

International Conference Call

TEGMA Gestão Logística S.A.

1Q 22 Earnings Results

May 4, 2022

Operator

Good day and thank you for waiting. Welcome to Tegma Gestão Logística S.A. conference call to review 1Q 22 Earnings Results. Today we have:

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

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After Tegma's remarks are over there will be a Q&A session, when further instructions to participate will be provided. Should you need assistance during this conference call please dial star zero (*0) to reach the operator. The replay of this event will be available right after the end of the conference call for a period of seven days.

Now I will turn the conference call over to Mr. Marcos Medeiros, Tegma's CEO, who will start the presentation. Mr. Medeiros you may begin.

Mr. Marcos Medeiros – CEO

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

On slide 2 we have a disclaimer regarding our forward-looking statements.

On slide number 3 where we have the highlights of the quarter, we start with the announcement that we received the Brazilian Digital Transformation Award. TEGMA was one of the 17 organizations selected by Micropower Institute Digital Transformation. We were selected to receive the award. According to the organizers, the initiative aims to identify and recognize organizations with experiences in innovation and digital transformation that stood out in the period of 2021.

Moving on to the second topic, we have the expected impacts of the Ukraine conflict and of the COVID 19 outbreak in China, and the impact of all that on the automotive industry. Russia and Ukraine are major producers of essential inputs for vehicle manufacturing, such as palladium, neon gas and electrical harnesses, making the global supply of these products even more difficult.

Additionally, the lockdown in some cities in China puts a strain on global supply chains that may impact vehicle production in Brazil in subsequent months.

The third highlight, as detailed in the minutes of the Board of Directors meeting on April 20, we convert it debentures of the startup Rabbot and acquired new shares in the amount of 4 million BRL. In this process added to other capital inflows that the startup will receive from other investors, TEGMA will end up with 16.2% stake in the company. Simultaneously, the startup made its series A with the innovation arm of a large financial institution.

With these highlights I turn the floor over to our CFO, Ramón Pérez, to talk about our operating indicators, about our results cash flow and other indicators.

Mr. Ramón Pérez - CFO and IRO

Thank you Marcos, good afternoon. Starting on slide 4, on slide 4 we see the main statistics of the vehicles market or the automotive market in Brazil. As we can see in the top chart, domestic sales in 1Q 22 were 25% lower YoY, reflecting the impact of the economic scenario that has been affecting demand, in addition to supply issues that the automakers have been facing.

The four-week shut down at GM's Gravataí plant in Ríó Grande do Sul once again was a negative highlight. As a result of this scenario production was also down 18%, as shown in the chart below on the left side. The drop in production, however, was mitigated by the 14% growth in exports. This was due to the good performance of sales to MERCOSUR and Chile, as shown in the graph on the bottom right.

On slide 5 we see the main operating indicators of the automotive logistics division. In the top chart, the number of vehicles transported in 1Q 22 was 15% lower in the year-on-year comparison; but the market share grew by almost 1 p.p. to around 24%. This market share growth was due to the favorable sales mix of our main customers, despite the four-week stoppage of the main plant of General Motors, as we mentioned. This affected us negatively.

Average distance traveled in the chart below was 7% lower in 1Q 22 on the back of two factors: the aforementioned stoppage of the General Motors plant, from which

the longer trips depart; and also due to the growth in the share of exports in total trips, which have a shorter distance.

Moving on to slide 6 please, here we have the results of the automotive logistics division. We can see in the top chart that the division's net revenue in 1Q 22 was flat versus the same period in 2021. This stability occurred despite the drop in volume and the drop in average distance shown on the previous slide. What mitigated these effects were adjustments made to transportation and service fees in 2021 and 2022, as well as the growth in revenue from the logistics of used vehicles through our subsidiary Fastline, in addition to growth of other logistics services such as yard management, accessory installation and other services.

The chart on the bottom left shows a drop in EBIT margin this quarter. Part of this reduction can be explained by non-operating revenues, which positively impacted expenses in 1Q 21 by 6.7 million BRL, harming the comparison. On the other hand, even disregarding this impact we observed important reduction, 9.1% down to 5.9%, due to the excessively low volumes of vehicles transported in the quarter, and this volume translates into less dilution of fixed and personnel costs, in addition to an increase of some maintenance costs.

Likewise, in the chart on the bottom right it is necessary to adjust for the same nonrecurring events of 1Q 21 to reach another good variation, which reflects basically the same explanations applied to the EBIT margin and that comparison with the 13.2% down to 10.4%.

On slide 7 we have the results of the integrated logistics division. In the top chart the division's net revenue growth in 1Q 22 over 1Q 21 mainly reflects the berthing of two vessels with sulfate and soda ash in January that should have berthed in December of 2021. This performance occurred despite the drop in revenues of the logistics operation for the home appliances sector, reflecting the difficulties faced by the Brazilian retail market and some occasional parts supply issues. This positive revenue performance is reflected on both EBIT and EBITDA margins, which showed significant growth stemming from a better dilution of fixed costs.

Now moving on to slide 8 please, here we see TEGMA's consolidated results. We highlight net revenue in the top chart up 3%, negatively impacted by the 15% reduction in number of vehicles transported and 6.7% reduction in average distance in 1Q 22. However, these effects were more than offset by fee adjustments in the automotive division and by revenue recovery in integrated logistics.

The 28% drop in EBIT and 3.9 p.p. drop in EBIT margin in 1Q 22 YoY reflects the automotive logistics losses with lower volume and shorter distances traveled, in addition to the aforementioned positive nonrecurring event from 1Q 21. If we were

to exclude this event this would be a 10.1% reduction to 9%; however, it should be noted that this result is helped by the improvement in integrated logistics, as well as EBITDA variations on the right. Also here, excluding the nonrecurring event in 1Q 21 our margin would drop from 16.5% to 14.6%. When we exclude the nonrecurring events which positively impacted 1Q 21, we see that there was a reduction in expenses, even at a time of high inflation.

Lastly, in the graph on the right we can see that net income in 1Q 22 fell only 7%, in other words a 0.8 p.p. retraction only in net margin, much less than the operating indicators, and this was due to the improved equity income result from our joint venture GDL, which has grown 63% since it started operating. It now accounts for more than 10% of our net income.

In addition, our financial result also improved as a consequence of a higher CDI rate in the period and the cash-to-debt ratio in that period.

Further, on slide 9 we show in the graph on the left the company's CapEx, which totaled 4 million BRL in 1Q 22, representing 1.8% of net revenues with no single investments pending out. In the middle we can see TEGMA's 1Q 22 cash-to-cash cycle of 50 days, 3 days less QoQ. This indicator remains influenced by a higher than regular volume of Accounts Receivable, and this is due to commercial issues; but this has been regularized little by little - but consistently.

Lastly, on the slide on the right we see the company's free cash flow, which was 72 million BRL in 1Q 22, much higher than 1Q 21 due to the settlement of overdue receivables and the release of more working capital from the automotive operation.

On slide 10 we show details about our capital structure. In the first graph, it becomes clear that the company's cash of 211 million BRL in March 2022 is much higher than the current gross debt repayments for the next three years. In 1Q 22, 10 million BRL of export credit notes were paid, and this explains the increase in the average cost of debt shown in the graph, since this debt had a very low cost. Therefore, just because of the effect that we settled a cheaper debt, our average cost of debt rose to CDI +2.9%, as shown in the graph on the right.

But now in April, we also paid 50 million BRL of another export credit note that matured, which in this case this payment will again bring down our average cost of debt to much lower levels.

Regarding the makeup of TEGMA's debt in the table in the bottom left-hand corner, we can see that in March 2022 we had net cash of 91 million BRL, reflecting the company's very deleveraged structure.

Lastly, on the right we point out that even in a very challenging time for the automotive industry, our rating was reaffirmed by Fitch just last month at the level of local A with stable outlook.

Moving on to the last slide we first show the behavior of TEGMA's return on both, capital invested - ROIC and return on equity - ROE, in the top graph. We highlight that the ROIC of 16.3% in March 2022 representing a drop compared to December 2021, mainly reflects the difficulties faced by the automotive industry headed to the macroeconomic problems and their impact on the national retail market.

The ROE for the quarter in turn was stable compared to December 2021 by virtue of the improvement in equity income, as already explained, and the reduction of the financial result, which offset operating losses in the period.

In the graph on the bottom left we present the history of dividends and interest on capital paid by the company. In the gray line we show dividend payout as well as dividend yield, which have recovered in 2021 reaching almost 6%.

In the two graphs on the bottom right we provide information related to our share performance. First, in the chart above we have the chart of multiples. Price earnings in gray is at its lowest level in recent quarters, as is the enterprise value/EBITDA ratio, which was 5x in 1Q 22. Well, we believe that this is mainly due to the uncertainties related to the automotive market and the macroeconomic scenario in general.

Down below we see the performance of our stock compared to the Ibovespa index in 2022. Also due to the great uncertainties related to the automotive market, TEGMA's shares have been very volatile during the year, with reduced liquidity and a performance close to the Ibovespa index YTD.

With that I thank you all for your attention once again and I open the floor for questions and answers.

Q&A Session

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please dial *1. If at any time you would like to remove your question from the queue please dial *2.

Our first question comes from Aline Gil, BTG Pactual. Aline, you may begin.

Ms. Aline Gil – BTG Pactual

Hello, thank you for the call. I have two questions: considering the lockdowns in China and the Russia Ukraine conflict in Europe, can you give us some color in terms of what is your expected volume for 2H TY, both in terms of domestic sales and exports? That is the first question.

Second question regarding ROIC. Considering this still challenging scenario for the automotive industry and the impact of inflation, how do you expect the ROIC to behave in the coming quarters? Thank you.

Mr. Marcos Medeiros - CEO

Hello Aline, this is Marcos, thank you for the question. Well, this is a hard question. I think that we have new variables in our equation. Well, speaking first about the lockdowns in China, already we see an impact particularly in the logistics flow. We can see a long line of vessels waiting to moor and stressing breakage in the supply chain. This has had an impact, both on operating capacity and on cost increase. Particularly in Brazil we are waiting for parts, so yes, China lockdowns do have an impact.

Regarding the Russia Ukraine conflict, as we mentioned there is also an impact because they have raw materials there and products which are important for our segment, the automotive segment such as palladium, neon gas, the electrical harnesses. It is all linked to production. In our recent conversation with our clients they are concerned about this delay in supply, and they are particularly concerned about prices. Prices will definitely increase in the coming months.

And why, Aline? Because they are having to try to find options for supply. If they cannot count on Ukraine, if they cannot import material from Russia, they need to develop new suppliers. The time needed for that and the development of new relationships bring additional cost. That is already an impact for the automakers.

Now what is the impact in terms of volume in 2H TY that is hard to predict, Aline. We are all very cautious. On one hand we see some automakers talking about returning to their previous capacity, also we see some automakers stopping their production lines and given collective vacation for their staff. So for the average of our, we have

to get an average from our customers so that we can have a somewhat clearer vision - but that will only come in the month of June.

It is hard to predict what is going to happen regarding volume; but I believe that we are going to have a higher volume than in 1H. That is a unanimous opinion. It might not be the volume of that we would wish to have; but it will definitely be a higher volume.

1Q was a very, very bad benchmark not only in Brazil, but also in Europe, in the United States. So I think that 1Q is a very low reference; 2Q should come better according to FENABRAVE and ANFAVEA, and 2H TY should be better than 1H TY. To what extent we will know more in July. I will turn the floor to Ramon.

Mr. Ramón Pérez - CFO and IRO

Aline, regarding the ROIC it is hard to predict, because this is linked to those difficult-to-do predictions. In tangible terms I consider that there will be improvement in the release of working capital because of these delays that we had, that will reduce the base, the denominator of the calculation. This will be somewhat mitigated if we have growth in our operating results of course, because then our Accounts Receivable will increase if we have recovery of the automotive market. The size of the recovery that is complicated to say.

1Q was hard in terms of volume. We have an expectation of recovery along the year, and if that happens, if that materializes ROIC would be brought back to the average levels that we had during 2021. So we do expect an improvement in the ROIC because of these factors that I explained. To what extent it is going to improve it will depend on the economic recovery, on the macroeconomic scenario and on the crisis of semiconductors - but yes we expect improvement looking forward.

Mr. Ian Nunes - IR Manager

Hi. I am Ian in the IR team, I will mediate the questions coming from the webcast.

The first question goes to Ramón coming from **Felipe Pinheiro from Polo**: Good afternoon. Regarding the reduction in the level of leverage in the quarter, can we explain a higher dividend payout in the future as seen in 2021? Ramón.

Mr. Ramón Pérez - CFO and IRO

Well, if we maintain the current conditions of pressure and temperature we can expect a maintenance of our dividend payout policy, indicative policy of 50%. We have paid a little more than that in recent years because of some extraordinary results that we ended up getting, particularly some tax-related results.

Now all of that will depend. So in terms of maintenance, maintenance stability of our policy. This can change if the need arises to invest more due to organic and inorganic growth expectations. That is all I can say for now.

Mr. Ian Nunes - IR Manager

There is a second question coming from Rafael with Tarpon: Hello, congratulations on the resilient results despite all challenges. Could you speak about the initiative of the logistics of used vehicles?

Mr. Marcos Medeiros - CEO

Rafael this is Marcos speaking. Rafael, you used the word resilient in your question and you are right, we have been focusing a lot on resilience. We spare no efforts in house to ensure resilience, to ensure level of service in our margins in a complex scenario, so I think resilience is our top word currently. We are resilient.

And okay, to answer your question about the logistics of used vehicles, we are having a very positive surprise. Last year volumes were high even with the pandemic and everything that happened with the car rentals, the rental companies. They did not have new vehicles, so they started holding back to their vehicles and the semi-used vehicles that kind of flow in the chain; but we dealt with about 2000 vehicles and Fastline, I would like to remind you, it is almost like a startup. We cannot compare with the volumes that we have with TEGMA - but we had 20,000 vehicles and our estimate is that this volume should be growing close to 50%, something close to 30,000 vehicles.

1Q TY was very different. The year was very bad, it is a quarter to be forgotten - that is for new vehicles - but for used vehicles it was a very good quarter. The rental companies like we say in their reports started buying equipment again, so that drove the flow of demobilization in the period of holidays, January, February with Carnival. Carnival was a little bit late; but there was more tourists coming to Brazil and that generated more car rental in areas that are more touristic.

So this was a pleasant surprise. We are very optimistic. Like I said this is still a small business in terms of volume; but it is something that has a high potential, and particularly because we are able to generate a portfolio of services which is a lot higher than we expected.

We think only about transportation; but now we are thinking about a number of ancillary services. The profile of clients also changed. We were able to attract individual clients, large fleet owners, not just rental companies; but just about any company that has a fleet and that requires transportation. So this was also a very pleasant surprise amidst a very turbulent scenario that we are living.

Mr. Ian Nunes - IR Manager

Next question by **Gustavo Romi**, two questions: first, what about the balance to be paid? Any restatement or interests in the base of the amortization?

Mr. Ramón Pérez - CFO and IRO

I believe that in 4 to 5 months the whole outstanding balance should be paid, should be settled. We did not negotiate any restatement of the financial costs; but please remember, this is valid for the amount that we owe them, and the amount that they owe to us. Yes, there is a difference that is unfavorable for us; but what is key is that we are resolving this outstanding problem and moving forward.

Mr. Ian Nunes - IR Manager

And one last question by Gustavo regarding GDL results that were quite robust. Could you elaborate more on that operation?

Mr. Marcos Medeiros - CEO

Hi Gustavo, this is Marcos. Well, you know I think that this was also a pleasant surprise. And maybe not a surprise, because it is the third consecutive year that we post record results. So 2022 is not going to be different, we have a very positive expectation.

So you ask me to speak a little more about this operation. It is a dry port, basically it is cargo from airports and ports in the area of Espírito Santo and we store the bonded cargo. We provide other services; but the moment that the cargo is nationalized we provide warehousing services. There are several types of cargoes: vehicles that we operate there; but we have pharmaceutical cargo, customer goods in general, equipment, clothing, apparel, different types of cargo.

A part of the pricing considers the CIF value of the cargo, percentage of that. So the USD rate was favorable to us. Recently the price of the USD dropped a little; but that facilitated things for us. So we have full occupancy, above 90% occupancy and in our board of directors we are now discussing potential expansion, expansion to existing warehouses or perhaps with new verticalizations.

In other words, we have a very positive agenda of growth and to increase our investments in technology. This kind of operation still demands a lot of people from the operational standpoint; but we have a lot of opportunities to invest in technology for warehousing, as well as for vehicle handling.

Operator

Our next question comes from Luiz Capistrano with Itaú BBA.

Mr. Luiz Capistrano - Itaú BBA

Marcos, Ramon, can you hear me?

Mr. Marcos Medeiros - CEO

Yes Luiz, hello, good afternoon.

Mr. Luiz Capistrano - Itaú BBA

Hi great. Guys, thank you for taking my questions. I have two questions, first I would like to understand GM was by far the most impacted automaker in this component crisis - five months stopped last year - and in a scenario of new bottlenecks in 2Q, can we assume that GM again is in a fragile position, given that they stopped now in the beginning of the year? Do you think that they have a robust inventory? Will they be able to resist more in the short term? Because we saw that Volkswagen

announced an important stoppage for May. I want to understand above GM because the Gravataí plant is very important for TEGMA.

My second question is regarding adjustment in your headcount. You mentioned that you did not make any adjustments in 1Q because the automakers signaled a strong resumption in 2Q; but I understand that the scenario is more uncertain now; so thinking about 2Q are you planning to reduce your headcount to try to bring margins to a more optimize level? Are you thinking at doing this eventually? What is your mindset regarding that? Thank you very much.

Mr. Marcos Medeiros - CEO

Well, great Luiz, you have two good questions, so let me speak about GM to start. You are right, GM suffered a lot last year. They had a historically long stoppage of five months that cost them a lot in many ways; but particularly because they lost the position of the bestseller. I was at the plant in December and in November, December they started producing again and incredibly Onix achieved the 1st position again in December. I went to the plant and they had banners celebrating, they were very optimistic in the beginning of the year.

And then we had Omicron in Brazil in January. It was absurd, we had peak of COVID. Here at TEGMA comparing the whole COVID period, January 2022 was the worst month in terms of people getting COVID. So Omicron had a terrible impact.

Now looking forward it is kind of hard to predict what is going to happen, not even GM knows. They had spoken about increasing to a third shift, increasing production capacity; and then there comes along the Russian Ukraine conflict - and we talked about it in Aline's question - and this has impacted GM as well.

So you know, we have one step in the accelerator, in the gas, and one step in the break. So we can to be too optimistic saying 'oh, it is going to be much better'; but what we feel in dealing with our clients is that yes, there is a volume that is being maintained, in other words it is not dropping; now to what extent this will grow in 2Q that will depend a lot, in 2H I think it will, in 2Q I think it will depend a lot on the month of June, because in May the volumes have been maintained just like the levels of April in the case of GM, so that is what I can say about GM.

As regards to our headcount we have to remember when we compare to last year during the peak of the COVID 19 pandemic, you remember that we had some flexibility in the labor legislation. With gave more vacation to our people, we had a lot more flexibility.

We did not expect to have such a poor quarter as we had in 1Q; on the other hand, we had this expectation which was kind of frustrated in terms of volume, because there was this lack of auto parts that continued, and then some unexpected stoppages and downtime - but now we do not have that labor flexibility. I think everyone has had their vacation last year, so we cannot give vacation to anyone anymore. We do not have layoff possibility anymore, so any headcount variation would mean termination of employees. Of course in our policy to engage people we try to avoid that as much as possible.

I do not think that we came to the point of making that kind of decision, because we still have a lot of cars sitting at the plants just waiting for a chip. If a container arrives with 30,000 chips in two, three days we are going to have a large volume.

We cannot predict that, and we cannot hire people very fast - and we need to keep up the level of service of TEGMA. So it is a difficult decision; but we chose to maintain our headcount a little above necessary for the volume that we actually had - not for the volume that we expected to have - but naturally this is something that we look into on our day-to-day.

So that was the reason: lack of flexibility. We chose to keep our team because our team is very well prepared, skilled, very well-trained, and there is a calculation, how much it costs to dismiss people and how much it costs to rehire them within three months. We can lose these people in terms of, we can lose them to the market, we can lose all that training, we can lose their motivation. So it is a complex calculation.

Mr. Luiz Capistrano - Itaú BBA

Perfect, very clear, excellent answers, thank you very much.

Operator

As a reminder, if you want to ask questions just dial *1. If you want to remove your question from the queue dial *2.

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

Mr. Marcos Medeiros - CEO

Well, I would like to thank everyone once again for taking part in our conference call. As we mentioned in our answers, we are dealing with a very unpredictable scenario with many variables in Brazil, many variables abroad, different variables; economic variables, supply chain variables, conflicts. In other words, our life in logistics has been quite fun in terms of lessons learned.

I have said it over and over: at TEGMA we, the management and the board of directors we have learned a lot with everything that happened, and fortunately we do everything to ensure resilience, as it was mentioned in one of the questions.

And this has been our focus: in other words to maintain an engaged team, to have resilience, to have strict control of our costs and expenses as you could see in our results; and we are reinvesting in equipment, particularly in technology. It was not by chance that we were awarded the digital transformation prize.

We also had another important client that is investing in new startups and the conversion of our debentures at Rabbot, which is a very successful startup. We believe a lot in the future of that startup.

So this is it and I once again would like to thank you all for your attention, have a great rest of the day and let us move forward.

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.
