**Local Conference Call**

**Tegma Gestão Logística S.A.**

**1Q19 results**

**May 6th, 2019**

Good afternoon, and thank you for waiting. Welcome to the conference call of Tegma Gestão Logística S.A. to discuss the earnings concerning Q1 '19. We have with us today Mr. Gennaro Oddone, Chairman and also Investor Relations; and Ramón Pérez, CFO. We inform that this event is being recorded. (Operator Instructions) A replay of this event will be available right after the end of the conference call for a period of 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 and operational and financial goals are based on beliefs and assumptions of the company's Board as well as on information currently available. Considerations about the futures are not guarantee of performance. They involve risks and uncertainties 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 performance of Tegma in the future and may lead to results that may differ materially from those expressed in these future consideration.

Now I'd like to pass the floor to Mr. Gennaro Oddone, Chairman and Investor Relations of Tegma. He will begin the presentation. Sir, you have the floor.

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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. I'd like to thank you all for participating. We'd like to apologize for the delay of 1 hour due to technical problems that we had to transmit the conference call.

We'd like to begin with Slide #2 where we show the agenda. Initially we will talk about the performance of the market and some operational indicators of Tegma. Then we will focus on the results of the period such as cash flow investments and debts in Q1 '19. Finally, we will talk about capital markets and expectations.

On Slide #3 we show the performance of the automotive market and the indicators of Tegma. Beginning with the graph on the left, it is possible to see that domestic sales were 10% higher in Q1 '19. This result has been positively influenced by the improvement or increase of 28% in direct sales. On the other hand, exports, in dark gray, had a drop of 41% due to the crisis in Argentina, the main economic partner of Brazil for vehicle exports.

Now looking at the graph in the middle, we can see that the stability of production in Q1 '19 happened, especially due to the drop in exports, in spite of the increase of inventory in car companies. The stability of imports on the other hand probably reflects the high inventory of dealerships during December or as of December.

Finally, on the graph on the right we see that in Q1 '19, we transported 179,000 vehicles, 1.2% more than in Q1 '18 due to a growth of 15% in domestic deliveries and a drop of 43% in deliveries for exports. This performance resulted in a rise of 1.3 percentage points in market share in comparison with the sales in wholesale due to the increase in market share of one of our main clients. The average distance in Q1 '19 was 1,053 kilometers and continues to grow, and it is influenced especially by the reduction in exports going to the ports and volumes that have a shorter distance.

On Slide #4 we show the evolution of the results of each division. We see revenue on the left, profitability, EBITDA and EBIT in the graphs in the middle and net consolidated profit on the right. We remind you that the numbers shown here are -- do not include storage in Cariacica in January 2018 nor IFRS 16 in 2019. We can see that the logistic revenues -- automotive logistics revenues in Q1 '19 had a growth of 16% due mainly to the increase in the average distance and the number of vehicles transported, also due to the price readjustment we had in 2018 -- price increase and also revenue from other services.

The net revenue of integrated logistics grew of 1.3% due to the good performance of industrial logistics in the period, which had an increase both in the operations of chemicals and home appliances. Now talking about the EBITDA by operation in the second graph, we see that the growth of automotive EBITDA, in orange, representing 66% growth, represents a margin of 14.5% and a gain of 430 basis points in comparison with Q1 '18, which is due to cost control, expense control, together with the growth of revenue. Logistics -- integrated logistics' EBITDA was 26% higher than Q1 '18 with a margin of 23.3% and a growth of 450 basis points due to the growth of revenue from industrial logistics in both operations: chemical and home appliances.

In the third graph we can see the evolution of the EBIT margin of the divisions. The logistic EBIT margin for vehicles in gray grew 450 basis points in the period due to the growth of revenue and also due to cost control, expense control and investments. Now the evolution of the EBIT margin of integrated logistics 530 basis points versus Q1 '18. This growth is due to the growth of revenues from industrial logistics in both operations and also cost control, expense control and adequate compensation from the investments made recently. The net profit in Q1 '19, in the graph on the right, was BRL 26.6 million. Nevertheless, if we take into consideration that in Q1 '19 we had BRL 0.5 million of negative impact in IFRS 16, the result for Q1 '19 was 94% higher than Q1 '18 due to the operational improvement explained previously and also better financial results.

With this, I'd like to pass the floor to Ramón, our CFO, to talk about return, 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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Thank you, Gennaro. On Slide #5 we show, on the graph on the left, the evolution of our return on equity in gray and on invested capital in orange. The increase of return on invested capital in Q1 '19 in comparison with Q4 '18 is due mainly to the improvement in operational results, which was 12% superior and lower invested capital, which was reduced due to the increase of the premium in acquisition due to the constitution of the joint venture, GDL, in Q1 '18 and due to lower financial leverage.

The evolution of the return on equity reflects the operational improvements that we made recently. In the graph in the middle we can see that the generation of operational cash without IFRS 16 in orange during Q1 '19 was BRL 46 million, stable versus Q1 '18, in spite of the better operational results due to an increase in the company's cash flow. Deducting from this cash generation the higher CapEx -- cash CapEx in gray, which was BRL 9 million in Q1 '19, especially due to improvements in a plot of land in Sorocaba, the interior of São Paulo for the Toyota operation, resulted in a free cash flow of BRL 37 million, reminding that this without the effect of IFRS 16.

Now concerning the financial leverage, we see on the graph on the right the drop in gross debts due to the payment of debts and also due to net debt and the leverage due to the free cash flow in the period. Remind you -- we remind you that the supplementary amount of dividends of interest on capital in 2018 will be paid tomorrow, the 7th.

Now going on to Slide #6 and talking about capital markets and expectations, we show the evolution of the price of the shares of Tegma on the left, which increased in value, appraised 9% in the last 12 months, a performance similar to that of the market. During the period we noticed a certain volatility in our shares and we believe that this is due to the uncertainties of the domestic economy in spite of the good results we had recently.

In terms of liquidity of our shares, the daily average in the last 12 months has been 7.4 million, an increase in relation to the average of the previous 12 months. In the center, we see the comparisons of the multiples of Tegma in 2018. These were the estimates of the results for 2019 and also for 2019, take into consideration estimates and results for 2020. We see that Tegma continues to be negotiated with similar multiples on EBITDA and with some discounts in terms of the P/E.

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 numbers. We also show the analysts on the sell side with their average estimated price for the end of 2019.

Now I would like to pass the floor to Mr. 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, Ramón. Now we'd like to begin the Q&A session.

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Questions and Answers

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Operator [5]

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

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Lucas Marquiori, J. Safra Corretora de Valores e Cambio Ltda, Research Division - Research Analyst [6]

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Two questions, the first on the rate. Gennaro, you mentioned briefly apart from the growth in value the average distance also increased. This increase in prices due to a more favorable mix or higher prices? I'd like to understand better the price increase apart from inflation. So what is increasing the prices? And the second, the strong margin in integrated logistics, you said there was a good performance in industrial logistics. Please explain the strong margin in this quarter? New contracts or -- please?

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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, Lucas, good afternoon. Thank you for the questions. Talking about rate tariffs, the tariffs basically are the result of the following: you have to take into consideration that automotive logistics exports have a lower tariff because the distance is shorter. When the -- if you have a lower volume in exports, we have more than 40% drop in the quarter in relation to last year as the increase in the volume, 15% in the domestic market, this combination will make -- we increase then -- so we increase the mileage and then you have this effect. Remember that we announced that we closed service -- logistics service contracts and this has helped to increase our revenue through services and also when we compare that with Q1 of last year. This year we have the effect of the tariff negotiated last year, which happens roughly at this time of the year and in Q1 last year this hadn't been captured, so these 2 factors.

Now concerning integrated logistics, it's very clear to you, we have the contracts for industrial logistics. We have contracts involving CapEx and obviously they have a higher EBITDA margin. When we had increase in volume in our 2 main segments, home appliances and chemicals, these contracts where we can have a higher EBITDA margin, so in the consolidated we had a positive effect. We have been able to add some additional services, yes, especially in chemicals. This has helped apart from the increase in volume from the current clients. So the combination of these factors gave us a better margin.

Now in storage warehouses, where we have a tighter margin, this is an area where revenue is more stable. So this is the reason for our margins to grow in this quarter.

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Lucas Marquiori, J. Safra Corretora de Valores e Cambio Ltda, Research Division - Research Analyst [9]

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Thank you for the follow up. Two more points, Gennaro. One point that made me curious, you increased your financial leverage, cash generation was strong, do you intend to continue this way or with payment of dividends you go back to 0.4 0.5? I'd like to know the level of leverage that you believe is the best for the company.

The second point, you mentioned in the beginning that most of the increase in sales in the automotive market is from direct sales, fleets, does this -- is this bad? Does this have an impact? Does this change the average tariff or is there any impact or is it neutral for your business?

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [10]

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Lucas, talking about this greater concentration in direct sales to fleets in -- now we have an even higher increase in -- of the sales to fleets. For us there is no impact. It's the same. We are not -- we don't suffer any impact. Any change in mix in direct sales versus end consumers is neutral for us, both for our tariffs and also for our results. Now in terms of leverage, Ramón will explain.

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Ramón Pérez Ariaz Filho, Tegma Gestão Logística S.A. - Chief Administrative-Financial Officer & Member of the Executive Board [11]

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Well, concerning leverage, it is the result of our policy for dividend distribution, a small need of CapEx due to the structure of its business, low CapEx, although we had recently some pressure due to the increases in the cash cycle. So without these variables, we don't see any changes -- significant changes. The trend is to maintain this low leverage.

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Operator [12]

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Our next question comes from webcast.

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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, the question is, the market share from the vehicle operation recovered in a significant way in Q1 '19. What is the reason? And what should we expect?

Well, it's important to understand that we made the calculation of our market shift based on the volume of vehicles transported in the quarter in comparison with number of vehicles. When we do this calculation, we also capture inventory, higher or lower inventories. Sometimes one quarter doesn't represent the real effect. What I can tell you, a fact that happened in this quarter, an important client of ours had a recovery in market share, this helped us, apart from the mix that we had clients where we have a higher participation, so this helped us in the quarter. And in the same way, in the past, we had some negative impacts due to some clients losing market share, so now we see the opposite. We are reporting market share that is more in line with what we had in the past.

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Operator [14]

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(Operator Instructions) We'd like to conclude the Q&A session. Now I'd like to pass the floor to Mr. Gennaro for his final comments. Sir, you have the floor.

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Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [15]

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Well, once again, I'd like to thank very much the participation of our participants here in the conference call. We're available through our Investor Relations department to clarify any points. Thank you, we wish you good afternoon.

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Operator [16]

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The conference call of Tegma is concluded. We thank you for participating. Have a good afternoon, and thank you for using Chorus Call.