 59¢ per share was suggested, the cutoff date for which will be April 9th with payment on April 23rd. This distribution added to the advances paid throughout 2024 corresponds to 66% of the net income for the period, and the dividend yield of these payments combined is 9.7%. The second highlight is an important achievement which is the result of the company's efforts and the effort of our sustainability department. After the publication of our second integrated report, we were among the finalists in the 2024 Abrasca Award for Best Integrated Report among companies with net revenue of up to 3 billion BRLs. This recognition in such a short time shows a revolution when it comes to sustainability and makes us even more eager to go for this award in the coming years.

The third highlight is the arrival of Paulo Franceschini who joined Tegma as Officer of the Integrated Logistics Division. He will be responsible for the operational and commercial management of this division. Paulo takes over at a time of great challenges for the division. One of his missions is to ensure the continuity of the current anchor contracts, increasing productivity, and guaranteeing their renewal. He will also work to find new clients who demand the services already provided by Tegma as well as look for new segments and services related to the current ones.

Moving now to slide 4, let's talk about the main data related to the market of new vehicles in Brazil. As can be seen in the top graph, domestic sales in the fourth quarter 2024 were up 14% year on year. This performance is due to the continued improvement in economic conditions in the country, especially the fall in unemployment and higher income. We would point out also that the legal framework for guarantees approved in October 2023 has contributed to expand auto loans and also explains part of this performance. On the bottom left, we show that production grew by 17% in Q424.

This increase was due to the performance of domestic sales as well as exports of vehicles from Brazil, which grew 41%, a consequence in turn of the depreciation of the Brazilian currency, the real, in the growth of some important markets. On slide 5, we present the main operating indicators of the automotive logistics division. The number of vehicles transported in the fourth quarter of 2024 totaled 202,000 units, up 15% year on year. This increase is a reflection of the growth in domestic sales and exports as explained in the previous slide. Our market share contracted 0.3 percentage point year on year to 24% in the fourth quarter of 2024.

This drop in market share compared to the previous year was due to the lower-than-average performance of the automakers market to which we have significant exposure. Lastly, the average distance traveled in Q424 was 1.3% higher year on year due to the increase in the average distance of domestic trips, which in turn stems from greater or higher sales outside the Southeastern region of Brazil. Well, after these initial highlights, I'll give the floor to our Chief Financial Officer, Ramón Perez, who will talk about our results, cash flow, and other indicators. Thank you.

Ramón: Good afternoon, everyone. Moving to slide 6, let's talk about the results of the automotive logistics division. We can see in the top graph that there was a 41% increase in the division's net revenue in Q424. This is explained by the operational performance already explained in addition to the transportation tariff adjustment in 2024. In this fourth quarter, Fastline, our operation focused on the logistics of used vehicles and new motorcycles contributed positively to the division's performance as did the yard management and vehicle storage operations, due to a high demand from the automakers. In addition, we highlighted in our earnings release the increase in 2024 of a service that, although recurring in our operations, has been gaining prominence, namely, the transfer of vehicles between yards and factories for some clients.

The continuity of the service in subsequent quarters will depend on client demand and is not linked to the division's recurring transportation service. Below, we see the evolution of EBITDA in the fourth quarter compared to the previous year as well as EBITDA margin based on the concept of EBITDA excluding the apportionment of expenses for 2024.

We see the margin increasing from 15.1% to 20.1% by virtue of productivity gains in the automotive operation with growth in operating indicators and revenues as well as control of fixed costs and administrative expenses. On slide 7, we have the results of

the integrated logistics division. We can see that the division's net revenue in Q4 increased by 1% year on year.
We had this performance despite a reduced arrival of ships carrying sodium sulfate and soda ash which drives the chemicals operation. On the other hand, the 9% growth of the division's net revenue in the full year 2024, also year on year, is the result of two new contracts to carry soda ash in the impaired comparative base due to reduced operations at the time of fleet renewal that took place in 2023. As we announced in the last quarter, the new contract for the household appliances operation of a new client includes a smaller scope of services compared to the former client we had in the same sector. This means that revenues are still modest. On the other hand, we intend this new contract to represent an important new avenue for growth in services and revenues for our division.

In the chart below, we can see that EBITDA margin in Q4 fell from 29% to 21.8% excluding the apportionment of expenses. This contraction is explained mainly by reduced volumes of the chemicals operation, as explained when we talked about the revenue dynamics as well as a lag in passing on increase to freight costs to clients.

On slide 8, we show GDL's financial highlights. We can see in the top graph that net revenue for the fourth quarter of 2024 grew by 37% year on year, totaling 65 million. This growth is the result of increased demand for bonded warehousing services and demand from distribution centers for these segments of consumer goods, automotive parts, and heavy machinery.

The company recently opened a new distribution center to accommodate this demand. Revenues from storage of imported vehicles which contributed to the strong growth of recent quarters in Q424, now have a more balanced comparative basis and are not growing at the same rate as before. On the bottom charts, we show on the left the evolution of the joint ventures net income, which stood at 13 million BRLs in the Q424, up 39% compared to Q423. This performance is a reflection of the expansion in revenue combined with operating efficiency in terms of costs and expenses. Lastly, in the bottom right, in 2024, GDL has paid 54 million in dividends and posted a return on equity of 91.6%.

Moving on to slide 9, we present the company's consolidated results. Net revenue for the fourth quarter was 624 million BRLs, increasing 38% year on year, basically explained by the growth in the automotive logistics division in the period. Below, we see that in the fourth quarter, EBITDA margin expanded by 3.9 percentage points reflecting the increase in operating efficiency in the automotive division with improved operational indicators and control of costs and expenses. It's worth noting that this quarter's expenses were impacted by higher spending related to M&A initiatives amounting to 1.7 million BRLs. In the full year 2024, the 10% increase in expenses above inflation in the period is due to higher spending with attorney's fees and consulting firms involving a number of topics ranging from competition issues to tax contingencies and M&A initiatives.

And finally, net income for the fourth quarter stood at 85 million BRLs up 67% year on year with net margin expanding by 2.4 percentage points. This performance is due to the improvement in the operating result as explained before coupled with growth in equity income in the period. It is worth noting that this expansion took place even with an increase in the tax rate of income tax and social contribution following the approval of Law 14.789 which came into force on 01/01/2024.

Moving on to slide 10, the graph on the left shows the cash to cash cycle at the end of the fourth quarter, which was 40 days higher than the level of the past quarter but within the normal range of the last twelve months. CAPEX in the Q424 totaled 17 million BRLs or 2.7% of net revenue.

Among the most significant investments were improvements to two plots of land used in the vehicle's operation to expand storage capacity for vehicles for imports and local production totaling 6.5 million BRLs. As well as the position of semi-trailers for the vehicle logistics operation in the amount of 3.8 million BRLs. Lastly, on the right, we show the company's free cash flow, which in the fourth quarter was positive at 27 million BRLs. This cash generation is due to the growth of the automotive logistics division and the improvement in working capital in the period. On slide 11, we present details of our capital structure.

In the graph on the left, we can see the company's current cash of 241 million BRLs, which is significantly higher than the gross debt to be repaid in the following years. In the fourth quarter, we didn't make any payments of debt and we did not raise any debt. In the table below, we can see that our net cash position in December 2024 was 138 million BRLs.
Finally, on the top right, we present the history of our cost of debt which currently stands at CDI plus 1.6%.
Below this information on our rating which was reaffirmed by Fitch in April of 2024 as a local with stable outlook.

Moving on to slide 12, we show the company's profitability indicators. Return on invested capital for the Q424 in gray was at 39.5%, an increase of 4.8 percentage points quarter on quarter. This is due to the performance of the automotive logistics division and the near stability of invested capital in the period. Also, in the case of return on equity, the orange line, we see an increase of 3.2 percentage points both due to the same reasons for the increase in ROIC and due to GDL's greater contribution to the company's results via equity income. The graph in the bottom left, we can see that EVA in Q424 rose to a range between a 128 million BRLs and a 156 million BRLs depending on the weighted average cost of capital used as a base.

This expansion is due to the improvement in our operating results in the near stability of invested capital in the period. On the right, we show the history of dividends and interest on capital paid by the company. The black line shows the payout of distributions, which in 2024, including the distribution to be proposed in the shareholders meeting on 04/09/2025, will be 66.4%. Dividend yield of 2024 payout was 9.7%. On the last slide, we show our share performance, the orange line, compared to the IBOVESPA index in black and the small caps index in red.

Using as a comparison of last year's closing position, Tegma´s shares as shown in the top chart outperformed both indices from the beginning of February. Due to the positive performance of the automotive market and the company's results. Finally, in the chart below, we present a history of the multiples at which Tegma´s shares have been trading. Despite the robust indicators and results, we can see that our shares continue to show multiples below their historical average. But with that, I would like to thank everyone once again for your participation and interest in our company, and let us start our Q&A session.

Ian: Thank you, Ramón. We're starting the Q&A session for investors and analysts. If you would like to ask a question, please press the “raise hand” button. If your question has been answered, you can leave the queue by clicking “put your hand down”. If you would also like to ask a question in writing, you can do so.

Please type your question in the Q&A field at the bottom of the screen.

There is a question by Gabriel Rezende with Itaú. Operator, please enable Gabriel's mic. Gabriel, you can speak the question, we cannot hear you.

If you were talking, your microphone is not coming through, but your audio is enabled. Please go ahead. Well, since Gabriel, for some reason, cannot be heard, there is a question from Cristian Oliveira, and we'll come back to Gabriel in a minute. Cristian?

Cristian: Hello, Ian and everyone. Thank you for taking my questions. Can you hear me?

Ian: Yes, Cristian. We can hear you.

Cristian: Perfect. I would like you to explore the tariffs dynamic for the second quarter. We see a very positive tariff performance in the revenue per kilometer, expanding almost 20%. You spoke in the release that there is a positive effect in the mix of services and yard management and more transfer of vehicles between yards and factories of the automakers. This service appears in the revenue, but not in volume, which is what we use for projections. Have you explored that?
I would like you to elaborate on the mix. To what extent do you think that this is recurrent? And do you think that there will be a higher demand for this kind of service?

Nivaldo: Hello, Christian. This is Nivaldo Tuba speaking. Thank you for the question. Indeed. What you mentioned is a big differential we have at Tegma. We don't just do transportation. In other words, moving the vehicle from one point to another, but adding logistics services, especially PDI, yard services, yard management services.

This additional service ends up adding value to our tariff and, of course, to our revenue. This is a service which has been increasing gradually. We also have foreseen expanding some yards in the coming quarters so that we can provide the service in a consolidated and integrated way. So, this will add value to our tariffs and to our revenues. When we translate that in terms of value of kilometer traveled, this is an increment.

Ian: Thank you, Nivaldo. Let us… well, Cristian, anything else you would like to add?

Cristian: No. That was the question. Thank you very much. It was very clear.

Ian: Let's try to hear Gabriel Rezende.

Gabriel: Hi there. Can you hear me now?

Ian: Yes, Gabriel. Now we can hear you.

Gabriel: Oh, thank you, Ian. Good afternoon, Nivaldo. I have two questions. If you could elaborate on the company's expectation of payout for 2025. I understand you don't want to give us a guidance, but I just want to know whether we could expect a level similar to what happened in 2024 close to 66% or something higher considering that the company has a very healthy debt and a very liquid balance sheet.
Perhaps the payout could be a little higher?

Second question: What do you feel is the mood of the automakers? What kind of conversations are you having in terms of volume expectations? In the last Investor Day, Nivaldo said that he expected kind of a flatter market in 2025, but 2025 has started with a positive surprise.

So, do you maintain what you shared with us in the investor day, or do you expect this to improve?

Ramón: Thank you, Gabriel. This is Ramon speaking. How are you doing? Well, first question regarding dividend payout.

What I can tell you is well, I'd like to draw your attention to our proposal to the management where we submitted a cut significant increase in our CAPEX. We had a CAPEX of 57 million in 2024 to almost 90 million in 2025. We also need to take into account that… and this is something that we've been mentioning over and over for several months now, actually, for several years now, that we have been preserving our financial leverage capability and linking it to discussions that have taken place in recent years regarding possible M&A deals. Another aspect to be considered is that even with this level of payout of 66%, if you look at our history, this is not far from past percentages of around 70%. It is much higher than our policy, which is to have a payout of 50%, 55%.

And lastly, I would highlight that even with a 66% dividend payout, which is very much aligned with increased in CAPEX and maintenance over financial flexibility and leverage flexibility, we achieved a dividend yield close to 10%. If you take all of that combined, we consider that this is the adequate level for the moment. We did not commit to 70% or 80% payout. We have an indicative policy, and we do active management of that depending on the tactical and strategic movements of the company for the short and midterm. Alright?

This is what I can tell you regarding that topic, and I'll turn the floor to Nivaldo.

Nivaldo: Hello, Gabriel. For your second question, yes. In our Investor Day, we had an outlook, a commercial outlook. And these expectations effectively changed.
They did not change dramatically, but they changed improving a little bit. And I can give you a firsthand news. There was a testimonial by the CEO of Stellantis saying that Brazil is a stable country that is poised for sustainable growth in the automotive market. He announced they're hiring 1,500 new employees for their productive unit. So, this is good news coming from an industrial conglomerate, which is very robust.

Now to your question, the outlook for the first two months of 2025 was quite interesting. Sales in the first two months, grew 8% over 2024. That's an important number and very much in line with the expectation of growth published by ANFAVEA and other regulatory bodies and their expectations for 2025. And given the amount of uncertainties in the Brazilian economy at the moment, That's different from the Stellantins CEO. So, we expect… we consider this 8% increase in the first two months as being a substantial growth.

To give an example of this growth, this was driven by intermediate automakers such as Honda, BYD, Caoa Chery, Citroen, and traditional automakers such as GM, Volkswagen, and Toyota. These growing slightly below the 8%. And considering the big ones, Fiat was the only bigger one that grew more than the market average. We also had a slight negative highlight that pushed the average down, which was Hyundai which had a relevant sales reduction. So, Gabriel, you see, we had the first two months doing quite well. First two months that gives sustainability to the beginning of the year, and we expect to maintain that level and that level of growth following the expectations of the regulatory bodies.

Gabriel: Excellent. Thank you.

Ian: Gabriel, anything else you would like to add?

Gabriel: Ian, if I can ask one more question.
Well, thank you, Ramón and Nivaldo. But if I may, what is your expectation for GDL? GDL became much more representative in the recent quarters. And now with the tariffs for electrified vehicles in the middle of the year, we should see another acceleration in the imports of Chinese vehicles. So, I'd like to understand, do you

expect this dynamic to be sustained or perhaps accelerate the numbers that we are seeing today for GDL?

Nivaldo: Well, Gabriel, based on our budget, our 2025 budget prepared by the GDL management and supported by Tegma's Board of Directors, we're expecting growth in the level of revenues compared to the level of 2024. You see, BYD, which is the main client of GDL's automotive line, has a higher budget than their 2024 budget. And this was in the news. There was the arrival of a huge vessel bringing 5,000 cars, and they were all moved to GDL. We just ended the investment in a fourth warehouse to store spare parts, automotive spare parts.

So, we expect the growth of the automotive line and not being restricted only to BYD in Chinese. We have, like, three or four additional Chinese brands coming to Brazil, and these vehicles will be coming in through the Espírito Santo Ports, and they've been moved to GDL. But more than that, we are developing a whole commercial work. We're continuing the commercial work we are doing to serve a diverse market that belongs to GDL. And I'm talking about domestic market either for the distribution center or for bonded warehousing operations.

So, in a nutshell, we understand that GDL will execute its budget very similar to the budget of 2024. In other words, kind of maintaining those volumes. Okay?

Gabriel: Excellent. Thank you very much, Nivaldo.

Ian: We r eceived a question from Antonio Rizzo in writing. He asked us to speak about the expectations for 2025, but I believe that we have answered that in our previous answers. One last call for questions. Anybody else would have a question or else we'll move to Nivaldo's final statements. There seems to be no more questions.

So, Nivaldo, you have the floor.

Nivaldo: Well, everyone, before anything, thank you very much for trusting Tegma. Thank you very much for the work that we developed together in 2024 with your trust in our business, in our shares. We ended the year with very positive results. We started 2025 with optimism.

Although, 2024 bar is quite high, well, we still have some challenges to overcome. But we structured adequately our integrated logistics division. We brought in a new officer, somebody who is very seasoned and experienced to develop this area according to everything that we've been communicating to the market, namely having a better balance of our revenues to have integrated logistics closer to the vehicle logistics division. We had the first two months of domestic sales of cars with adequate volumes as I mentioned. And we expect that the market will keep it up.

Thank you very much for your attention.