International Conference Call

TEGMA Gestão Logística S.A.

2Q 22 Earnings Results

August 4, 2022

Operator

Good day everyone, thank you for waiting. Welcome to Tegma Gestão Logística S.A. conference call to review 2Q 22 Earnings Results. Today we have:

- Mr. Nivaldo Tuba, CEO
- 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 call for a period of seven days.

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

Mr. Nivaldo Tuba – CEO

Good afternoon ladies and gentlemen. My name is Nivaldo Tuba, TEGMA's newly appointed CEO. On behalf of the entire company I would like to thank you once again for taking part in another earnings call. Here with me are Ramón Perez, our CFO and IRO, as well as Ian Nunes and Nicole Brunetto from our IR team.

On slide 2 as usual we have a disclaimer of forward-looking statements.

Moving on to slide 3 I would like to take a moment to introduce myself to investors and analysts on the conference call today. I took over as CEO of TEGMA on July 1 after Marcos Medeiros submitted his resignation. I would like to take this opportunity to thank Marcos on behalf of the whole team for his contributions to TEGMA.

I have over 35 years experience in the logistics industry and served as CEO of the Columbia Group. Two years ago I accepted the challenge of serving as CEO of

TEGMA's joint venture GDL that is responsible for managing both the general warehouses, as well as vehicle logistics yards. As CEO of TEGMA I intend to harness the strengths of the vehicles logistics division and reinforce TEGMA's market position.

As far as the integrated logistics division goes I hope my experience in the sector will provide the vision needed to double down on our pursuit of growth plus profitability and diversification.

Moving on to the second topic, the semiconductor crisis that continues to negatively impact vehicle production. According to ANFAVEA in 1H 22 approximately 170,000 vehicles were not produced due to the shortage of components and parts corresponding to 17% of production in the period. Despite being unable to foresee when the situation would return to normal, many automakers decided to produce unfinished vehicles because during the quarter on account of better prospects for receiving the needed parts.

The third topic is on the approval of dividend payouts and interest on capital for 1H 22. 24.6 million BRL in interim payments will be distributed corresponding to 50% of the accounting net income and to 60% of adjusted net income for 1H 22. Dividends will be paid on August 18 to the shareholders listed as such on Monday, August 8. Dividend yield comes to 2.8%.

I would like to turn now to some of this quarter's innovation and technology highlights and to quickly share three company initiatives during this period:

- The first, the first consisted of setting up the electronic collars we call it, which continues to offer several benefits to the company and its transportation partners in the automotive logistics division. This initiative represents an important step for operational digitalization as it allows partners to remotely select cargo, thereby limiting error-prone manual processes and increase in information processing capacity and speed.

- The second initiative involved adopting semi-trailers or adapting semi-trailers in our chemicals operation with the installation of a fourth axle and lengthening the chassis and the cargo box. These changes result, resulted in higher productivity, fewer trips per month, lower CO_2 emissions and product customer synergy on all trips. This is yet another improvement in our pursuit not only of economic gains and higher productivity, but also of environmental and safety gains for the operation as a whole.

- The third and final initiative consisted of the startup challenge program, which is run by tegUP Ventures, TEGMA's open innovation and technology arm. This challenge has been running for six consecutive years and was first launched in 2017. This year

36 start ups registered, and 12 were chosen to take part in pitch day. You can find more information in the innovation and technology section of our 2Q 22 earnings release

Slide 4 gives us a graphical overview of the vehicle market in Brazil. As you can see domestic sales in 2Q 22 were 6% lower than sales in the same period of 2021. This lower performance continues to reflect the supply squeeze four parts and components, tighter credit conditions and worsening domestic macroeconomic indicators in Brazil like inflation and income.

Once again one of the biggest bottlenecks occurred in GM's plant in Gravataí, State of Río Grande do Sul, which faced production difficulties during the quarter that led to its manufacturing unfinished vehicles at the quarters' end due to the lack of available semiconductors. Nevertheless, the plant resumed production in July, and in addition to completing those unfinished vehicles began once again producing sales-ready vehicles and recovery in market share.

The lower part of the slide shows that vehicle production was up 9% over 2Q… Over 2Q 22 YoY due to a weaker comparative base, just as semiconductor crisis became more intense in May of last year, and to exports that performed well with 33% growth in 2Q 22 in the yearly comparison. This performance was due to improved sales in South America. Almost 1/4 of Brazilian production went to exports.

Slide 5 shows the key operating indicators for the automotive logistics division. In the graph in the upper right we see that the number of vehicles transported in 2Q 22 was 8% higher YoY and market share held steady at around 22%. Our market share is still below TEGMA's historical average on account of the heavier impact of the semiconductor crisis on GM. General Motors is one of our key customers.

The average distance of domestic trips, which is still below historical averages, was also affected by the temporary reduction of trips from GM's plant in Gravataí. Average distance of exports on the other hand increased YoY due to the greater route transport of vehicles to MERCOSUR due to the increased share of exported vehicles, which correspond to a shorter distance, and the consolidated mix average distance traveled decreased by 3% in 2Q 22 when compared to 1Q 21.

Now that I have shared these highlights I will turn the floor over to our CFO Ramón Pérez, who will cover our operating indicators, results, cash flow and other indicators. After that we will open the floor to Q&A.

Mr. Ramón Pérez - CFO and IRO

Thank you Nivaldo, good afternoon ladies and gentlemen. Moving on to slide 6 we see the results from the automotive logistics division. The chart on the top of the slide shows 33% growth of the divisions net revenue in 2Q 22 compared to 2Q 21. These results reflect increase in the number of vehicles transported, 8% higher, and tariff adjustments throughout 2021 and 2022. Please note the increase in revenue coming from the logistics operation of used vehicles, which has seen significant growth in terms of the number of vehicles transported, and it has generated interest in good commercial opportunities for TEGMA.

The bottom of the slide shows that 2Q 22 EBIT margin recovered 3.2 p.p. over 2Q 21, consistent with volume and revenue growth trends in the automotive division. This performance reflects a return to normalized margin levels following 1Q 22, which was severely hampered by lower volumes.

The same is true for EBITDA margins. The 14.2% EBITDA in 2Q 22 is a direct reflection of the division's ability to handle volume increases, while keeping costs and expenses under control.

Slide 7 presents income from integrated logistics. We see slight YoY growth in the divisions net revenue due to an increase in the volume of chemicals transported and stored, all that despite difficulties that the household appliance operation has faced in light of uncertainties in Brazilian retail, coupled with shortages of parts and components.

The graphs show a short drop in the EBIT margin; but the reason for this is a one-off phenomenon that happened in 2Q 21, namely a tax credit totaling 5.7 million BRL. If we were to exclude this effect we would see in the year 2.2 p.p. drop in the EBIT margin.

For adjusted EBITDA, which excludes the one-off tax credit already mentioned, we also see a drop; but in this case of about 2.9 p.p.. This verily reflects the ups and downs of the mix of more or less profitable services, were housing and transportation, respectively.

Moving on to slide 8 consolidated results. We see that net revenue in 2Q was 29% higher compared to the year prior and was positively affected by 8% as mentioned before growth in the number of vehicles transported, in addition to tariff adjustments and the growth of the chemicals operation in integrated logistics.

EBIT. Without disregarding the positive one-off effect of 2Q 21 shows 26% YoY growth and a consistently stable margin. This is a reflection of the automotive operation better operating performance overall. If we exclude the 2Q 21 tax credit the margin in 2Q 22 would have grown by two p.p..

The 2Q 22 adjusted EBITDA margin of 16.1% was 1.2 p.p. higher YoY and this is mainly due to recovery in the number of vehicles transported, which leveraged the division asset utilization and also brought margins back to levels closer to normal.

Finally it is worth noting that net income grew by 27%, while the margin held stable at 10%. This net margin in 2Q 22 and in 1H TY is on par with earlier net margins posted during much better periods in the automotive industry. Even though the industry is currently facing so many challenges, these numbers reflect the resilience of the automotive logistics operations and the company's wise decision to diversify.

In fact, integrated logistics and the joint venture GDL accounted for 30% of TEGMA's net income LTM. In addition to the diversification the company has a deleveraged capital structure, which has significantly reduced the company's net financial expenses at the time of shortly rising interests and interest rates here in Brazil.

Moving on to slide 9 we see here that the company CapEx was 12 million in 2Q 22, corresponding to 4% of net revenue. The most significant investments in the period included the 4.9 million purchase, BRL purchase of 10 tractor units for the vehicle logistics operation, and these were required to upgrade the company's fleet, which has been used extensively for delivery throughout South America.

We also acquired packaging for handling parts and components for the household appliances operations, and this investment amounted to 4.2 million and it was predominantly related to the launch of new products that have different packaging specifications.

Our cash, the cash cycle was 51 days. That is one day higher than the previous quarter. This indicator was negatively impacted by occasional customer delays at the turn of the corner totaling 9.5 million BRL, which is the same as or equivalent to 2 days in the cash-to-cash cycle, and this returned to normal in subsequent weeks. Note that the balance owed relative to commercial negotiations with another logistics operator that subcontracts us for some routes has gradually decreased, corresponding to just a 2-day increase in the cash-to-cash cycle in June 2022. If you recall, this impact was 7 days back in December 2021.

When we look at the company's free cash flow it was -17 million BRL in 2Q. You may recall that the decrease in pending receivables mentioned earlier impacted our cash flow positively by 15.4 million BRL. Cash consumption in the quarter is explained by strong, rapid revenue recovery from automotive logistics, which despite significant improvement in operating income consumed cash through working capital. The one-off delay of 9.5 million as mentioned earlier also hampered cash flow.

Slide 10 details our capital structure. The first graph clearly shows that the 120 million BRL in cash in June 2022 is higher than the current gross debt amortizations for the next three years. We also see that no debt amortization scheduled for 2022 moving forward, and repayment of the more expensive debt contracted during the pandemic explains the short drop in the average cost of debt and you can see this on the right-hand graph, resulting in CDI +2.2% in June 2022.

The composition of our net cash position, which is shown on the table on the bottom of the slide, you see that June 2022 stood at 51 million BRL. Again, this reflects the company's deleveraged structure as mentioned earlier.

And finally on the lower right even though this is a very challenging moment for the automotive industry, we are proud to say that in April 2022 Fitch reaffirmed our Local A stable rating.

And finally moving on to the very last slide let us take a look at the evolution of return on invested capital as well as return on equity. Note that the ROIC, which is shown in gray, was 16.6% in June 2022 and represents practically speaking stability when compared to the ROIC posted in 1Q 22. This come after a year of successive drops due mainly to production difficulties in the automotive industry. The current ROIC is the same as the one the company posted at the end of 2020, but with 8% fewer vehicles transported and an 11% lower average distance traveled.

Our ROE shown by the orange line also grew and was positively affected by the joint venture GDL, excellent quarterly performance.

The lower left of the slide shows dividends and interest on capital paid out over the last five years. The gray line shows solid distribution payout, the orange line graphs the corresponding dividend yield. As shown in the quarterly highlight the company decided to distribute 50% of book income, which corresponds to 60% of adjusted net income for 1H 22, corresponding to a dividend yield of 2.9%.

In the chart of TGMA3 multiples you see that the price/earnings in gray is stable compared to the previous quarter at 7.2x, same as EV/EBITDA ratio which was 4.1 in 2Q 22. So we attribute this primarily to uncertainties in the automotive market.

And finally the last chart presents share performance compared to the Ibovespa Index.

Again, due to the significant uncertainties in the automotive market TEGMA's share prices have been quite volatile this far this year. Nevertheless, TEGMA's shares have been in line with the Ibovespa Index in recent months, which apparently reflects market confidence in TEGMA's solid grounding and readiness to successfully face adverse situations.

I would like to thank you all for your attention and now we would like to open the floor to questions and answers, thank you.

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 you would like to remove your question from the queue please dial *2. Mr. Nivaldo will read the questions coming from the webcast.

Luiza Mussi from Banco Safra, Safra Bank, first question.

Ms. Luiza Mussi - Safra

I have two questions. When we see guidance ANFAVEA we see that light vehicles is quite low, so for 2H TY needs to be a lot stronger. So in terms of this I would like to know what your perspectives are in terms of production. Do you expect a stronger 2H?

And then the second question is that last quarter you talked about labor, you said that that was high in terms of cost. I would like to know what you have to say about the company's and what you think about labor costs for your 2H TY and what your strategy will be, thank you very much.

Mr. Nivaldo Tuba - CEO

Thank you very much, Luiza. Despite the fact that 2Q was better than 1Q, it was still challenging for automotive logistics. The lack of parts and semiconductors is still far from being fully resolved, and there were lot of times when production stopped and unfinished vehicles were all that we had. For TEGMA the hardest part, the most difficult was the GM, the GM plant as we mentioned earlier, because there were a lot of vehicles that were just unfinished; nevertheless, we still were able to recover our margins. This gave us relatively good results in the end of 2Q.

For 2H TY we are paying close attention to what ANFAVEA is predicting. ANFAVEA was very bold early in the year, and now we are talking about 0.9% growth. We estimate or we expect a little bit of growth in 2H TY compared to 1H TY on account of recovery, and production will start up again, which again production was heavily jeopardized in 1H TY. Ramón.

Mr. Ramón Pérez - CFO and IRO

To answer your second question - you were talking about the impact of labor on our margins - our expectations are as follows. Some volumes are expected to increase. As ANFAVEA said about 1% over last year give or take a little bit; but with this we expected to be more effective in 2H TY. It is important to keep the following in mind: although we have very little operating leverage and little ability to adapt labor to the volume requirements, it is easier when you have reductions over a certain period of time.

So volatility - the stop and start and stop and start - makes it difficult to be effective. We have to keep the teams, it is in fact one of our primary, our key customers recently stopped producing for two weeks, and we could not make any effective changes to our labor and teams because we have to be ready in case volumes increase again or production starts up again.

Ms. Luiza Mussi - Safra

Thank you very much.

Operator

Luiz Capistrano from Itaú BBA.

Mr. Luiz Capistrano - Itaú BBA

Thank you, good afternoon and thank you very much and congratulations on your results. I would still like to talk about semiconductors and perspectives for 2H TY. It is very clear what you had to say; but I would like to specifically talk about something which is the number of headlines that we keep seeing talking, referring to semiconductors stock that they are being stocked up, right? At the beginning the point like where they are produced; but we see that this is very complicated, because they are being stocked up. It is hard to understand that electronic chips are necessarily what is used in vehicles; but what do you think about this?

We expect this not to be, come back to normal so soon, that is very clear from what you said; but on the other hand to expect us to improve in 2023, do these headlines not affect you? How can we better understand the semiconductor context? Is that going to lessen costs perhaps, or increase costs? We see that the costs are quite high, and this obviously jeopardizes demand, it affects demand, affects sales. So is there a point of inflection that we will see, at least for semiconductors? I am just kind of thinking out loud here - but I would like to understand what your thinking is on the stocking of semiconductors abroad.

Mr. Nivaldo Tuba - CEO

Luiz, good afternoon and thank you for the question. We are in the vehicle production, we are not in the vehicle production line, so we are not in the best position to make gains from this; but we still have insights. For example, semiconductors stocks in Asia and in South Korea are high, because there has been a drop in demand for electronic products and plants are starting to operate once again; but that we do not really understand exactly what is going to happen with this sector. We cannot make any affirmative, affirmations, we cannot be super optimistic about this because we are not yet sure.

Mr. Luiz Capistrano - Itaú BBA

Thank you.

Operator

Webcast, and the speaker will read the questions.

Mr. Ian Nunes - RI

Good afternoon, this is Ian from RI. I have two questions here on the webcast, IR questions, from IR, sorry, one is for Nivaldo, from André Santana: can you give us some more information on the sector and size? Are you looking at M&A targets in terms of the sector and side?

Mr. Nivaldo Tuba - CEO

We are looking at integrated logistics in terms of the industry. Activities that are not aligned with what we already do, whether it is automotive or specifically integrated logistics. The idea or guidance from the Board is the following: is that we are gradually looking for a balance of scale for integrated logistics and other divisions. We have integrated, we have our parent company GDL in Espírito Santo has been doing a great job looking at this balance for us.

Mr. Ian Nunes - RI

Second question Humberto Rocha: congratulations on such strong results. With cash generation moving back to normal, and net cash, do we expect payouts to increase? And exports have been very strong this year; what are the perspectives for 2H TY? Is it for South America or some other service, something else with the manufacturers?

Mr. Ramón Pérez - CFO and IRO

Hi Humberto. In terms of payout and cash generation returning to normal, I believe we are going to maintain our policy of about 50% - not 50%; it has been 50 to 60% in recent years. Nominal amounts may increase; but the payout percentage is expected to stay roughly the same, because our strategy is connected with what Nivaldo already mentioned. We have some, we expect to grow through, we expect to grow inorganically, inorganically. So inorganically, so M&A.

And your second question was about exports. This is an overall trend in the market. If you see agents, outlooks for this year you will see that domestic sales were lower than they were, than projections, than projected. We have transports to all of MERCOSUR including Colombia, Argentina, Bolivia, Chile and there is no reason for us to believe that this trend is going to turn around. We expect it to continue at pace.

Operator

Ladies and gentlemen. This is a reminder that if you would like to ask a question please dial *1.

So we are ending today's question-and-answer session. I would like to invite Mr. Nivaldo Tuba to proceed with his closing statements.

Mr. Nivaldo Tuba - CEO

Thank you very much, thank you for your participation. It is always so gratifying to see everyone participating, learning about our company, understanding how we operate. As TEGMA's CEO I am here whenever you need me. Once again thank you and thank you on behalf of my entire team.

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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.