Tegma Gestão Logística SA

Assumptions for the *valuation*

❖ **This document is not a guideline on how the company will behave in the future, but only the pattern showing how it behaved in the past to help analysts and investors to make their forecasts.**

❖ **Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, express or implied, is made regarding future performance.**

❖ **The Historic Series file, by clicking here, can serve as the basis for the *valuation*.**

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TEGMA Gestão Logística

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1. ABOUT TEGMA

Tegma is a logistics operator working all over Brazil in transportation services, warehousing and supply chain management for various sectors of the national economy.

The company is divided into two divisions, automotive logistics (which currently only consists of vehicle logistics) and integrated logistics. Vehicle logistics is the company core operation, founded in 1969 and consists on the brand new vehicles logistics between automakers or ports to auto dealers or ports (imported, exported and domestically produced vehicles), not only transportation, but yard management, storage, tracking, and preparation for sale (PDI – *Pre delivery inspection*).

Integrated logistics is divided into two operations: industrial logistics and warehousing. Industrial logistics comprises the inbound management service between suppliers and the production lines of chemicals plants (mainly glass and personal care plants) and home appliances manufacturers. The service comprises the storage and shipment of solid bulk (For the chemicals operation) or packaging management for parts handling (for the home appliances operation). The storage service comprises the offer of inventory management, labeling and kitting for consumer goods clients in the segment of food and beverages and e-commerce.

The company has an essentially *asset light* business strategy, i.e. low capital intensive, because much of the fleet used for transportation is outsourced and its warehouses and yards are mostly leased.

2. RESULT ASSUMPTIONS

2.1 Automotive division results:

The automotive division revenues came from three operations, two of which were discontinued (auto-parts logistics and automotive auction). Currently, only the vehicle logistics operation is running and its revenues depend mainly on the transport service, but also on yard management, storage, PDI (*Pre delivery inspection*)[1] and vehicle transfers between automakers and yards. Transport revenues come from a fee charged per kilometer traveled by each transported vehicle, and PDI and yard management revenues depend on the customer demand for services.

Indicator – transported vehicles: The number of vehicles transported by Tegma in the last five years (2018-2020) corresponded to, on average, 26% of the number of light and commercial light vehicles sold in wholesale in Brazil (an indicator that the company understands that reflects more appropriately Tegma's market). The company transports vehicles for domestic deliveries (domestically produced or imported) and for export (which can be by road to Mercosur countries or to the port). Tegma also make the deliveries of vehicles purchased by car rental companies, which have gained a great representativeness in recent years.

[1] Inspection, preparation, installation of components and tropicalization of vehicles, which receive instruction labels and manuals in Portuguese, in addition to all items and accessories required by Brazilian legislation.

Tegma's *market share* of brand new vehicles transport operation is calculated according to the table below:

(thousand)	2016	2017	2018	2019	2020
A - Estimated wholesale sales	**2,378**	**2,820**	**3,057**	**3,085**	**2,178**
(+) Production of vehicles and light commercial [1]	2,077	2,596	2,747	2,804	1,905
(+) Importation of vehicles [1]	273	244	311	298	208
(-) OEM's inventories change [2]	-27	20	1	17	-66
B - Vehicles transported	**681**	**754**	**781**	**821**	**561**
Market share (B / A) %	*28.6%*	*26.8%*	*25.6%*	*26.6%*	*25.7%*

[1] Source: Letter of ANFAVEA – Light and light commercial (http://www.anfavea.com.br/carta.html) or statistics (http://www.anfavea.com.br/tabelasnovo.html)
[2] Source: Press release - ANFAVEA (http://www.anfavea.com.br/imprensa)

Indicator – Average distance: The average distance is an indicator disclosed in Tegma's results and reflects the distribution radius of deliveries. This is calculated by dividing the total kilometers traveled by all vehicles delivered by the amount of transported vehicles. The variation of this indicator depends on the sales mix by regions served by Tegma in the country. The history of this indicator is shown in the table below:

	2016	2017	2018	2019	2020
Automotive Logistics Division Gross Revenue (R$ mi)	**937**	**1,129**	**1,348**	**1,464**	**1,050**
Total Distante (Vehicles transp*avr distance) (mi km)	646	714	791	881	636
Revenue per km/vehicle[1]	1.45	1.58	1.70	1.66	1.65

Indicator - revenues per km/vehicle – Although this is an approximation, when the gross revenues of the vehicle logistics operation is divided by the total km traveled in that period, it is possible to estimate the fee that is charged to customers per vehicle per traveled kilometer. The fee is adjusted annually by the logistics inflation negotiated with customers.

[1] This indicator is an approximation because in this revenue there is revenue from other services that have a different dynamics of transportation revenue.

Therefore, one way to forecast the **revenues** from the vehicle logistics operation would be 1: forecast the amount of transported vehicles; 2: estimate the average km; 3: estimate the transport fee; 4: multiply the total distance (transported vehicles x average km) by the estimated fee.

* Note: The revenues from the vehicle logistics segment disclosed include services other than transportation, which may vary with another dynamics. **Therefore, the estimate is not 100% accurate, but since much of the revenues come from transportation, it should be very close.**

The **costs of the services provided** by the division correspond mainly to the freight that Tegma pays to the outsourced truckers, responsible for the vehicles final delivery to the auto dealers or to the ports. Fixed costs correspond to costs with operational personnel (mainly those responsible for vehicles handling in consolidation yards), rental (of the yards used for consolidate the vehicles received from automakers), depreciation and other costs such as surveillance, insurance, fuels (used by the own fleet, which represents about 7% of the total fleet), among others. Variable costs correspond to freight, fuel, PIS/Cofins credits and other variable costs.

The division's **expenses** include general and administrative expenses and other revenues and expenses.

Given the recent accounting change coming from IFRS16, the best proxy for the operation's cash generation (EBITDA) will be inflated from 2019 on given that rental costs have become Right of use amortization, which is not considered in **EBITDA**. Therefore, it's disclosed the costs in the former IAS17 methodology for the reconciliation of the former EBITDA, fundamental to reconcile the operation cash generation. For the Free cash flow to firm, the company understands it's better to use the Adjusted EBITDA ex IFRS-16, for a better cash generation proxy. The information of rental costs in IAS methodology can be found in Financial historical file in .xls in the spreadsheet Annex.

The division's **depreciation** mainly reflects improvements in yards and own transportation equipment and the **Amortization** refers to rental rights of use.

(million R$)	2016	2017	2018	2019	2020
Gross Revenue	**940.2**	**1,128.9**	**1,347.8**	**1,463.8**	**1,050.4**
Vehicle logistics	937.0	1,128.9	1,347.8	1,463.8	1,050.4
Autoparts logistics	3.2	-	-	-	-
Gross Revenue deductions	(181.3)	(220.8)	(247.0)	(273.7)	(204.7)
Gross Revenue deductions%	-19.3%	-19.6%	-18.3%	-18.7%	-19.5%
Net Revenue	**758.9**	**908.1**	**1,100.8**	**1,190.1**	**845.7**
(-) Costs of services	(617.5)	(698.8)	(858.5)	(928.8)	(682.2)
Variable costs	-	(590.2)	(701.7)	(746.1)	(535.6)
Cost of Services (% Net Revenues)	-	-65.0%	-63.7%	-62.7%	-63.3%
Fixed Costs		(108.6)	(156.8)	(182.7)	(146.6)
Fixed Costs per vehicle transported (R$)		144.0	200.7	222.4	261.3
(-) Expenses	(77.8)	(102.8)	(98.5)	(48.6)	(97.3)
Espenses (% Net Revenues)	12.6%	14.7%	11.5%	5.2%	14.3%
EBIT	**63.5**	**106.5**	**143.8**	**212.8**	**66.2**
(+) Depreciation/Amortization	14.1	14.4	18.0	32.2	30.2
EBITDA	**77.6**	**120.9**	**161.8**	**245.0**	**96.3**
(+) Non Recurring Events	-	(2.8)	10.4	(46.5)	3.3
Adj EBITDA	**77.6**	**118.2**	**172.2**	**198.5**	**99.7**
(-) Rental Costs (IAS17)	-	-	-	-18,9	-20,8
Adj EBITDA ex IFRS 16	**77.6**	**118.2**	**172.2**	**179.5**	**78.9**
Adj EBITDA mg Ex-IFRS16%	*10.2%*	*13.0%*	*15.6%*	*15.1%*	*9.3%*

2.2 Results of the integrated logistics division:

Warehouse **gross revenues** depend mainly on the demand for inventory management. The charge is made from the peak volume hired by customers in a certain period.

The industrial logistics **gross revenues**, in turn, has operations focused on two segments: for the chemicals industry and home appliance industry. The industrial logistics revenues for the chemicals industry depend on the tonnage of chemicals materials (sulphate and soda ash) transported and stored between the Port of Santos, warehouse in Cubatão and the relevant plants. The growth dynamics of this business depends on the personal care products' sales and on the glass production in the country (both industries that depend on the raw material Tegma manages).

The **gross revenues** of the industrial logistics focused on the home appliance industry depends, in turn, on the quantity of travels necessary to make to collect the parts among various suppliers and the customers' plants and the remuneration of the investments made in the packaging acquisition to pack the parts during logistics, with an administration fee for this service. The growth dynamics of this business depends mainly on the home appliances sales in Brazil.

The **costs of the services provided** by the division correspond to: (i) freight transfer from outsourced logistics operators in industrial logistics operations; (ii) the warehouse rental costs, and (iii) other fixed costs such as real estate maintenance, security, among others. Variable costs correspond to freight, PIS/Cofins credits and other variable costs.

The division **expenses** correspond to few dedicated areas of the division.

Given the recent accounting change coming from IFRS16, the best proxy for the operation's cash generation (EBITDA) will be inflated from 2019 on given that rental costs have become Right of use amortization, which is not considered in **EBITDA**. Therefore, it's disclosed the costs in the former IAS17 methodology for the reconciliation of the former EBITDA, fundamental to reconcile the operation cash generation. For the Free cash flow to firm, the company understands it's better to use the Adjusted EBITDA ex IFRS-16, for a better cash generation proxy. The information of rental costs in IAS methodology can be found in Financial historical file in .xls in the spreadsheet Annex.

The division's **depreciation** mainly reflects improvements in yards and own transportation equipment and the **amortization** refers to rental rights of use.

(million R$)	2016	2017	2018	2019	2020
Gross Revenue	**200.0**	**201.3**	**190.9**	**189.5**	**200.4**
Industrial Logistics	137.2	137.8	143.0	152.9	165.4
Warehousing	62.9	63.5	47.9	36.6	35.0
Gross Revenue deductions	(35.0)	(25.4)	(37.9)	(32.3)	(34.0)
Gross Revenue deductions%	-55.7%	-40.0%	-79.1%	-88.4%	-97.2%
Net Revenue	**165.0**	**175.9**	**153.0**	**157.2**	**166.4**
(-) Costs of services	(163.7)	(151.2)	(137.3)	(131.7)	(129.7)
Cost of Services (% Net Revenues)	-99.2%	-86.0%	-89.7%	-83.8%	-78.0%
(-) Expenses	(6.0)	(21.7)	(6.5)	1.3	(2.9)
Espenses (% Net Revenues)	3.7%	14.3%	4.7%	-1.0%	2.2%
EBIT	**(4.7)**	**3.0**	**9.2**	**26.8**	**33.8**
(+) Depreciation/Amortization	16.0	13.7	11.3	26.4	23.9
EBITDA	**11.3**	**16.7**	**20.5**	**53.2**	**57.6**
(+) Non Recurring Events	-	(0.1)	7.7	(1.6)	5.2
Adj EBITDA	**11.3**	**16.6**	**28.2**	**51.6**	**62.9**
(-) Rental Costs (IAS17)	-	-	-	-18,9	-20,8
Adj EBITDA ex IFRS 16	**11.3**	**16.6**	**28.2**	**34.3**	**45.7**
Adj EBITDA mg Ex-IFRS16%	*6.9%*	*9.4%*	*18.5%*	*21.8%*	*27.4%*

2.3 Consolidated

Given the recent accounting change coming from IFRS16, the best proxy for the operation's cash generation (EBITDA) will be inflated from 2019 on given that rental costs have become Right of use amortization, which is not considered in **EBITDA**. Therefore, it's disclosed the costs in the former IAS17 methodology for the reconciliation of the former EBITDA, fundamental to reconcile the operation cash generation. For the Free cash flow to firm, the company understands it's better to use the Adjusted EBITDA ex IFRS-16, for a better cash generation proxy. The information of rental costs in IAS methodology can be found in Financial historical file in .xls in the spreadsheet Annex.

(million R$)	2016	2017	2018	2019	2020
Gross Revenue	**1,140.2**	**1,330.2**	**1,538.7**	**1,653.3**	**1,250.8**
Gross Revenue deductions	(216.3)	(246.2)	(284.9)	(306.0)	(238.7)
Gross Revenue deductions%	-19.0%	-18.5%	-18.5%	-18.5%	-19.1%
Net Revenue	**923.9**	**1,084.0**	**1,253.8**	**1,347.3**	**1,012.0**
(-) Costs of services	(781.2)	(850.0)	(995.8)	(1,060.5)	(811.9)
Cost of Services (% Net Revenues)	-84.6%	-78.4%	-79.4%	-78.7%	-80.2%
(-) Expenses	(83.8)	(124.5)	(104.9)	(47.2)	(100.2)
Espenses (% Net Revenues)	10.7%	14.6%	10.5%	4.5%	12.3%
EBIT	**58.9**	**109.5**	**153.0**	**239.6**	**99.9**
(+) Depreciation/Amortization	30.1	28.1	29.3	58.6	54.1
EBITDA	**89.0**	**137.6**	**182.3**	**298.2**	**154.0**
(+) Non Recurring Events	-	(2.8)	18.1	(48.1)	8.5
Adj EBITDA	**89.0**	**134.8**	**200.5**	**250.1**	**162.5**
(-) Rental Costs (IAS17)	-	-	-	-18,9	-20,8
Adj EBITDA ex IFRS 16	**89.0**	**134.8**	**200.5**	**213.8**	**124.5**
Adj EBITDA mg Ex-IFRS16%	*9.6%*	*12.4%*	*16.0%*	*15.9%*	*12.3%*

2.4 Consolidated financial result

The consolidated financial result comes from debts and financial investments that are detailed in section 3.4 of cash/investments and financial debts, below.

The debt average cost at the end of 2020 was CDI + 2.92% p.a.

(million R$)	2016	2017	2018	2019	2020
Interest expenses	(50.0)	(26.5)	(12.7)	(16.5)	(14.8)
Revenue from financial investments	30.1	15.7	7.6	6.6	5.9
Rental Interest (IFRS-16)	-	-	-	(6.4)	(5.5)
Other financial revenues (expenses)	(10.1)	19.6	(4.0)	39.0	5.2
Financial result	**(29.9)**	**8.8**	**(9.1)**	**22.7**	**(9.2)**

2.5 Equity

Equity equivalence corresponds to 50% of GDL *Joint Venture* (general and customs storage operations in Espírito Santo estate), to 49% of the non-operating Catlog parent company and to 10% of Frete Rápido start up.

(million R$)	2016	2017	2018	2019	2020
Net Income GDL (100%)	-	-	0.4	6.6	12.7

Net Income CATLOG (100%)	-	-	0.3	(0.7)	(0.2)
Net Income FRETE RÁPIDO (100%)	-	-	-	-	(1.2)
TOTAL	**-**	**-**	**6.0**	**6.0**	**12.5**
Equity	**-**	**-**	**0.4**	**3.0**	**6.4**

2.6 Income tax and social contribution on net income

Income tax and social contribution on net income rates of the company are 25% and 9%, respectively. Typically, the tax base is adjusted by: equity equivalence, tax benefit of Interest on Capital payment, and revenues exclusion from the ICMS Credit tax granted from the income tax base. In 2019/2020, these two items reduced the effective rate by 6.7 p.p n average.

3. BALANCE SHEET ASSUMPTIONS

3.1 Working capital

Tegma's working capital is concentrated in accounts receivable from customers, deducted from the payable from supplier/freight accounts, given the Company's operation doesn't demand inventory. Tegma's working capital in 2019 corresponded to 38 days of gross revenues for the year.

(million R$)	2016	2017	2018	2019	2020
Accounts receivables - Accounts payable	111.1	138.9	189.3	224.9	180.9
Cash to Cash Cycle (days)	25.5	26.1	34.5	39.5	38.0

[1] (Accounts receivables – Payable suppliers and freight)/(annual gross sales/360)

3.2 Fixed assets and investments (CAPEX)

The company is essentially *asset light* as a result of the outsourced transportation business model. However, some strategic investments are important to sustain competitive advantages. The company need's eventually some own yards to be close to the automakers that it is suppliers and also need to make improvements in third-party yards used for vehicle operations. In the integrated logistics division, it is necessary to make improvements in warehouses. Finally, some equipments are necessary for transport operations in industrial logistics and vehicle logistics for economic and strategic reasons. The fixed assets opening is shown in the table below:

Year	Amount per share (R$)	Amount (R$ thousand)	% Dividends	% Interest on own Capital	Payout	Div Yld
2020	0.5	75.0%	25.0%	34,972	61.0%	2.5%
2019	1.1	75.0%	25.0%	75,264	43.0%	3.7%
2018	1.0	75.0%	25.0%	64,949	60.0%	4.3%
2017	0.9	75.0%	25.0%	61,249	60.0%	4.9%
2016	0.1	100.0%	-	8,000	61.0%	0.9%
2015	0.1	100.0%	-	5,000	53.0%	1.4%
2014	-	-	-	-	-	-
2013	0.7	72.0%	28.0%	46,982	100.0%	3.4%

2012	1.0	70.0%	30.0%	64,000	81.0%	3.2%
2011	1.0	73.0%	27.0%	66,000	71.0%	4.2%
2010	1.0	36.0%	64.0%	62,562	59.0%	4.7%
2009	0.9	100.0%	-	60,000	83.0%	7.4%
2008	0.8	100.0%	-	54,317	100.0%	14.1%
2007	0.6	100.0%	-	42,060	100.0%	3.9%

The consolidated history of fixed asset and intangible acquisition (CAPEX) represented in the last five years between 1.5-3% of gross revenues, as shown in the table below.

(R$ million)	**2016**	**2017**	**2018**	**2019**	**2020**
Land improvements	18.2	-	17.4	11.5	4.4
New operations	5.3	-	2.3	0.4	-
Maintenance	7.7	12.4	9.0	10.4	9.0
General improvements	-	-	-	5.4	1.1
IT	-	5.0	6.7	5.3	5.3
Contract renewal	-	7.8	-	3.2	-
Total	**31.0**	**25.2**	**35.4**	**36.0**	**19.8**
Gross revenue %	**2.7%**	**1.9%**	**2.3%**	**2.2%**	**1.6%**

3.3 Free cash flow to firm

The company's free cash flow to firm has been positive in the last five years due to the economic recovery seen in Brazilian economy since 2016, to the cost control in the crisis years and, additionally, to the working capital release in the years with plunging revenues.

(R$ millions)	**2015**	**2016**	**2017**	**2018**	**2019**
Adjusted EBITDA ex IFRS 16	99	89	135	200	214
(-) CAPEX	-30	-31	-25	-35	-36
(-) Income tax	-1	-13	-14	-36	-71
(-) Working capital need	60	31	-28	-50	-36
(=) free cash flow to firm	**128**	**76**	**68**	**79**	**71**

3.4 Dividends/IOC

The company has an indicative policy of distributing at least 50% of net income for the year with two advances, in August and November. In the table below is shown the history of earnings distribution.

Year	**Value per share (R$)**	**% Dividends**	**% IOC**	**Amount (R$ millions)**	**Payout**	**Div Yld**
2019	1.14	75%	25%	75,264	43%	3.67%
2018	0.99	75%	25%	64,949	60%	4.27%
2017	0.93	75%	25%	61,249	60%	4.85%
2016	0.12	100%	-	8,000	61%	0.93%
2015	0.08	100%	-	5,000	53%	1.44%
2014	-	-	-	-	-	-
2013	0.71	72%	28%	46,982	100%	3.37%
2012	0.97	70%	30%	64,000	81%	3.23%
2011	1	73%	27%	66,000	71%	4.17%
2010	0.95	36%	64%	62,562	59%	4.71%

2009	0.91	100%	-	60,000	83%	7.44%
2008	0.82	100%	-	54,317	100%	14.05%
2007	0.62	100%	-	42,060	100%	3.94%

3.5 Cash/investments, financial debts and leverage

The company financial leverage over the last 4 years has decreased as a result of the positive free cash flow in the period.

(R$ million)	**2016**	**2017**	**2018**	**2019**	**2020**
Gross debt	291.6	222.9	158.6	137.4	193.8
Cash and equivalents	192.9	148.7	83.5	67.3	260.4
Net debt	98.7	74.1	75.0	70.1	(66.6)
Adujsted EBITDA LTM	89.0	134.8	200.5	250.1	162.5
Net debt / adjusted EBITDA LTM	*1.1*	*0.6*	*0.4*	*0.3*	*N/A*

Financial debts had an average cost on December 31, 2019 of CDI + 2.92%. The maturity of the debts principal had the following schedule on December 31, 2020:

Year	12/31/20
2021	65
2022	60
2023	55
2024	10
TOTAL	**190**