



**International Conference Call  
Tegma Logística S/A  
Second Quarter 2019 Earnings Results  
August 8<sup>th</sup>, 2019**

**Operator:** Good day and thank you for waiting. Welcome to Tegma Gestão Logística S/A's conference call to review Second Quarter 2019 earnings results.

Today we have Mr. Gennaro Odone, CEO of the Company and IRO, and Mr. Ramón Perez, CFO.

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 will be provided. Should any participant need assistance during this conference call, please press star 0 to reach the operator.

The replay of this event will be available right after the end of the conference call for a period of 7 days.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call relative to Tegma's business perspectives, projections and operating and financial goals are based on the beliefs and assumptions of Tegma's management and on information currently available to the company.

Forward-looking statements are not guarantee of performance, they involve risks, uncertainties and assumptions because they relate 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 operating factors could also affect the future results of Tegma and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference call over to Mr. Gennaro Odone, Tegma's CEO and IRO, who will start the presentation.

Mr. Odone, you may begin.

**Mr. Gennaro Odone:** Thank you, good day everyone. We will now start another conference call to discuss Tegma's results and thank you for your interest in our company.



I would like to start on slide 2 with our agenda. We will begin with the highlights of the quarter, followed by market performance and some of Tegma's operating indicators, then we will focus on second quarter results and talk about cash flow, investments and debt in the second quarter of 19, lastly, we will speak about the capital market and expectations.

On slide 3 we show you Tegma's quarterly highlights. In this quarter, we acquired 20 trucks for our own fleet of the automotive logistics division. This purchase is part of the plan to renew part of our 109 owned trucks aiming to modernize our fleet and bring gains in terms of maintenance.

In parallel to this purchase, 28 trucks will be sold, resulting in an overall reduction of 8 trucks of our own fleet. The investment made for this operation totaled R\$5.2 million. We also acquired 8 aluminium bulk commodity trailers to replace the outsourced equipment used to transport sulfate and soda ash of Tegma's chemicals operation.

This new equipment developed by Tegma increases load capacity, productivity in unloading sulfate and soda ash by means of a greater flow in addition to reducing highway toll costs as there will be one less axle when compared to a bi-train. Our primary contract for this operation was renewed until the end of 2021 and the investment made amounted to R\$3.1 million.

We also finalized our investment in improvements made to Toyota's yard in Sorocaba, which have been made since the second quarter of 18 with the acquisition of a plot of land of 40,000 m<sup>2</sup>, total investment was R\$23.3 million.

On July 25<sup>th</sup>, the Board of Directors approved an investment amounting to R\$10 million for acquisition and ground improvement in an adjacent plot of land of 20,000 m<sup>2</sup>. This expansion is justified by Toyota's starting to ship vehicles directly from this new yard with vehicles no longer having to pass through the consolidating yards in São Bernardo do Campo.

Another highlight of the quarter, on slide 4 now, we refer to our startup accelerator called TegUp. The first investment we made (Frete Rápido) focused on implementing new clients, which should bring in recurring revenues as of September 2019, and should start showing better results in the next Black Friday.

In addition, the startup was recognized as an excellent digital transformation tool for shippers, being awarded as Top 10 at the Innovation Show Event that took place also in July.

On the right, you can see that in July we received some awards that we would like to mention. The first, in a rank preempted by InfoMoney, the financial magazine in Brazil, in partnership with IBMEC, a financial college, and Economática, a financial data company, Tegma was awarded best listed company in the industrial goods category. We were also recognized in the ranking 2019 100 open startups, ranking 36 in the Top 50 open corps category. This award is the result of the work that we are developing at the company, mainly in our startup accelerator TegUp, which has already completed 2 selection cycles with a total of 123 startups enrolled.

On slide 5, we show the performance of the automotive market and Tegma's indicators. Starting with the graph on the left, it is possible to see that domestic sales increased 11.5% in Q2 19 compared with Q2 18. This result has been positively influenced by direct sales, which accounted for a significant share of 45.5% of vehicle licensing in the first half of 2019 versus a 40% in 2018.

On the other hand, exports (in dark gray) were down 40.8%, reflecting the crisis in Argentina, the main economic partner of Brazil for vehicle exports, despite a slight increase in sales to Colombia and Mexico.

Looking at the graph in the middle, we can see that production resumed growth up 5.2% in the annual comparison due to increased domestic sales together with an 18.5% drop in imports, as we can see on the graph in dark gray.

Lastly, on the graph on the right, we see that in Q2 19 we transported 208,000 vehicles, 7.4% more compared to the second quarter of 18, resulting from a 16.8% increase in domestic deliveries and from a 30.8% reduction in the volume of exports in the annual comparison.

This performance reflects a rise of 1.5 percentage points in market share as a result of 2 main clients gaining share in national vehicle licensing in the quarter. Average distance traveled in Q2 19 was 1,058 km influenced mainly by a decrease in the share of exports in total vehicles transported.

On slide 6, we show the evolution of the result of each division. We see revenue on the left, profitability, Ebitda and Ebit in the graph in the middle, and net consolidated income on the right. We remind you that the numbers shown here do not include IFRS 16 in 2019.

We can see that the automotive logistics revenues in the second quarter of 19 had a 14.9% growth due mainly to a higher number of vehicles transported, to an increase in average distance traveled by vehicle, as well as to price adjustment that happened in May and to high revenues from other services.



The net revenue of integrated logistics grew 0.5% despite the loss of one client in the Rio de Janeiro warehousing operation, this growth is explained by an improved performance of our industrial logistics operation.

Talking about the Ebitda by operation in the second graph, we see that the 15.7% growth of the automotive Ebitda (in orange) represents a margin of 15.1% and a gain of 20 basis points comparing with the same quarter of last year.

Ebitda margin of integrated logistics remained stable year on year at 18.4% mainly due to higher transportation costs in the industrial logistics operation for home appliances and due to the loss of one warehousing client.

In the third graph, we can see the evolution of the Ebit margin of these divisions. The logistics' Ebit margin for vehicles (in orange) grew 120 basis points in the period due to higher revenues, cost control and to a negative adjustment in depreciation in the second quarter of 18 despite higher expenses.

Now the Ebit margin evolution of integrated logistics of 30 basis points compared with Q2 18 is due to mainly to improvement in industrial logistics and lower warehousing performance, as previously mentioned.

The net income in Q2 19, in the graph on the right, totaled R\$32.5 million. However, if we take into account that in the second quarter of 19 we had half a million reais of negative impact from IFRS 16, the result for the second quarter 19 was 17.1% higher in the year on year comparison due to higher revenues in the automotive logistics division and operating improvement in the quarter together with lower financial results and a lower income tax rate.

With that, I turn the floor to Ramón, our CFO, to discuss return, cash flow and debt.

**Mr. Ramón Pérez:** Thank you Gennaro. On slide number 7, we show on the graph on the left the evolution of our return on equity in gray and the return on invested capital in orange.

In Q2 19, in the quarter on quarter comparison, ROIC remained practically stable, as regards the evolution of return on equity the slight increase reflects an improved result in the quarter as well as a reduction in shareholders equity used for the calculation, which is the prior 12 months.

In the graph in the middle, we can see that the generation of operating cash X IFRS 16 (in orange) during the second quarter of 19 was R\$45 million, a significant increase when compared to Q2 18 because of the receipt of R\$12.3 million referring to a favorable ruling by the court in a lawsuit in which Tegma requested

could be exempted from contributing to Fundaf a tax on revenue from customs bonds services at its operation and Cariacica, in the state of Espírito Santo, plus an operating improvement despite a cash cycle increase in the quarter, deducting from this cash generation a higher cash Capex (in gray), which was R\$15 million in Q2 19, especially due to the renewal of our own fleet of trucks in the automotive logistics division and the acquisition of bulk commodity trailers.

As explained in highlights for the quarter, we have a free cash flow of R\$30 million, and I'd like to remind you that this is excluding the IFRS 16 effect. Finally, concerning our financial leverage, we see on the graph on the right a stable net debt in this quarter, and this is explained by the events previously mentioned.

On slide number 8, talking about the capital market an expectation, we show you Tegma's share performance on the left, with our shares appreciating 726% in the last 12 months, a higher performance than the market, which appreciated 26%.

We believe that economic agents now see an improved economic outlook with the approval of the reforms, such as the pension reform and that the market has a better perception of our company's position. This, we believe, are some of the factors that led to our shares being traded at a higher price. In terms of liquidity of our share, daily traded average of the last 12 months has been around R\$7.3 million, an increase in relation to the average of the previous 12 months.

In the middle, we see the performance of Tegma's multiples, we can see that Tegma continues to be traded at a multiple of enterprise value over Ebitda for 2019 of 14 times and a multiple of PE 2019 of 8.1 times. On the right, we can see that our rating remains at B1 by Moody's without any update reflecting the improvement in the market scenario or the company's fundamentals, we also show the list of sell side analysts with their estimated average price for the end of 2019.

Now I turn the floor back to Gennaro.

**Mr. Odone:** Thank you, Ramón. So now we will start the Q&A session.

### **Question-and-answer session**

**Operator:** Ladies and gentlemen, we will now begin the question-and-answer session. If you want to ask a question, please press start 1 on your touchtone phone. If at any time you would like to remove your question from the queue, press star 2.

Mr. Odone will read the questions coming from the webcast.

Our first question comes from Pedro Bruno, with Santander.

**Mr. Bruno:** Thank you. My question has to do with the evolution of the revenue in the automotive logistics division. We saw an evolution in reals per vehicle per kilometer, when we compare year on year there was a 1% reduction versus a recent positive track record of 5 to 10%, and when we look quarter on quarter this metric dropped 4% despite a very positive operating result that you presented.

So I would like to understand what can explain this and how should we think about this impact looking forward, looking at the results of Tegma from now to year-end.

**Mr. Odone:** Hello Pedro, good morning, thank you for the question. Let me explain, our total revenue consists of vehicle transported multiplied by the number of kilometers, so that's how we get to the calculation, but here we also calculate revenues coming from movement between yards, particularly because of transfers, moments when the industry has higher inventory and they higher us to transport vehicles to other yards including some of our own yards, when that happens that generates an additional revenue per yard parking services.

And also, we have one main client that changed their logistics of imports of vehicles, imports of vehicles that previously would come in through the Rio Grande port and now they are going through the Santa Catarina port, so there was a reduction in revenue in this transfer where would be compute mileage because we would not be able to compute this or we would be computing this in duplicity.

However, on the other hand, this generated an additional revenue from service provision because now we are responsible for this yard and for this activity and whenever there is a need for additional services. So basically, this was the impact.

What I can tell you and what I can show you is that if we were to exclude these effects, our revenue growth by kilometer would be around 3 to 4%.

**Mr. Bruno:** Excellent, very clear. Thank you Gennaro.

**Operator:** As a reminder, if you would like to ask a question, please press start 1.

Mr. Ramón Pérez will read a question from the webcast.

The question refers to a ruling of the lawsuit that determined the exclusion of ICMS from the calculation of PIS and COFINS. I believe that this refers to the subsequent event that is included in our income statement. Indeed, as I think it was mentioned

in previous opportunities, we had already recognized an amount in the 4Q 18 regarding this topic, so we have a ruling, a legal decision in a lawsuit that we filed in 2008 that claimed the exclusion of ICMS from the calculation base for PIS and COFINS.

A number of Brazilian companies joined this lawsuit. In 2017 in the month of March, as we have disclosed this to the market before, there was the decision of the so-called leading case, which determined the exclusion of ICMS from the calculation base, but this decision had not been applied to our claims, so what happened recently is that that general ruling, the decision of the leading case was then extended to our lawsuit, this was a step that we were expecting, which was important so that we could in the future record these credits in our balance sheet, in our bottom line.

It also happens that there is still one pending item because there were motions for clarification, there was a modulation about this decision and the whole market is now waiting for the result of this modulation, this evaluation, which will deal with a time item. In other words, since when these credits can be recognized.

Best case scenario would be 5 years prior to the filing of the lawsuit, the lawsuit was filed in 2008, so we can get credits coming from this procedure starting in 2003.

And there is another point, which is quite technical about the way to calculate these credits, whether companies should use the paid ICMS or the highlighted ICMS. So Tegma and other companies are still waiting for the result of the so-called modulation and we are working internally to verify the exact amount of these tax credits since 2003, so we are getting all of the documentation and in the coming months we should have more news on this topic.

**Operator:** Again, as a reminder, if you want to ask a question, please press start 1.

This concludes today's question-and-answer session. I would like to invite Mr. Gennaro Odone to proceed with his closing statements. Please, go ahead, Sir.

**Mr. Odone:** Well, again, thank you. I would like to thank you all for participating in this conference call. We remain available for further clarification through our Investor Relations Department. Thank you very much and have a good day.

**Operator:** That 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.