

Announcer:

Ladies and gentlemen, thank you for waiting.

Please be welcome to the conference call of Armac Rentals for the earnings of Q2 2021. We inform that all the participants will be in the listen mode only during the presentation of the company, and then we will begin the Q&A session, when further instructions will be supplied. If any of you need assistance during the conference call, please request the help of an operator by dialing *0.

Before proceeding, we would like to clarify that any declarations that may be made during this conference call concerning the business perspectives of the company, projections, operations, and goals, are based on beliefs of the company's management, as well as information currently available to the company.

Considerations about the future are not guarantees of performance. They involve risks, uncertainties, and assumptions, they refer to future events and depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operational factors may affect the future results of the company and may lead to results that may differ materially from those expressed in these considerations about the future.

Now I would like to pass the word to Mr. Fernando Aragão. Sir, you may proceed.

Fernando Aragão:

Good morning to all. Thank you for participating in our first conference call. It is a great pleasure to be here, and I would like to thank all those who helped in some way for our growth, especially our clients, shareholders, creditors, suppliers, and all the people who are recharging the engine of our company. Concerning 2Q 2021 – numbers from before our IPO – we more than tripled all the relevant metrics, especially the ones regarding revenues and margins, which is a victory for the company.

Now, return levels on invested capital, they continue healthy. Our adjusted ROIC of 32.6% in the quarter, is in line with what we want. And here, I would like to talk about the ROIC. In this first conference call, it is important to mention this, since our business model has the value until the end of depreciation. So, Armac ROIC, accounting ROIC does not represent well the internal rate of return for investments, because in the first half-life, when there is little depreciation of the machines, so we had this number.

In the second half of the equipment's lifetime, when most of the depreciation already happened, accounting ROIC is greater, and it is like we make an adjustment until we can reach capital use for the machine. So, we use a ROIC, which is a more coherent with the investments we are making. Also, I would like to talk about the relevant purchase of used machinery, a very important lever for us, and this week we have turned by using used machines. And this is a priority for us in the long term.

I would like to say that this is our journey continuing in the company. And we have great... we see here a great opportunity to continue managing the business as we always did, always thinking on the sustainability of our business in the long run, and on how to generate value to our shareholders, and this is what you can expect that we will continue doing.

Now I will pass the floor to Pedro, and he will continue the presentation with more details.

Pedro:

Thank you. Good morning.

I will begin with slide number 4, talking about our investments in the quarter.

We closed Q2 with 1,902 equipment available for renting. Our fleet is mostly composed of earthmoving equipment, forklifts, dump trucks and tank trucks. In this way, in the last twelve months we added 1,299 new equipment to our fleet, and this represents a growth of 39.6%.

Now I am going to Capex. We invested during this quarter a total of 208 million, as Fernando mentioned, 25 million through the acquisition of used equipment, used machines.

We might stress that 208 million represents an average Capex of sixty-nine million reais, which is a growth of 491% in relation to the monthly Capex of Q2 2020.

Going on to the next slide. The expansion of the fleet and the maintenance of our productivity, the gross revenue of Q2 2021 reached 79.3 million reais, and been made up from rental and services, and a small part from the sale of used equipment.

The gross revenue of rental and services was 78.6 million reais, representing a growth of 42.6% in relation to Q1, and 227% in relation to Q2 2020. Illustrating this, if we annualize the revenue, we would have a gross revenue around 324 million. Right, we can observe the details of our revenue from leasing and rental per type of client: 63% rental comes from renting to sectors such as agribusiness, mining and forestry; the other 37% are made up of rental to the sectors related to infrastructure. This is in line with this long-term strategy of the company.

Now, going to slide number 6, we present a gross profit and EBITDA. We adjust our metrics to remove the results from the sale of assets, offering only a view of rental and services. Adjusted gross profit in Q2 21 reaching 34.1 million, a growth of 45.8% to 2021, and 255% in relation to the previous year.

So, the gross margin, and this comes from the strategy to eliminate middle persons for the parts, and the maintenance of the great search for efficiency and gains in scale when buying parts. Adjusted EBITDA reached 38.4 million in the quarter, growing 47.7% when compared to Q1 21, and 233.4% in comparison with Q2 20. When we analyze this number; we would have an adjusted EBITDA of 154 million. The adjusted EBITDA margin was 54.2% versus 54.5% in Q1 21, and 53.3% in Q2 20.

During the first semester of 2021, Armac invested in the construction of the basis to enable it to allow growing in the next few years. Among them, we would like to highlight the investments in people, improving our capacity to attract talents, and creating completely new areas in the company, and development of our brand.

Following on to slide 7, we see the net income and net cash earnings. Here we see the same trends in growth and margins: net cash earnings were 24.2 million with a 33.8% margin. Meanwhile, the net income reached 10.8 million, growing 41% in comparison with Q1 21, and 215.7% in relation to Q2 20. The net margin reached 15.1% in Q2 21 versus 14.8% in Q1 21, and 15.6% versus Q2 20.

Now, on slide number 8, we took out loans 250 million in new financing. We used this to finance the purchase of new machines and to pre-pay old debt to increase the average duration of the debt and the reduction of the average costs.

Among the debt issuance we made during the quarter, we had our first issuance of debentures worth 300 million, of which, until 2Q 2021, 180 million had been integralized and the rest will be in July.

The cost of our debenture was CDI plus 3.65% and went to CDI plus 3.35% with the IPO of the company. In this way, at the end of 2Q2 2021 our gross debt was 609 million reais showing an increase of 207 million, which is in line with the Capex of the period, of 280 million.

Meanwhile, the net debt closed Q2 21 with 474 million, showing a leverage of 4.69 times the last twelve-month EBITDA. This increase in the level of leverage is in line with a high rhythm of growth since the

EBITDA reflects the results of the last 12 months, while the net debt is the position at the end of the 2Q 2021.

Having said that, the IPO made in July, with an initial public offering of one billion reais, will help to adjust our capital structure so that our balance sheet isn't an impediment to our growth.

Going on to slide number 9, we have our metrics of profitability. Fernando talked about the methodology we use to calculate ROIC so I will skip this point. Our Adjusted ROIC in Q1 21 was 32.5% versus 34.2% in 1Q 2021, and 39.9% in Q2 20.

The adjusted ROE was 57.3% versus 50.9% in Q1 2021, and 69.6% in Q2 2020. This variation between quarters is related to an increase in capital through speed in February 2021.

With this slide, we would like to close the presentation.

We thank you all for your participation, and we will now go on to the Q&A session.

Announcer:

Thank you. Now we would like to begin the Q&A session. To ask a question, please dial *1. To remove the question, please dial *2.

The first question comes from Lucas Marchiori, BTG Pactual.

Lucas Marchiori:

Perfect, thank you. Good morning everyone. Fernando, Pedro, thank you for the presentation.

First of all, congratulations for the results and for the successful IPO. I have two points that I would like to address.

The first is related to the supply of machines, we have seen the concern on the part of assemblers to supply new machinery, I would like to understand how is your purchase pipeline, have you negotiated the purchase of new equipment especially for this year? What is the situation in terms of delivery? This would help us to understand your purchase perspective and growth.

About the second point. I would like to understand the behavior of the rental rates in Q2 this especially regarding the mentioned effort to purchase used machinery. Has this given the company a greater yield in Q2 as you mentioned? Can the purchase of used equipment help your long-term value generation? So, how is the rental rate in this case with used machines? Thank you.

Fernando:

Ok, thank you for the questions. Well, concerning the availability of purchasing, we purchased from all the manufacturers in the yellow line, and we have many options in Brazil. And the machines we are receiving now were bought in September last year. And we have not had any challenges for our receiving. We have a good relationship with the manufacturers of equipment, machines; we have not had any problems. So, we have received the machines as expected, the OEMs have delivered these machines, thus helping our growth. For next year, we have already made most of our purchases, but we have some agreements that we are still finalizing.

Once again, we buy from many manufacturers, and I trust that we will have a Capex that will be higher next year. We cannot go into details now, but we will supply these numbers. Concerning used equipment, right now it represents a small portion of our fleet. But we see ourselves as a partner that improves our client's efficiencies, that being said, we won't increment the proportion of used equipment in our fleet to gain from higher rental rates, we will maintain our current level of returns and use used equipment as a source of comparative advantage, reducing prices to the customer.

Lucas:

Very clear, thank you, Fernando. I simply wanted to understand your purchase schedule. Another issue regarding used equipment: I remember you mentioned that at the beginning of the year around 7% to 7.5% of the machines of the fleet were used. What is the current proportion of used equipment in the fleet?

Fernando:

We bought 25 million in used machines in the 2Q21, so it is a little higher than this. The way I see if we manage to maintain this proportion closer to 10% to 15% it is something that adds a lot of value to our clients. We will never be a company that buys only used equipment, because our role is to provide the most efficient equipment at the best price. Therefore, the proportion of used equipment will continue to grow, we are aiming at a level between 10% and 20% of the fleet.

Lucas:

Thank you.

Announcer:

Our next question comes from Josh Milburg from Morgan Stanley. Sir, you may proceed.

Josh:

Good morning, Fernando, good morning, Pedro. Thank you for the call. Congratulations for the first earnings release as a public company.

My question also has to do with the purchase of used equipment, basically a follow-up, could you give us more color about the terms of these purchases, the average age of the used machinery, and related to this could you also revisit the core issue if your case, which is to extend the equipment's useful life maintaining the quality of your services, without generating a relevant pressure on maintenance costs. This was one of the most important points during the IPO, but with the purchase of used machinery, and your competitors also questioning your capacity to deliver, I believe it would be important to revisit this point.

Fernando:

Concerning used equipment, we buy from many sources, usually small sellers, we pay in cash and prices are in line with market prices for these equipment. I wouldn't have the exact number right now, but we

buy equipment that is between the age of 3 and 10 years, and obviously the purchase price is negatively correlated to the asset's age. So, we revamp and do the maintenance.

Concerning cost of maintenance, this is one of the main strategic advantages of the Company. I can even understand why a competitor would question our capacity to deliver, because, probably, he doesn't have our culture of rolling up our sleeves and fix things instead of discarding them. So, nothing changed since the IPO, the numbers are still the same, our operational efficiency is still the same.

What I think our shareholders should bear in mind is that this is a company of owners, and as long as the operational KPIs of an 8- or 9-year-old asset are in line with what we want he will continue to operate, at the moment it diverges from what we consider is to be the optimal efficiency level we refurbish it before sending it back to a client. To summarize, we don't rely on luck to maintain solid KPI levels even with a bigger proportion of used equipment, we are extremely thorough when we buy used equipment. That is why the company continues to be economically sustainable even with these changes.

Josh:

You answered my question, thank you. Thank you for taking the time. Another question... you highlighted the new employees, the number of new employees. What percent of employees that you hired are mechanics? Please comment on your perspectives in the second semester.

Fernando:

We highlighted that this is a company made by people, more than machines. I wouldn't like to open the percentage of new employees that are mechanics, this proportion is too strategic and it tells a lot about how we operate, so I wouldn't like to open it now. But what I can say is that most new employees are allocated in direct operations. The office grew a little bit as well, to manage the complexity of our growth, but the vast majority of new employees are for operations, not only mechanics, but also welders, truck drivers and professionals dealing with tires and wheels. What you can expect, as the number of machines grows, that we will need more employees, we will be hiring more people, and the number of employees will grow in line with the number of machines.

Josh:

Do you believe you will have bottlenecks? Do you believe you will be able to hire all the people you need without bottlenecks? Well-trained people to help in your growth plan?

Fernando:

Yes, this is the greatest difficulty and that is why we make a great effort in hiring and selecting new talent. You must educate the people, train them, and provide them with the necessary tools so they can be great mechanics, drivers, sawyer. So, we are investing resources to improve our training infrastructure. So, what we do on a day-to-day basis... we have these challenges, and we are working on them to avoid bottlenecks for our growth.

Josh:

Thank you, good luck. Thank you.

Announcer:

Once again, I would like to remind you that, to ask questions, please dial *1; to remove the question from the queue, please dial *2.

Our next question comes from Victor Vernier from Vinci Partners.

Victor:

Good morning. Congratulations for the results. The average monthly Capex was 69.4 million. How was this during the quarter? What can we expect for the next semester? Thank you.

Fernando:

Thank Victor.

Our Capex was constant during the 2Q 21. We arrived at almost 70 million per month and we kept it during the quarter. As mentioned during the offering, we have a certain difficulty to expand the Capex, because we are buying and receiving based on commitments and we made with suppliers in 2020. We have a certain flexibility by purchasing used equipment, but when it comes to new equipment, we are limited to something close to this 70 million. For now, we are preparing ourselves to expand the Capex beyond this level in the next year.

Announcer:

Our next question comes from Lucas Marchiori, BTG Pactual.

Lucas Marchiori:

Thank you, just a follow-up. Recently the market has been discussing about impacts of the increasing cash flow to the Brazilian economy and the rise of long-term interest rates. Since you are in business of durable goods, how does this change impact you, have you experienced a retraction in demand in any shape or form?

Fernando:

Good question. We have not seen any impact on sales, sales are strong. I believe this is due to the fact that the market share is still small. In the short-term, I do not see any impact on sales. We have forestry, agribusiness, mining, and others that won't suffer from this level of interest rates. And even the infrastructure projects we attend are fruit of concessions, so it shouldn't suffer significantly from changes in interest rates.

So, I don't see any impact on sales at least for now. And our business model assures we are more a service provider than a product seller, due to the asset sharing aspect of what we do, this model generates a return that is far superior than the company's cost of capital. When interest rates go up, in terms of leverage or business is still very profitable, because we are essentially a service provider.

Lucas:

Perfect, agreed, good point. Thank you, Fernando.

Announcer:

I would like to remind you that to ask a question, please dial *1; to remove your question, please dial *2.

Since there are no more questions, we would like to pass the floor to the speakers for their final comments.

Fernando:

Well, we would like to thank you once again for participating and investing your time to listen our earnings release presentation. To our shareholders, thank you so much for the trust, there's a lot still to be done. This is a growing business, but we will build this future together. You can count on our total dedication and transparency during the next few years in building this business. I hope this will be a journey of success and prosperity to us and to our shareholders, and we also hope to generate a lot of opportunities to the people, the economy, and to our clients that I also ought to thank profoundly.

Thank you everyone.

Announcer:

The conference call of Armac is concluded. We thank you for participating and wish you a good day.