**Local Conference Call**

**Tegma Gestão Logística S.A.**

**4Q18 results**

**March 20th, 2019**

Good afternoon, and thank you for waiting. Welcome to the conference call of Tegma Gestão Logística S.A. to discuss the earnings concerning Q4 '18. We have with us today Mr. Gennaro Oddone, Chairman and Investor Relations Director; and Ramón Pérez, CFO. This event is being recorded. (Operator Instructions) The replay of this event will be available right after the conclusion for 7 days.

Before proceeding, we would like to clarify that any declarations that may be made during this conference call concerning business perspectives of Tegma, projections, operational and financial goals are based on beliefs and assumptions of the company's board as well as information currently available. Considerations about the future are not guarantees of performance. They involve risks, uncertainties and assumptions because they refer to future events and therefore 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 performance of Tegma and may lead to results that will differ materially from those expressed in these presentations.

Now we'd like to pass the floor to Mr. Gennaro Oddone, Chairman and also Investor Relations Director of Tegma.

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [2]

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Thank you. Good afternoon. We'd like to begin our conference call to present the earnings of Tegma, and thank you for your interest in our company.

I would like to begin with Slide #2 with the agenda of our presentation with the highlights of the quarter. And then we will see the market performance and some operational indicators of Tegma. Then we will focus on the results of the period and also the cash flow, investments and debt in Q4 '18. Finally, we will talk about capital markets and expectations.

On Slide #3, we see the highlights of the quarter. We will begin talking about the results of 2018. Although we're halfway between the recovery of peak sales of vehicles in 2013 and the lowest level of the recent crisis in 2016, we can report our record results even with a revenue 20% lower than that of 2013. This was the result of a lot of effort and cost control, expense control and processes, which guaranteed that we maintain the level of quality of our services.

The second point has to do with the new operation in Itirapina in the interior of the State of São Paulo. As already mentioned, Honda inaugurated its plant that has been ready for 3 years. It was inaugurated in February 2019 with a capacity of 120,000 vehicles per year. Initially, we will produce the Honda Fit.

The second highlight is the proposal of payments of supplementary payment of dividends and JCP to be approved in our meeting on April 24 for BRL 28 million that will correspond to a payout of 60% of the profit of 2018 and a dividend yield of 4.3% in 2018.

On Slide #4, we see the evolution of the results. Beginning with the graph on the left, you can see that domestic sales were 15% higher in Q4 '18, a growth consistent with the rest of the year, which grew 14%. This result has a positive influence from improvements in the domestic economy, the increase in credits for purchase of vehicles and recovery of consumers concerning trust.

On the other hand, exports, in blue, had a drop of 47% due to the crisis in Argentina, the main economic partner of Brazil for exports for vehicles. If you look at the graph in the middle, you can see that the drop in production is due especially to the drop in exports. The growth of imports shows the end of the benefit for vehicle produced locally driven by the program Inovar Auto, which ended in December 2017, making imports more competitive and also now selling more premium vehicles in Brazil.

Finally, on the graph on the right, you see that Q4 '18 we transported 204,000 vehicles, 4% less vs Q4 '17 due to growth of 9.7% of domestic deliveries and a drop of 57% of export delivery. This performance represents a loss of 1.1% in market share in comparison with wholesale sales. And the average distance in Q4 '18, which was 1,051 kilometers, continues to grow and is influenced by the reduction in the participation of exports to the ports which we now have a smaller distance.

On Slide #5, we see the evolution of this as we see revenue on the left EBITDA and consolidated profit on the right. We'll remind you that the numbers shown here are without the changes in storage in Cariacica in 2017 and without the nonrecurring effects in 2018. These alter net revenue and also margins. We can see that the logistics revenue in Q4 '18 had a growth of 16% due to the increase in the average distance and also the higher prices, price readjustment and revenue from other services. The net revenue from integrated logistics grew 4% due to the increase in volume and also new clients in storage.

Now talking about EBITDA by operation in the graph in the middle on the left. The growth of automotive EBITDA improved 42%, representing a margin of 18% and a gain of 3.4 percentage points in comparison with Q4 '17. This is due to the cost control, expense control and increase in revenue. The adjusted EBITDA margin for integrated logistics was 14%, representing a growth of 14% in relation to Q4 '17. This margin of Q4 '18 was lower than the average of the rest of the year due to the accrual of provision for losses in accounts receivable coming from a client in Chapter 11 in the storage operations worth BRL 1.75 million. If we disconsider this, we will have margins similar to the rest of the year.

On the graph in the middle to the right, we see the evolution of the EBIT margin of the division. The EBIT margin for vehicle logistics grew 35 basis points in the period due to the growth of the revenue and cost control, expense control and investments. Now the evolution of the EBIT margin of integrated logistics in comparison with Q4 '17 is due to the same reason in the storage operation.

The net profit in Q4 '18 in the graph on the right, BRL 35 million, was lower than that of Q4 '18, which was BRL 59 million. Nevertheless, if we take into consideration that in Q4 '18 we had 25% superior results due to these points, we can see that we had an improvement, as explained. So we have BRL 31 million extra from nonrecurring events, and the result was 25% superior. And this is due to lower balance of the debt and also reduction of the spread in our debt.

Now I will pass the floor to Ramón, our CFO. He will talk about cash flow and debt.

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Ramón Pérez Ariaz Filho, Tegma Gestão Logística S.A. - Chief Administrative-Financial Officer & Member of the Executive Board [3]

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On Slide #6, we show on the graph on the left the evolution of our return on equity in blue and our invested capital in orange. The drop in the return is due to a mathematical effect of the calculation of the ROIC indicator, which uses the accounting result of the last 12 months. Q4 '17 had an important tax credit which improved the company's results. This credit had a favorable impact on ROIC in Q3 '18, but is outside the period of the ROIC in Q4 '18. Additionally, we had negative adjustments in Q4 '18, which affected even more the difference in the 12 months base.

On the graph in the middle, we can see that the operational cash generation in blue during Q4 '18 was lower than that of Q4 '17 in spite of the better operational results. This was due to an increase in the cash cycle of the company and a greater CapEx in red, which was BRL 11 million in Q4 '18, due especially to improvements in a plot of land in the interior of São Paulo for the Toyota operation. Due to these effects, the free cash flow of the quarter was practically 0.

Concerning financial leverage, we see on the graph on the right an increase in the net debt and also an increase in leverage due to lower free cash flow, as already explained previously, and due to the payments in Q3 '18 of dividends and JCP for BRL 15 million.

On Slide #7, talking about capital markets and expectations, we share the evolution of the price of Tegma shares on the left, which rose by 3% in 2019, below the Ibovespa index, which went up 13%. In terms of liquidity for our shares, the daily average of the last 12 months has been BRL 7.6 million, an increase in relation to the average in 2018.

In the center, we see the comparison of the multiples of Tegma in 2018 using estimates for the results of 2019 and the 2019, in this case using estimates for the results of 2020. We can see that Tegma continues to be negotiated at multiples very similar to those which we had in Q1 '18.

On the right, we can see that our rating continues to be B1 by Moody's without any update to reflect the improvement in the market and also in the company's numbers. We also show the relationship of the analysts of sell side with the price -- average price estimated by them for the end of 2019.

With this, I would like to pass the floor back to Gennaro.

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [4]

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Thank you for participating, and now we will begin the Q&A session.

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Questions and Answers

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Operator [1]

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(Operator Instructions) The first question comes from Mr. Lucas Marquiori, Safra Bank.

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Lucas Marquiori, J. Safra Corretora de Valores e Cambio Ltda, Research Division - Research Analyst [2]

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Two questions. The first, Gennaro, on growth in the -- market growth next year. We've seen the projections from the association ANFAVEA. I'd like to know, do you see any difference between the regions? I'm trying to understand if the average distance will continue next year. Maybe more growth in the north, northeast may have a good impact on the distance covered by the trucks. And also, the car rental market, have you worked for car rental companies, their volume? How do you see this product for direct sales to rent -- car rental companies?

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [3]

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Thank you, Lucas, for the questions. First, we're optimistic concerning the market growth this year. The market, you have followed the projections of ANFAVEA. They say 12% growth in the domestic market. We believe that this projection is very feasible. I believe that the negative sector continues to be exports. We don't see a recovery in the volumes for exports. At least, we don't see any evidence to make us believe in a growth in the volumes of exported vehicles. But on the domestic market, we're very optimistic. It's difficult to say the increase in the average distance, which we have reported in the last quarters, as explained, is due to the drop in exports. These exports, when we export to the port, the average distance is shorter. So since we have less exports in the total volume, we increase the consolidated average distance with less exports. We have no projections to make us think that we will have an acceleration in one or another region of the country. We don't have visibility yet concerning just the regions of the country. Concerning your second question, car rental companies, yes, we are present in this market. We work with some car rental companies. We do maintenance, the initial maintenance to deliver the vehicles, also installation of radios; we put decals on the cars for fleet owners; and also the transportation of car rental companies, especially in our region. So if you wish to know whether the growth of car rental companies in the markets, if it will have an impact on us, for us, it's favorable. The growth is favorable since for this group of companies, we sell additional services, too.

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Lucas Marquiori, J. Safra Corretora de Valores e Cambio Ltda, Research Division - Research Analyst [4]

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Just a follow-up question. Do you believe that the revenue from this market is smaller?

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [5]

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We don't supply these numbers. We don't disclose these numbers.

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Operator [6]

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(Operator Instructions) Now we have a question from the webcast.

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [7]

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Well, Ramón has a question from [George]. Do we still see nonrecurring effects that will be included in the next quarters or was the majority included in Q4 '18?

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Ramón Pérez Ariaz Filho, Tegma Gestão Logística S.A. - Chief Administrative-Financial Officer & Member of the Executive Board [8]

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No, what we have to adjust was already adjusted. What we'd like to mention, and this is explained in our earnings, we must recognize a tax credit which refers only to part of -- we will have the right only to part of the period. I'm talking about ICMS tax from the PIS/COFINS basis. As we mentioned, it corresponds to April 2017 until December 2017. It is a tax credit. An additional period depends on a decision still on this topic. This affects Tegma and many companies. We are waiting for the decision, so these credits can be recognized since the beginning of the lawsuit. Our case is before that 2008 so we may receive a credit in the next few months or years. It all depends on the decision. That will be a nonrecurring effect. That is all we have in terms of nonrecurring effects, tax credits.

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Operator [9]

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We have a question now from Mr. Lucas Marquiori, Safra Bank

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Lucas Marquiori, J. Safra Corretora de Valores e Cambio Ltda, Research Division - Research Analyst [10]

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Two quick points. Gennaro, the new project for GM, is it included in the revenue of Q4? And the new project for Honda, I imagine it will begin in Q1 '19. Please explain to us. Please comment on the marketplace of Frete Rapido you are investing in. Please explain the revenue of this new product.

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [11]

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Lucas, GM, I imagine you are referring to our new activity. We signed a contract for storage with GM in Araquari. Today, we have a yard where we can store more than 10,000 vehicles. Yes, that began in Q4 '18. So in Q4 '18, we have revenue coming from this new business, yes. As we explained, GM imports cars through the state of Santa Catarina. We collect them at the port. We transfer them to our yard. We store them. And after that, we distribute the vehicles. Now concerning Kwik Freight, you asked about Honda. Honda, in reality, they began now. The plant was inaugurated now. We have no supplementary activity, only transportation. So it's normal activity with volume. We don't have much visibility yet. The beginning of this plant will add to the total volume of Honda. So operation began in Q1 2019. Now concerning Frete Rapido is a start-up, where we made an investment. It's still in its infancy. It's in the beginning phase. The objective is to connect transportation companies and companies with transportation in the last mile. These are -- the companies that are using this platform are those with e-commerce, but we introduced this company to our clients. And we have good hopes of developing new business for Frete Rapido this year.

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Operator [12]

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [13]

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Well, once again, I would like to thank you all for participating and your interest in our company, the questions asked. And we are available through our Investor Relations team to supply further clarifications. Once again, thank you, and we wish you good afternoon.

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Operator [14]

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The conference call of Tegma is concluded. We thank you all for your participation. We wish you good afternoon, and thank you for using Chorus Call.