1Q22 Earnings Call

Operator:

Good morning, and welcome everyone to JSL's audio conference to discuss results relative to the 1Q22. Here with us today we have Mr. Ramon Alcaraz, JSL's CEO, and Mr. Guilherme Sampaio, JSL's CFO and IRO.

At this moment, all participants are connected in listen-only mode. Later, we will start a Q&A session, when further instructions will be provided. Should you need assistance during the call, please request the assistance of an operator by pressing *0.

This audio conference call is being recorded and simultaneously translated into English.

Before moving on, I would like to state that forward looking statements made during this audio call concerning the Company's business outlook, operating and financial targets, are based on assumptions and beliefs on the part of the Company's management and also on information currently available. Forward looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not materialize. General economic conditions, industry conditions and other operating factors might affect the future results of the Company and thus lead to results that will differ considerably from those expressed in these forward looking statements.

I would like to turn the floor over now to Mr. Ramon Alcaraz. Please, Mr. Alcaraz, you may proceed.

Ramon Alcaraz:

Good morning, everyone. It is a big pleasure for me to be here to disclose the results for 1Q22. I can already anticipate it were really, really good. Even though it was a very difficult and challenging quarter with an increase in input prices, as you all are aware. We had a net revenue in the quarter of 1,3 billion 50%, up from 1Q21.

EBITDA of 219 million, 72% higher than that posted in 1Q21, which shows our capacity to produce good results even amidst a complex environment with prices going up. A net income of 33 million, if we consider the adjusted number of 37,2 million. And a ROIC of 13,9% return on invested capital, which shows our discipline and investments. I have to say that this ROIC was 5p.p. above that posted in 1Q21. A free cash flow of 198 million, and later, Guilherme, our CFO, will break down.

A few highlights of 1Q22, I would like to mention that this is the fourth quarter where we had organic growth above two digits. If we annualized the gross revenue for the 1Q22, we already have an annual revenue above 6,2 billion. 83% of the revenue when we did our IPO in the 3Q20. Those results reflect improved operating performance and continued appreciation of our asset base.

I take the opportunity to announce the drawing of a new member of our board. Silvia Leão. Silvia, welcome to our board. Silvia is a professional who has large expertise in people management, among other things. She will help us in this mission to manage over 25 thousand associates in our group. Sylvia had a brilliant career in retail. She will certainly help us understand the yearns and ambitions of our clients and customers.

Moving on to page four, we would like to highlight our organic growth. In the wake of other quarters, it has also been growing by two digits. In the 4Q21 we announced a growth of 17%, which in itself is very, very good. And now we can announce a growth of 21%, 31% of which for the companies we acquired when compared to those companies with themselves, 1Q22 versus 1Q21, 50% in JSL alone, when we compare the Company with itself, 1Q22 vis a vis 2021. An average weighted growth of 21%.

Given that is a recurrent question that we get asked. I would like to say that out of that growth, 52% came from readjustments of current contracts and 48% came from new contracts.

As I said, we have signed 700 million in new contracts in this 1Q22 with an average term of 40 months, 94% of which in cross-selling, in other words, contracts entered into by current customers. 52% of those contracts are in dedicated operations, or those where we have a higher commitment between parts, JSL acquiring assets and on the customer side the guarantee, especially in terms of the fixed assets, providing more resilience even in turbulent times.

Also important to highlight the segments where we have those contracts signed. I would like to highlight 30% in open paper, 26% in food and drinks and beverages, 12% in steel and mining and 11% in consumer goods. And why is this breakdown important? Because 73% of the growth we enjoyed in 1Q22 as opposed to 21, came from those segments and those industries. In other words, we closed contracts that generate future revenue around those segments with higher growth rates.

With that, I will turn it over to Guilherme, our CFO, for him to go into more detail about our numbers in our Company's capital structure. Guilherme, over to you.

Guilherme Sampaio:

Thank you, Ramon. Good morning, everyone. I would like to start my presentation by talking about net revenue, which closed the quarter at 1,3 billion, out of which 29 million for the sales of assets. That represents 49% more in terms of service revenues and almost twice as much in terms of sales of assets when you compare that with 1Q last year.

That growth reflects the consolidation of the three companies, TPC, Rodomeu e Marvel, which were not consolidated in the balance sheet back then. But also coming from our organic growth, as Ramon mentioned from JSL and the five acquired companies which combined get to 21%.

When we go to the results, a few points to highlight. Number one, our transparency in terms of relationship with clients and also with truck drivers and third parties, led us to be more agile to accommodate maybe an increase in diesel prices, which happened both in early January and then on March the 11th, as someone mentioned, and you probably saw that on newspapers.

Also, an impact coming from the adjustments were already applied, which faced inflation for our main inputs, which can be seen on this slide. For example, in the year fuel prices went up

88%, parts 35%, tires 25%. Another important point is the quality of the companies we have acquired, which have benefited from the scale of JSL and consequently have improved their numbers as well.

Moving on to the numbers. Operating results closed the quarter at 156 million, a growth of 85% year on year, and a margin of 12,3%, an expansion of 2,5p.p., also compared with 1Q last year. EBITDA closed the quarter at 290 million, a margin of 17,3%, up 2,3% from 1Q last year and 0,4% up from the 4Q last year, which based on our seasonality is also worth mentioning.

Net income, as expected, was impacted by an increase in CDI. However, it benefited from better operational performance and also benefited from the sales of assets which I will deal with in the next slides. If we remove the impact from PPA or the acquisitions, purely accounting impact, I was talking about a net income of 37,2 million in the quarter.

Before moving on to the capital structure, the Company, something we have mentioned before, I would like to reinforce that our pass on prices happens in pace with an increase in inputs. That is why we are still re-composing the margins for all contracts and we cover what can be backtracked and also update our future price basis.

Going on to the next slide, capital structure to close the quarter at 1 billion in availability, 365 million of which have not been thrown, which is enough to cover our debt until 2025 and ten times in the short run. Net debt closed the quarter at 2,9 billion, a reflect of the volume of CAPEX that we needed to make in the past quarter in addition to the acquisitions.

Leverage, 3,3 times EBITDA, and 3,1 times an added EBITDA, which is our reference for our financial covenants. Here it is worth mentioning that we continue to have the same reference in terms of target for leverage around three times net debt EBITDA in the Company's profile of being a cash generating Company provides us the comfort of having a natural deleveraging.

The cost of net debt closed at 9,2% net of taxes. A question I always get asked is that today we have around 300 million items of taxes to be recovered which will smoothen our gas reimbursement and will contribute to the financial revenue given that this volume is annualized by the SELIC rate.

Moving on to CAPEX, in the next slide. We closed with 243 million in gross CAPEX and 214 million in net CAPEX in the period, out of that amount, we are talking about 38 million in renewals and 206 million for the expansion of new contracts vis a vis the 4,1 billion that were reported in the previous year. And the 700 million which have reported in the new sales in the 1Q.

The sales of assets summed up to 30 million and the margin for that moved from 9% in the 1Q21 to 26% in this quarter, which shows the positive impact of inflation on our asset base. And if we look as a reference in our asset base today, we are talking about a potential evaluation of about R$650 million.

With that, I will turn the floor back over to Ramon for him to talk about our sustainability agenda and also make his final remarks. Over to you Ramon.

Ramon Alcaraz:

Thank you Guilherme. Moving on to our sustainability agenda, I would like to highlight that our integrated reports that 2021 has been published, another important point emphasize, which has already been mentioned by myself in other occasions and during our JSL Day, is how we value safety.

It could not be any different in a Company where we have over 25 thousands employees and we need to acknowledge our customers as well. For example, we ranked among the three best companies in safety for Gerdau. For Braskem, another big client we have, we were acknowledged as a Company to highlight in terms of SSA.

As I mentioned, JSL ranked among the best companies in the supply chain for ECOVADIS rating and also highlight the award we received, quite important. One of our main clients, Ambev, we ranked among the three best logistic operators in South America.

Also to highlight our climate survey at JSL, the first year, we conduct that through WTW, the Company which is recognized around the world. As we did in this first year, only for JSL, we are talking about 14,500 employees. Others use other other models, 11 thousand associates answered the survey spontaneously, that accounts for 78% of participation.

Out of those, we had a satisfaction index of 89%, a high number of NPS. If you know the tool, you know how NPS is a complex tool. We had 51% promoters and 8% detractors, an NPS final very good, of 63%, which ranks us in the excellent category, 96% in the question: Is this Company really geared towards customers needs? And that is important because it shows that we are biased towards serving our clients and that is perceived by our employees as well.

All those points reinforce recurrently what I have been saying since I joined the Company, both internally and externally. My greatest dream is to transform JSL into increasingly the best Company in logistic operations not only in Brazil, but in all the countries where we operate and will operate. And we have three pillars: Customer satisfaction; Associates motivation; and Achieved results.

To wrap up, I would like to emphasize our focus on execution, transforming since the IPO in September 2020, a growth of 83% in gross revenue. We are a Company of 6,2 billion. If you annualize the 1Q21 compared to 3,4 billion during the IPO, 100% larger in terms of results, twice as much EBITDA since (15:18), 878 million when we annualized the 1Q vis a vis 440 million at the time of the IPO.

We continue to negotiate with our clients as we pass on prices and especially focus on operation efficiency. Long term relationship with customers ensures long term business because of the high level of reliability, with the services we provide. People, scale and balance form a solid base for us to be able to reap the benefits coming from organic growth or M&A.

The speedup of our TI and TAC agenda is the basis for us to find new revenue sources and expand our customer base as well. With that, we conclude our presentation and Guilherne and myself remain available for questions or comments that you may have. Thank you very much.

Gabriel Rezende, Itaú BBA:

Hello, Ramon, Guilherme. Good morning. Congrats on the results. Thank you for taking my question. I have two questions actually. You mentioned in the release that the asset light division you had an impact on the automotive sector because of supply chain disruptions. If you could please share updated numbers on that topic.

I think VW has announced new shutdowns in Brazil. We have seen the same happening in transportation companies. I would like to understand an updated view of that from your end. Especially vis a vis the robust operations that you usually carry.

So what is your perception about the bottleneck in the supply chain, especially in what refers to the automotive industry? What kind of impact do you expect and how can we expect things to move forward?

Number two. After this, 700 million incomes of contracts revenue. How do you see 2Q going forward? We are now through April already. What can we expect for 2Q for that particular number? Thank you.

Ramon Alcaraz:

Hi, Gabriel. Good morning. Thank you for your questions. Let's start with the first question. You asked how we see the automotive industry and the impact on JSL. It is important to say that JSL is part of the chain of the automotive chain line. Inbound parts, we have businesses with all automakers. Of course, we also transport parts, especially for Argentina, where several cars are assembled.

We do the intra logistics service. And we also do the outbound, we transport brand new vehicles as well. The major impact happens on the outbound arm, new vehicles, brand new vehicles. That, of course, an impact in the production will impact us, as you know. Since last year, we have seen issues around the lack of components affecting car makers. But that, of course, affects new vehicles.

Transmoreno is the Company that we acquired and which has been suffering most because of those new cars. So, of course that Company suffers in terms of revenues, but not in terms of results at the end of the day. In terms of the transportation of parts, the inbound arm of what I described, we had good results. We have been signing contracts with two large auto makers to do international transportation.

In summary, there is an impact, of course. We had a better expectation for 1Q coming from the automotive sector. The whole industry was expecting a better performance, but we still see some impact in production. There is a high expectation for 2Q because there is high demand.

The problem is on the production end, at some point this will be unlocked. But we are less impacted because especially in terms of the transportation of car parts, we are doing well. But that is the main advantage of JSL, we work across different segments.

In terms of the automotive segment, they are suffering all those problems. But other segments such as consumer goods and pulp and paper, it is moving full steam. So that sort of offsets and explains our growth of 50% quarter on quarter.

In terms of your second question about our expectations for the 2Q22. It is very positive. Some segments have broken records in April. I can say beverages and food segments, which are, as I said, moving full steam. Other segments, pulp and paper are also doing well. As I said, we expect the automotive industry to be unlocked. We need to see that. There is some kind of anguish right now because they need to produce cars, vehicles which have been sold already. So we expect that to start happening now in 2Q.

And we have signed two contracts with two large auto makers to transport auto parts to Argentina. Gabriel, that is what I had to share with you at this point.

Lucas Laghi, XP Investimentos:

Good morning. Ramon, Guilherme. Congratulations. I have two questions. First, about revenue, sequential drop, and you mentioned seasonality, as a reason. Could you comment on how seasonality impacted the different operations that you have, dedicated operations and other arms of the Company?

How each of those segments was affected by seasonality in this quarter? And then also across different segments, beverages and foods, and so on, so that we can have a better picture of how those seasonality effects are spread across different segments.

And a second question would be about CAPEX, if you could also comment. We also see seasonality on that front, especially the number of contracts when we compare different quarters. So that we understand that seasonal behavior, if I may, of the CAPEX.

And I see you also mentioned increasing prices for inputs, and I would like to hear what kind of impact that can have on the Company's ROIC. What kind of ROIC would you expect to see going forward for the new contract? Vis a vis investments vis a vis CAPEX. So those are the two questions I would like to pose. Thank you.

Ramon Alcaraz:

Lucas, thank you for your questions. I will start with the revenue question. Yes. In our segment, we do have this seasonality feature. The 4Q is usually better than the 1Q and so on and so forth. But this year, specifically, because of the contracts that we signed, we reported throughout 2021, reported contracts we signed to the tune of 4,1 billion in some segments. And of course, that has an impact on the subsequent months.

Those contracts have an average turn of 46 months, some months in 2021, which helped our revenue. But most of those contracts will be accounted for in 2022, three and four. And we are also reporting new contracts because that ensures future revenue, regardless of the volume growing, we are adding new contract.,

So that is part of the explanation of why 1Q was so good when compared with 1Q21, for example. And even when we compare the 4Q21, which, as I said, is the best quarter still, there is a dramatic gain in revenue in 1Q.

In addition to that, some segments where we operate, especially pulp and paper, and food and beverages, which have different characteristics, of course. Pulp and paper have to do with commodity prices and commodity movements. And food and beverages have been growing exponentially since the pandemic started.

Those are industries which have been going full steam, as I said, for example, beverages, which is a segment which has a bad moment in early 2Q because of temperature changes. This year we are seeing records being broken in terms of volumes.

So we have been benefiting from that good positive wave, if I may, 73% of growth when you compare 1Q21, 22, (26:02) across all those segments, pulp, food, steel and mining and consumer goods. Why is this important? Because we closed or signed 700 million in new contracts in this quarter, and 79% of which happened around those segments. Those four segments.

So we are investing in those segments which have been detaching themselves from the number, I call them, they have been growing much faster. Even in the automotive sector, as it was mentioned in the last question, previous question. We have been signing excelent contracts in the automotive segment as well, in terms of international logistics.

As for the question about CAPEX, as announced, we have signed 5 billion in new contracts, I announced last year, in addition to the 700 I just mentioned, 52% were about dedicated operations which are characterized by having a longer term commitment and thus a higher need of CAPEX. So we made a massive investment of around 750 million last year and we have 200 million in 1Q.

You asked an important question, which is what kind of impact the increase in input prices will have on this chain, how will those assets increase in price and cost. That has to do with the group's strategy. The group has a strategy not only in JSL, but also in Vamos, to buy with a lot of anticipation.

So we are benefited by that because the CAPEX that we are investing now in assets is coming from a purchase made one or two years ago. We are buying assets at a lower price, which will be positively adjusted when we sell those assets. Over to Guilherme now.

Guilherme Sampaio:

Also important to mention, Lucas, when we price. You talked about the impact of that on the companies ROIC. When I price this new CAPEX, I already priced it under this new level or at this new level. And we have had a chance to confirm this. Because of that, we have the ability to pass that on, in terms of cost increases when we sell the assets.

Lucas Lagui:

Okay. I think that is what Ramon just said in terms of the value of assets. So it would not be reasonable to think or expect a deterioration in levels of return. You are correct. That is a very positive point, showing that the evolution in ROIC to this new level of 14% is considerable and sustainable. Very clear. Thank you. Thank you for your answers.

Victor Mizusaki, Bradesco BBI:

Congratulations for the results. I have two questions. The first one about returns and margins. Guilherme, you said there are ongoing negotiations. My first question is, if we look at the EBITDA margin for the 1Q, what can we consider to be the current margin? Considering that the success in the negotiations pans out.

And also about CAPEX in the 1Q. We saw 45 million in CAPEX. And you mentioned in the release that there are investments in technology and the purchase of equipment to improve efficiency. If you could comment on the technology front, what kind of investments are being made, more detail and what can we expect in terms of investments for 2022 going forward? Thank you.

Ramon Alcaraz:

Victor. Good morning. Thank you for your questions. In terms of EBITDA margins, we are quite satisfied with 1Q results. In addition to having grown revenues by 50% vis a vis 1Q last year. It was a normal quarter in 2021. But better than that is to grow 72% in EBITDA. And that is important to say, this was a quarter which was quite challenging with an increase in input prices, exponential increase in input prices that shows our ability to negotiate with clients in a very expedited manner.

We have become very sophisticated, I can say, in terms of negotiating that. Starting mid 2021 when prices started going up, I am talking about fuel, tires. We have a commercial team which became increasingly more sophisticated. So we have become more agile, faster to negotiate, and thus we were able to reap the opportunities that emerged.

But even though you are fast and agile, sometimes we have some leftover effects quarter and quarter. In 1Q, in March, in mid-March, there was an increase, you will remember, of 25% in diesel oil announced by Petrobras, remember? And of course, we were not able to pass that on in time to enjoy the benefits in 1Q. But you will benefit in the 2Q, I am sure.

So negotiations have a term to unfold and its effect on cost tends to be immediate. So at the gas pump, the pass through was immediate. It is difficult to anticipate the improvement in margins in 2Q, because there are other effects being played out.

But we understand that an EBITDA above 70% already seems to be very interesting. Though, that is the starting point. We have an expectation for 2Q to start at 17%, but we need to address new variables that will appear. But as I said, we are operating a very well tuned machine and we are quick on the gun, quick to respond, quicker than our competition, we expect, to be able to enjoy the benefits and become attractive.

I like to say that we cannot change the wind direction, but we need to be agile in adjusting our sails so that it will be faster than the other boats which are participating in the same race. That is the analogy I like to use in our business.

Moving to the CAPEX question. You said that a lot of investments have been made in technology. That is an area that without a doubt we are dedicating significant efforts. The idea is to have an increasingly more digitalized Company. We are a real world, real market, Company. Logistics is key for society. Raw materials are located in Point A, industries are located in point B, marketing in point C, and we are building those bridges.

But we can use more technology to do that. That provides agility for our process. For example, we grew 50% in revenue, but we do not need to grow necessarily 50% in back office, for example. How can I do that? With technology, digitalizing our processes and so on. That is part of the equation.

Another part, I have said that we cannot simply pass prices on and survive that. Now, we cannot simply Control C, and Control V in the price increase in input. We cannot simply do that, we have to optimize costs. We have to do more with less.

And once again, technology plays an important part. I can do the same amount of transportation with fewer vehicles, being more productive on a per vehicle basis through technology. So technology is vital to sustain our business. Having said that, we have been investing about 1,5% of our gross revenue in technology, 1,5.

So part of that CAPEX is about technology. You are correct. And not only that, our M&A area, which today is managed by Simpar, is contacting tech Companies. And maybe we can gain time by acquiring a tech Company or a startup or something like that. I do not know. That is without a doubt, a fundamental move for us to ensure better margins and ensure the business's sustainability. Thank you.

Guilherme Mendes, JP Morgan:

Hello, Ramon, Guilherme. Good morning. Two questions about M&A. The first, how are you assessing acquisitions? You did mention technology just now, but considering your leverage level and the price of your shares, historically, that has been a sort of currency you have been using.

And so considering the acquisitions you have made in terms of integrating them, how has that process been going forward in terms of integrating and exploring synergies and so on. Thank you.

Ramon Alcaraz:

Guilherme, good morning. Thank you for your question. So our M&A strategy, we are very active on that front and very aggressive. I can say that share price without a doubt helps when share prices go up. It does become a sort of currency for us, but we have not been using that strategy that much for our five last acquisitions. The share exchange was very low.

We do have cash in place to make good acquisitions when we think the opportunity is good. And why do I say that? We are going through a very challenging scenario with very high interest rates, very costly inputs. And it is not just any Company that can manage that well, efficiently. It has to do with the relevance that our companies have with our clients, where we operate and so on.

But there is no doubt that there are opportunities in every crisis. And we understand that this year is a year in which M&A has a very good potential, even though this is not a demand on our end. But we as a group, we understand this is a very timely moment for us to address that irrespective of share prices.

And you also ask about synergies to be explored. We learned before that our strategy is to preserve the Companies acquired close enough to enjoy the size and the ability of JSL to buy inputs, get financing lines and so on and so forth. But they remain autonomous enough to be able to manage their businesses as they did before the acquisition. That is the reason that led us to buy them. And that strategy has proven to be very successful.

The companies which we acquired have been going more than JSL. That happened in 2021 and it is happening again in 2022 in a more eloquent way. In 1Q, we announced 31% of organic growth of the acquired Companies compared to 50% from JSL. When we break those numbers down, we also see operational numbers, which are quite interesting. So that shows that our strategy is a good one.

But of course, there are synergies to be explored. We have mapped out 53 million in synergies, which have to do with finance lines at lower cost and input procurement which adds to a very significant synergistic gain. That already reflects in 2021, but most of it will reflect in the numbers for 2022. Thank you.

Guilherme Mendes:

Thank you Ramon. Have a good day.

Carlos Herrera, Condor Insider (via webcast):

Congratulations on the results. Questions. Are there synergies to be captured? What is the leverage level that you consider ideal for the Company with an increase in interest rates? Will this be the year to focus on deleveraging the Company?

Ramon Alcaraz:

Carlos, I will address the first question then. As I just mentioned in my previous answer. We have mapped out 53 million in synergies. We have used 25% of that in 2021. So we still have 75% of synergy gangs to be captured in 2022. And I am talking about the ones which have been mapped out. But we are sure there are other synergies still to be identified.

So we do believe that there are more synergies to be captured, lots of opportunities to be explored. And I will turn it back over to Guilherme to address the other question.

Guilherme Sampaio:

Okay, Carlos. In terms of leveraging. We also provide this number and we understand that the ideal average leverage is three times when compared net debt EBITDA, right. That is a target, three times, that we pursue based on our Company's gas generation capacity. Deleveraging will be a natural process. So that is the level that we consider to be ideal, three times.

And then, also to your point, our financial covenants, they are linked to the added EBITDA, not the pure EBITDA. So that is important to have in mind.

And also to your second question about an increase in interest rates. And would it be the moment for us to focus on deleveraging? Well, that is an option that we have. And we opted to grow at the same rate we have been growing. So in a year where you have high interest rates, when you have high inflation rates, we do have very good opportunities and very good projects to grow organically or to have good M&A opportunities.

So in line with the Company's strategy, we plan to continue growing, expanding, and we will maintain that same rate even if that impacts our income line in the short run.

Leonardo Fantin (via webcast):

Good morning. Tell us about the new M&A negotiations. Have you seen new opportunities in the macro market? We expect something to happen in the short run? And how about the size of the opportunities? We still have large targets to go after in terms of M&A?

Ramon Alcaraz:

Thank you, Leonardo. As I said, in times of crisis, it is when we see the best opportunities. Some are crying and some are selling paper tissues, right. So that is a good time for M&As for a few reasons. Number one, that is a segment where we have seen times of low interest rates. And that led Companies to increase their debt profiles and sign not so profitable contracts. And now they are suffering.

Part of our organic growth comes from Companies that unfortunately went belly up or, Companies that have problems with banks and so on. So number one, organic opportunities to grow. As I have mentioned before, this is not something easy to do, to pass on prices, because clients also have their own input chain. It is a conflict zone, if I may. It is difficult to pass on price adjustments.

JSL has an advantage because of its close relationship, with its proximity with clients. That, of course, opens doors. And so we managed to at least sit at a table and talk about it. (46:01) we have this very robust ability to negotiate, show numbers, address customers in a very personalized manner.

And that is when you see opportunities for new contracts for Companies that might be having problems. That explains those 5 billion that I have mentioned in terms of new contracts for the next 40 months, only on the organic growth side. On the inorganic front, we have other opportunities. Smaller Companies are more inclined to sell because they see that there is a scenario of uncertainty and so on, that favors selling the Company.

In our pipeline we do have several Companies being assessed now and we can already see that there is a certain openness from Companies which used to be more resistant. So we do believe we will have good M&A opportunities going forward.

What is the size of the Companies? As you mentioned, it is difficult to say because you have different size Companies being negotiated. But we have already announced this before. The size of the Companies we have been buying are good Companies, well managed Companies with revenues of around 400 and 800 million. That is the average size we had been looking at. And we liked the ones we bought. That does not mean we could not look at other size Companies, like larger or even smaller.

Leonardo Fantin:

Thank you, Ramon.

Claudio Moraes, Individual shareholder (via webcast):

Congratulations on the results. Good morning. Can you talk about the Marvel convertible debentures at 50 million and 50 million? Thank you.

Guilherme Sampaio:

Claudio. We are basically talking about an operation, which was an intra Company operation, within JSL structure. Sinal and Marvel are controlled by JSL, and here we are basically talking about a structure to finance their growth, CAPEX expansion. We are talking about renewal and expansion of the fleet, especially for Marvel. And we believe that was a good way to support the growth of those two companies, issuing debentures.

Marvel, once again, joined the group mid last year and we are already talking about an expansion of 50% in revenue year on year. So that is.

Ramon Alcaraz:

And just to add that, Marvel is one of the Companies that has best captured the increase in consumption for some products and goods. They transport cold cuts or refrigerated goods for Brazil, Argentina, Chile, Peru. It is a Company that has been growing significantly with very positive margins. So this strategy of increasing the fleet was interesting and proved to be correct and results are now coming.

Guilherme Sampaio:

Just to complement, I forgot to mention that this is a structure we put together based on market values. Until that is a structure around a normal debenture issuance where capital is remunerated as well. Just to be sure.

Nicolas, GTI (via webcast):

What is the ROIC/spread that you consider to be sustainable in the long term? And about the normalization of the gross margin for the used vehicles?

Guilherme Sampaio:

So first, we are growing, period. Given that we are growing it is difficult for us to look at that number in a normalized fashion. What we could say is that the tier we expect today is 16% and upwards. So, that, of course, tends to help the spread between the ROIC and capital cost, because we are growing we do not see that happening immediately. The value that we consider to be a reference is about 300 basis points. That would be an important number.

About the gross margins on the sales of used vehicles. We have seen an appreciation happening. Inflation in inputs also helps. And pricing the final assets, as Ramon mentioned before, we make anticipated acquisitions of those assets and that for the new basis, of course. But that led the appreciation of our asset base to happen to the tune of 40%.

When you look at the margins. Margins growing in used vehicle sales, you see that reaching levels of 26% in the quarter. And we believe that the market will develop throughout the year. But we do not see any major changes in those margins. We expect those margins to remain high. Will it continue to be 26%? I do not know. But we do expect it to be high, especially based on our ability to buy assets well and to buy those assets in an anticipated manner. In terms of timing. Okay. That's it.

Operator:

This concludes the Q&A session. I would like to turn the conference over back to Mr. Alcaraz for his final remarks. Please, Mr. Alcaraz, you may proceed.

Ramon Alcaraz:

Well, ladies and gentlemen, first of all, thank you very much for the opportunity. Thank you for the questions. It is always a chance for us to be able to think about what we do and how we work. What is our expectation going forward? We expect to have good organic growth in the wake of the acquisitions we have made since last year. We have quarter on quarter, we have been breaking records of growth, revenue and so on and that's what we intend to continue doing.

We understand that even amidst a challenging market, opportunities are there. I mentioned some of them. New contracts have shown that we have been able to reap the opportunities that have emerged in cross-selling also and we continue to accelerate along those fronts.

In terms of inorganic growth, as I also explained, we continue to be very active. We believe there are also great opportunities on that front as well. We have a very focused team, a very agile team in terms of passing on the increase in input prices, as I mentioned.

The experience brings efficiency. Of course, inflation was low. It remained low for over 20 years. But we were quick to respond to a scenario where inflation is spiking. And we also need to optimize cost, structure and so on and so forth, as I mentioned, and we are tirelessly working on that to ensure operating margins which are healthy.

In terms of the tech agenda, as we mentioned, we believe that is the best tool for us to help optimize and increase productivity. It does not only help increase margins, it also helps us grow organically, because the more productive I am, the better the price for our clients. The more technology I have, the more information I have, and the more productive my client can also become. We have to have that clear in mind.

We are part of the production chain. I am part of the engine. I connect raw material to industry, to the final consumer. Given that, the more technology I have in place, the more agility I add to the whole process, the more we help in the so-called Brazil cost, we help the Company grow organically and improve margin. It is a virtuous cycle.

Also important to mention, we are a Company that generates cash. So that has an impact on income and so on and so forth, and we continue to generate cash and that is key for us to provide fuel to our organic growth because we need to have CAPEX and also helps us grow inorganically, irrespective of our share value.

So we believe we have the right strategy in place. We have a very motivated team, very much engaged. We have just announced Paulo Palaia as our new tech officer. Marcelo Arantes, also a very experienced retail professional coming in. So all those people are bringing expertise and also bringing the view on the customers end.

We are here to serve and to do better. And with that, we believe that quarter on quarter, month on month, we will increase our success in our strategies.

So once again, thank you very much for your attention. And we remain available for questions or comments that you may have through our IR channels. We will be glad to address your issues and also to announce our strategies to face this (57:25) scenario. Thank you very much.

Operator:

JSL's audio conference is now over. Thank you for your participation. Have a nice day, everyone.