



Tegma Logística S/A  
Second Quarter 2020 Earnings Results  
August 6<sup>th</sup>, 2020

TEXT version of Transcript

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Corporate Participants

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Tegma Gestão Logística S.A. - CEO & Member of the Executive Board

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Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board

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Presentation

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Operator [1]

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Good day. Thank you for waiting. Welcome to Tegma Logística S.A. Conference Call to review Second Quarter 2020 Earnings results.

Today, we have Mr. Marcos Medeiros, CEO and IRO; and Mr. -- actually, Mr. Ramon Perez, CFO and IRO. We would like to inform you that this event is being recorded. (Operator Instructions) I will turn the conference call over to Mr. Marcos Medeiros, Tegma CEO, who will start the presentation. Mr. Medeiros, you may begin.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [2]



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Good day, everyone. Once again, we are here to discuss Tegma's results. Myself, Marcos Medeiros, CEO of the company; together with Ramon Perez, CFO and Investor Relations Officer, will be presenting the most important highlights in terms of our earnings, cash flow and indebtedness in the second quarter of 2020.

In addition, we shall comment on the impact that the COVID-19 pandemic has been having on our business as well as the measures that we are adopting to protect our employees, partners, and clients in this unprecedented crisis.

As you all know, the rapid dissemination of the COVID-19 pandemic has had a large-scale and global impact, making the business environment extremely volatile and adding uncertainty to all statements that one can make at the moment. Tegma's providing information valid for the date of this webcast and reserves the right not to update any forward-looking statements contained in this presentation.

On the next slide, we have a brief qualitative update on COVID-19 at Tegma. So far, we had 58 Tegma employees who tested positive for COVID-19. None of them are presenting serious complications or the need to be hospitalized, fortunately.

Most of our corporate teams continue to work from home and the safety protocols of the operations, which were not halted, followed the company's adopted standards and rigor. In order to increase the distance among our employees, we installed plastic partitions inside support vehicles that transport workers inside our yards, as can be seen in the photos.

On the right, we can see how the coronavirus crisis impacted the company's operations. The vehicle logistics division, as we will see in the next slides, was seriously impacted on account of the restrictions regarding the opening of car dealers. The Integrated Logistics division in turn has escaped the crisis almost unscathed because the warehousing operation, which manages food and e-commerce inventories posted a substantial volume increase in the quarter.

Likewise, the industrial logistics operation for the chemical sector, which operates with goods considered to be essential, posted growth, as demand for those products increased. The operation for the home appliances industry, however, was stopped for a month in the beginning of the crisis. However, given a higher demand by e-commerce, the operation returned to close to pre-pandemic levels by the end of the quarter.

On Slide 4, we present second quarter highlights. Our first highlight is about important contract renewals with the 2 most important clients of the Integrated Logistics Division.



Operational excellence and technology were paramount for these contracts to be renewed and reinforce even more the importance of these 2 pillars for us to expand this division with the same values, which have brought us this far.

Long-term contracts, adding agility to clients' processes and never forgetting that the assets in which we invest, they need to be profitable.

The second highlight has to do with another important recognition by another important vehicle logistics client, General Motors. In a recent online ceremony the automaker awarded Tegma as the 2019 Supplier Of the Year because of the deployment of several systems, which integrated the management of some important yards belonging to the automaker here in Brazil, thus increasing productivity and safety of the vehicle maneuvering process plus the digitalization of the inspection process along every step of a vehicle delivery.

This reaffirms the importance of a logistics operator that can deploy this kind of improvement along the complex logistics process of delivering brand new vehicles.

The third highlight is the status of the 2 start-ups in which Tegma invested through its accelerator, tegUP. freterápido, a digital transportation hub, which links to shipping companies and carriers, was able to take advantage of e-commerce growth in Brazil in 2020 by expanding its portfolio of clients and launching an app for carriers, thus improving routing and order tracking for clients.

Our second invested startup, Rabbot, is a company which uses several software programs to facilitate fleet and asset management. It has grown consistently according to plan. Even with a pandemic, given this successful implementation of its remote work methodology.

The fourth highlight is that we will not anticipate the August 2020 payment of dividends and interest on equity. As our strategy is to retain cash amidst the crisis that still persists.

Lastly, we would like to announce that according to the minutes of the Board of Directors meeting sent yesterday, the independent Investigation Committee, which was responsible for investigating the facts that led to the search and seizure at Tegma in October of 2019, ended in the report and the final expert opinion to the Board members.

With the report and the final opinion, which concluded that there was no evidence of anti-competitive practices or of any illegal act that could support the charges that give rise to operation Pacto.

The Board members decided that there are no further measures to be adopted at this time related to operation Pacto.



Moving to Slide 5, please. We compiled some main estimates for the automotive market in Brazil. On the bar graph on the left, we see that the expected sales drops for vehicles and light commercial vehicles in Brazil in 2020, are ranging from 30% to 40%, a greater decline estimate if compared to other markets, such as Europe, the United States and China, whose estimates we can observe just above the bar graph.

On the middle chart, we give you more detailed sales estimates. The orange line depicts vehicle sales month-by-month in 2019, and the gray line monthly sales in 2020. We can see that for 2020 sales to be 40% lower than 2019 sales, average monthly sales for the remaining of the year would have to be 133,000 units, the red line, a level lower than July sales.

On the other hand, for 2020 sales to be a 30% lower than 2019 sales. Average monthly sales from August to December, we need to be 188,000 units above the level of sales in July. As regards to production estimates for 2020 compared to 2019, in the bar graph on the right, the reduction expectation ranges from 35% to 45%.

With that, I turn the floor to Ramon for our financial and operational indicators.

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Ramon Perez Ariaz Filho, Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board [3]  
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Thank you, Marcus. On the next slide, we can see the main market and operational metrics for our vehicle logistics division. On the left-hand corner table, we highlight the 65.5% in vehicles sold in Brazil in Q2 2020, coupled with an 82.3% decline in vehicle production. When we compare these numbers with the quantity of vehicles transported by Tegma, down 72.8% in this quarter. We can see that our market share in Q2 2020 was 27.2% based on estimated wholesale sales or a growth of 1.2 percentage point. As a consequence of the operating highlights already explained. On the next slide, we can see this impact on the division's results. In the table on the left, revenues were down 70.5% in the yearly comparison. Because of the business model of the vehicle Logistics division, in which a good deal of the costs is variable. And given the many cost reduction initiatives adopted, we were able to report a positive gross profit of BRL 1 million even operating in such a challenging scenario despite a 14% reduction in expenses, the operating result recorded a loss of BRL 19.4 million.

Given the high volatility of revenues and costs of the vehicle logistics division in the second quarter of 2020, it is important to understand the division's results month-by-month. Starting with the bar graph on the left, we can see that April and May



were the months most affected by the pandemic. Primarily with the restrictions in imposed in the Southeast region of the country. After the dealers were allowed to reopen in several southeastern states in June, including the city of São Paulo. We could see an increase of more than 100% in net revenues. Given these revenue dynamics and given several measures adopted by the company to reduce costs such as implementation of MP 936, which is the emergency employment maintenance program by the federal government as well as the adjustment in our headcount and cost reductions related to rent and other expenses, we can see in the graph on the right, a substantial positive gross profit already in June. This dynamic, coupled with expenses reduction, led to a significant drop in our operating loss in the month of June compared with the first 2 months of the quarter in the bottom left-hand graph.

It is worth noting that in this process, in accordance with MP 936, the management's salaries were reduced in Q2 2020. And in July, it was decided to reduce by 25%, the maximum cap allowed in the profit sharing program for Tegma's officers and managers.

Please go to Slide 9. Fortunately, in the Integrated Logistics Division, market dynamics and efforts made in this division have benefited the company. Even considering this difficult moment of crisis that we are facing, we will start informing some indicators of this operation to provide the market with more visibility of the complexities and magnitude of this operation and of the importance to diversify our portfolio.

With the importance of our portfolio diversification, in the first graph, we can see the number of trips traveled in this division, considering home appliances and chemicals. The number of trips in Q2 '20 was impacted by a month of halted operation for home appliances, despite its rapid resumption in the following 2 months. In the graph on the right, we can observe the 15.7% increase year-over-year in tons transported by the chemicals operation, reflecting a greater demand during the current crisis. Due to either greater production or greater inventories. In turn, the bottom graph shows an increase in average tonnes stored for the chemicals division, which grew 95.1% year-over-year. Because of the same reasons which led to growth in transport. As a result of the performance of these indicators on the following slide, Slide 10, we can see in the left-hand corner table, a substantial 15.4% net revenue growth in this division compared with Q2 '19. This is a record revenue level considering the last 2 years, as we can see in the graph on the right. This growth added to the improved operations portfolio enabled a better dilution of fixed costs, thus taking us to an operating margin of 23.7%. In the bottom graph, it is possible to note that we had record operating margin and EBIT in this division, considering the last 2 years, but also considering the beginning of the operation in 2007.



In our consolidated figures on the following slide, please, we show that despite improved results of Integrated Logistics, the impact of the auto market retraction due to COVID-19 pandemic on the automotive logistics division. So these were responsible for the 60.8% reduction in consolidated net revenue. Although mitigated by measures to cut down costs and company expenses, operating result was reduced and posted negative BRL 9.2 million in Q2 2020.

On Slide 9, we can see the evolution from operating income to net income. Starting from an operating loss of BRL 9.2 million on the left, we had a negative financial result of BRL 2.2 million in this quarter, in line with our capital structure. A record BRL 2.4 million in equity, which reflects the growth of the joint venture, GDL, in a positive income tax, given the loss reported.

These factors led to a net loss of BRL 4.4 million in the second quarter of 2020.

On the next slide, we show you on the table on the left that our free cash flow was BRL 72.3 million in Q2 2020, mainly due to the release of working capital of the vehicle logistics division. The increased cash-to-cash cycle of 59 days in the graph on the right, resulted from a higher share of the Integrated Logistics Division, which has a longer receivable terms.

Tegma's capital structure posted surplus cash in Q2 '20, as can be seen in the bottom chart on the back of significant cash generation in this quarter. Despite a low net debt, aiming to strengthen our cash position and even more, given the uncertainties created by the COVID-19 pandemic. In early April, the company took on 2 loans, which together amount to BRL 90 million at the rate of approximately CDI plus 4% to be paid over 12 to 24 months.

In July of this year, we also rolled a part of a debt during Q3 2020 of BRL 75 million by taking on 2, 3-year maturity loans, which totaled BRL 45 million at a rate of CDI plus 2.7%. We are prepared to better cope with this difficult period that we all have ahead of us, and we are confident in the company's solid foundation.

On Slide 14, segregating the same information presented before, we can see our cash evolution.

We are on Slide 14. The highlight goes to the operational cash burn of the vehicle logistics division of only BRL 17 million in this quarter despite a marked revenue contraction on the back of all those initiatives to cut costs and expenses adopted by the company. And the preponderance of variable costs.

Another important highlight was the operating cash generation in the Integrated logistics Division of BRL 12 million, which, if added to the CapEx of BRL 5 million and other cash effects, totaling a positive BRL 6 million, resulted in an operating cash consumption of BRL 3 million. If we add to this amount, the release of the



company's working capital and net funding in the quarter, our cash in June 2020 reached BRL 287 million.

To the right of the June cash number, we can see debt service due in Q3 '20 and new funding obtained in July.

Consequently, we can affirm that we did not have great impact on our cash in the, so far, worse months of the pandemic, and still, we prioritize ensuring the company's liquidity for the coming years until these uncertainties are reduced. On the following slide, on the top left-hand corner, we present the evolution of our return on invested capital, which was 30.4% in the second quarter of the year or 21.5%, excluding PIS/COFINS tax credits recognized in Q3 '19. The reduction in ROIC compared with the beginning of 2019, is in keeping with the explanations about our results presented in this conference call. We believe that on the right, Tegma's shares underperformed against the Ibovespa index along 2020 because of the uncertainties regarding the growth of vehicle sales in Brazil and also because of the impacts of the COVID-19 crisis on the automotive industry. Q2 '20 multiples, considering only estimated results by sell-side analysts all have updated figures after the COVID-19 pandemic are shown in the graph below.

With that, I would like to begin the Q&A session.

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## Questions and Answers

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Operator [1]

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(Operator Instructions) Mr. Medeiros will read the questions coming from the webcast. (Operator Instructions).

Our first question comes from Victor with Da Vinci Partners.

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Unidentified Analyst, [2]

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I would like to detail 2 points that you mentioned and that we also read about in the company's release. The first is your cash position. You posted a very robust cash. But still, you decided to roll part of the debt that would mature in the coming months. So perhaps, you can comment on the reasons why you rolled the debt.



And I would also like to understand that award that you received from General Motors. What have you done there to really draw GM's attention.

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Ramon Perez Ariaz Filho, Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board [3]

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Thank you for the questions, Victor. This is Ramon speaking. As regards to the first question, regarding our decision to get more funding. Initially, EUR 19 million, and then EUR 45 million with that partial rollover of the debt. Well, initially, our strategy was to grow the full debt maturing in the end of July and beginning of August. But a partial rollover of the debt that we decided to do already shows that we are somewhat confident that the resumption that we saw, particularly when we give you more details on the quarter, is consistent.

So we actually adapted our initial strategy. We actually announced this in the beginning of the quarter when we were announcing the results of Q1, that our assumption was to roll over our debt. And why do we want to be conservative? Well, firstly, because of the size of the uncertainty, regarding the economic rebound. So this policy to strengthen our cash was allied to all other measures that we adopted, such as CapEx reduction, cost and expenses cuts, using MP 936, the government emergency program and so on and so forth and headcount adjustment.

So we needed to be conservative. And secondly, because we're confident that the market will rebound. And a good part of this cash, there was a working capital release will need to be reinvested.

So today, we are in the position, which is, at the same time, conservative. We're protecting our cash, but it allows us to enjoy this growth that is already giving signs of a continuation.

So these are the reasons why we chose to be on the defensive regarding the company's cash.

And now we turn the floor to Marcos who will answer the second question.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [4]





Thank you, Ramon. Well, Victor, thank you very much for your question because this question brings to surface, an element that makes us very proud, which is acknowledgment and recognition by such an important client. This is a global award by General Motors for innovation. So what did we do for them. Well, we implemented a vehicle yard management system in the Gravataí unit. And this platform resulted in increasing the ability to serve and improve the operations. It brings intelligence in vehicle movement. A typical example. One of our employees when they get a vehicle and they take it to a certain position, a certain slot in the yard. The system shows them another car close to that one, so that they can take that second car and move it around. And with that, we increased productivity. In addition, it gave GM a lot more visibility of their operations. When this kind of operational synergy, in addition to increasing productivity also allowed us to have a better occupation of the yard. It is a yard with 14,000 slots for vehicles. Just to give you an idea of the size. So we have this yard management platform. And in addition, we implemented an online vehicle inspection system. It's a checklist. So GM used to fill the checklists on paper. So you can imagine in a foggy day or in a rainy day, it would be very complicated to fill out the checklist. Now we have an online checklist. Employees do it using an app. So in addition to increasing efficacy. This brought more visibility to the client. These 2 benefits led us to compete for this World Innovation Award, and we were very proud to be the chosen one.

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Operator [5]

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(Operator Instructions)

Our next question comes from the webcast by Mr. [Visenti] from Luminus.

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Unidentified Analyst, [6]

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Regarding the initiative of transporting semi new markets, how is it performing?  
Above or below the brand-new vehicle market.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO &  
Member of the Executive Board [7]



Thank you, [Visenti], for the question. This is an operation for which we have a very positive expectation. And also because of the post-pandemic signs, and we see the number of semi new vehicles being registered. So the number have outperformed the brand-new vehicles. So for our division, these numbers are very important. So numbers in this quarter were way below the budget, but recovery has been way above our expectations as well. So this is a product that is evolving more and more. We have made some investments in marketing. In other words, making this product more well-known to the market. We are perfecting our management system for this kind of transport, and we are expanding the services to the rent-a-car companies.

So we are preparing the vehicles that go to their stores. So we have very high expectations regarding semi new vehicles. Thank you for question, Visenti .

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Operator [8]

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(Operator Instructions)

We have another question here by [Wesley].

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Unidentified Analyst, [9]

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About ANFAVEA, that gave us a recovery period until 2025. Well, from what we have heard to the best of our knowledge, following other associations and other opinions, we believe some 5 years opinion is a bit pessimistic. To give you an idea in 2020. Even for this expectation materializes. From now on, we would have to have a result worse than the results in July. So we believe we should be more optimistic than ANFAVEA.

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Operator [10]

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(Operator Instructions)

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [11]

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We got another question by Victor. He wants to know what we expect from July onward. Well, in July, we had a good recovery in volume. We had a significant growth compared to June. And in August, or the first week of August has been quite positive. And these are strong signs for us because these are numbers that we had in July and in the first week of August. And comparing with the presentation that we made, if we look at ANFAVEA's projection or forecast and other projections, they have a range between 30% and 40% IHS market. It's a little different than ANFAVEA's forecast. But I think that in order to be sure about the numbers, as of August, we're going to have more solid forecasting. What worries us, not just us, but everyone, when we talk about forecasting would be possible and even probable setbacks stores that closed down again or automaker productions that can be halted again. So this is a challenge for all of us. We don't know exactly how the market will behave. It will continue to evolve or whether there will be a setback. The great advantage for Tegma is that since we operate all over Brazil. If in one region, they need to lockdown again, the other region will not. So on average, we believe that we will see positive growth that can be greater or lower depending on these restrictions that might happen again in some locations.

There's another question here by Roberto. Very good question, Roberto. Thank you. He asks if we can comment on the outlook to sign a new contracts of industrial logistics in this pandemic scenario. Well, when we talked about Q1, we mentioned that we are betting our chips and investing in Integrated Logistics, particularly industrial logistics, where we already have 2 very important and solid long-term cases.

In the last 3 months, we continued to invest a lot in technology, which led us to the renewal of a very important contract for us in the home appliances sector. It is RFID project, a very nice project. It will bring a very good operating performance for the client and for us at Tegma.

So when we look at the pandemic, of course, we don't want to take advantage of this kind of situation, but we always aim to help our clients. So this has been very positive for the home appliances sector with the renewal of contracts and the technology and in the chemical division, we also have a very important client. So they hit record marks of production, and we were able to supply their need and the necessary productivity. So in industrial logistics, we are reinforcing our commercial department. We're taking advantage of this home office period. We are not sitting and relaxing, no way. Our marketing and -- our market intelligence teams are researching new products. We're opening up new segments. And like I mentioned in the prior call, we don't want to just get by in these crisis. But we want to drive.



We want to have a very robust and solid cash to sustain us in the uncertainties that might come, but we want to get this pandemic behind us with new services, products and with a strong pipeline of new clients.

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Operator [12]

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(Operator Instructions)

We are now closing the question-and-answer session. I would like to turn the floor back to Mr. Medeiros for his final statements. Mr. Medeiros. Please go ahead.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [13]

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Well, we would like to thank all of you for attending this conference call. I'd like to address that myself and our Investor Relations team, Ramon, Ian, William, we are all available if you have any further questions, if you need to clarify any doubts. So take care of yourselves, be healthy and safe, and have a good day.

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Operator [14]

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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.