



International Conference Call  
Tegma Logística S/A  
Fourth Quarter 2019 Earnings Results  
April 1<sup>st</sup>, 2020

Q4 2019 Tegma Gestão Logística SA Earnings Call

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Corporate Participants

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\* Marcos Antonio Leite De Medeiros

Tegma Gestão Logística S.A. - CEO & Member of the Executive Board

\* Ramon Perez Ariaz Filho

Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board

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Conference Call Participants

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\* Lucas Marquiori

Banco BTG Pactual S.A., Research Division - Research Analyst

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Presentation

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Operator [1]



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Welcome to Tegma Gestão Logística Chorus conference call to review fourth Quarter 2019 earnings results. Today we have Mr. Marcos Medeiros, CEO; and Mr. Ramon Perez, CFO and IRO. We would like to inform you 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, let me mention that forward-looking statements that may 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 a 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 in the future. 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'll turn the conference call over to Mr. Marcos Medeiros, Tegma's CEO, who will start the presentation. Mr. Medeiros, you may begin.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [2]

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Good day, everyone. First of all, I would like to introduce myself. I am Marcos Medeiros, the new Tegma CEO. As explained in our formal advisory, I was hired in July of 2019 to start Gennaro Oddone's succession process. In March of this year, the process was completed and here I am with a mission to lead our growth and consolidation as one of the largest Brazilian logistics operator. My intention is to maintain our usual focus on Tegma's clients and on our main resource, our people. I believe that a fundamental component of a logistics operator's success is to invest in improving processes through operational excellence, projects and digital transformation, making our day-to-day more agile to delight our clients and to ensure growth.

It's my goals to further integrate the vehicle logistics with Integrated Logistics with tegUP, thus strengthening more and more the Tegma brand.



With that I begin this conference call to review Tegma's results.

Thank you for your interest in our company. In this presentation, we will focus on the most important points for Q4 in an attempt to shorten the time spent to present information in this call that is already available in our earnings release and so to leave more time for your questions.

Please go to Slide 2. We will speak about the highlights for the quarter. The first item has already been explained, i.e., the important factor regarding Tegma's succession in the CEO. The second bullet point has to do with COVID-19 pandemic on Tegma. Fortunately, so far none of our employees have tested positive. From the early stage of this pandemic, we adopted preventive measures, such as home office for our staff who could work from home. We brought forward our immunization schedule and monitoring of symptomatic cases by our occupational physician. We also explained in our official communication, the first impact of the federal and state governments declaring disaster emergency, resulting in the end of monitoring. We stopped our vehicle logistics operation on account of carmakers halting production and dealers closing their doors all around the country.

Our business areas are subject to the same restrictions and may be halted, although some which are exposed to personal care markets and e-commerce are operating at even higher levels. We are taking actions to mitigate the effects of the pandemic on Tegma's financials and keeping with fiscal and labor measures announced by the government. In addition, we suspended all cash disbursements by the company and the management team submitted yesterday to the general shareholders meeting to be held on April 30, the cancellation of 2019 supplementary dividend.

The third bullet point refers to PIS, COFINS tax credits booked in the third quarter of '19. In the beginning of January, these tax credits were officially enabled, and we could use them to offset payments on federal taxes, thus reinforcing our cash. This is particularly important now given the period of uncertainty that the economy is facing right now.

Next bullet point item is an update on Operation Pacto. In December of 2019, Tegma was subjected to an injunction issued by the Supreme Court suspending the impact of Operation Pacto. And with regards to the work of the independent committee, this is still underway.

Next, for the fifth item. In March of 2020, the Board of Directors decided to replace our independent auditor by BDL. The reasons leading to such a decision has to do with disagreement between the parties regarding the extent and scope designed for the investigation by the independent auditors, technically called shadow



investigation. Note the independent investigation that, as determined by our Board, has been taking place referring to the acquisitions raised by Operation Pacto.

As to this change and what consensus was reached regarding the shadow investigation process and having confirmed BDL's total independence, we can quickly regularize the spending item in our Q3 '19 quarterly statement as well as after its first adjustment of the original deadline to publish our 2019 income statement in due time with no remarks or provisions.

Last but not least, we were granted a renowned certification in 2019, which reflects Tegma's commitment to people. A Great Place To Work certification conducted a survey with 75% of Tegma's employees, in which it had score of 81 points out of a total of 100. This achievement reinforces our commitment to promoting a work environment, which values human capital, thus leveraging our ability to deliver the best services with innovation and competence.

On Slide 3, we show the highlights of the Vehicle Logistics division, always comparing Q4 '19 against Q4 '18 and excluding IFRS 16 effects and other nonrecurring events explained in our earnings release. In the last month, we can see distinct signaling coming from the auto market. The 4.8% increase in domestic sales of vehicles was fundamental to explain the 2.7% growth of wholesale sales, despite a 3.5% reduction in imports, the almost flat production and the 13.3% contraction of exports in the quarter. Inventories grew by 4%.

Now talking about our operating indicators. You can see that we grew more than the market in quantity, number of vehicles transported up 12.6%, which led to a 2.5% gain in market share in addition to a 1.7% increase in average consolidated distance. Moving on, speaking about the automotive division's revenue. Several factors pushed our revenues to grow 3.4% in Q4. Among these factors, we highlight, number one, revenue growth of the yard management operation; two, price adjustment for the vehicle transportation operation in May of 2019; three, growth of the transportation operation itself resulting from increased total distance traveled; and four, a negative impact stemming from the change in the port of entry of imported vehicles of a major client significantly reducing our year-end transfer revenues.

And the highlights are on the right, relating to the auto division's margins. We would like to remind you that this is regarding total effect of tax credit on reductions from Q4 '18 gross revenue. Q4 '19 gross margins remained stable versus Q4 '18, given higher fixed costs of the new U.S. operations, which contributed with no revenue. On the other hand, a 2.6 percentage point reduction in the adjusted EBITDA margin in the quarter at 15.6% resulted from a rise in provision for losses related to settlements, updates and resolution of civil claims and higher expenses related to lawyers' fees.



On the next slide, on the left, we show some indicators, which will be important for the Integrated Logistics division, such as manufacturing of home appliances in the country, up 10% in the quarter and a 1% improvement in the Industrial Entrepreneur Confidence Index of the personal care sector. This outlook drove the 7.3% revenue increase of the industrial logistics operation in Q4 '19, given the growth of those operations. Our warehouse operation was down 12.7% in the quarter, stemming from one major client loss in Rio de Janeiro in the beginning of the year. As a result of these facts and the better dilution of industrial logistics fixed costs, the division's gross margin and adjusted EBITDA margin grew by 3.7% and 5.1 percentage points, respectively, and our operating margin was 13.7% in the quarter.

In our earnings release, we pointed out that in this quarter, we experienced demobilization of warehouse operations leading to a loss of BRL 1.8 million. Net of this event, our margins would have remained at Q3 '19 record quarter.

I now turn the floor to our CFO, Ramon Perez, to present our net income, cash flow and debt, in addition to return on invested capital, ROE and dividends.

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Ramon Perez Ariaz Filho, Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board [3]  
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Thank you, Marcos, and good afternoon. An analysis of our numbers confirms the continuous improvement of our financial and economic indicators. The improved operating performance, coupled with reduced financial expenses, and the recovery of equity income of our subsidiary, GDL, resulted in a recurring net income of BRL 43.4 million, up 24.3% over Q4 '18. As regards to the company's cash flow, our cash CapEx totaled BRL 11.3 million, with more than half this amount being spent with investments on real estate linked to the vehicle logistics division operations -- vehicle logistics of one of our new client, including the acquisition of additional lands as well as improvements made to an existing area, all in the region of Sorocaba.

Our free cash flow excluding IFRS 16 was BRL 3.4 million, almost 130% higher in the yearly comparison. I should highlight that in Q4 '19, we prepaid 50% of the Q3 '19 earnings in the form of dividends and interest on capital during this quarter and a total amount of BRL 45 million. As we can see next, this earnings payment temporarily impacted our cash, mainly because you will remember that in Q3 '18, we have posted an extraordinary tax credit of BRL 91.4 million, which has not yet been turned into cash, a process which has been occurring in practice since



January of 2020. In addition to the impact of this earnings distribution, some temporary delays in payments by clients also contributed to reduce our cash to BRL 67 million. This increased our net debt to BRL 70.1 million, equivalent to 0.3x the adjusted EBITDA. It is important to highlight that this is not the company's recurring cash level, mainly when compared to the total debt maturing in mid-2020 totaling BRL 78 million.

After the end of the quarter and with the inflow of the previously mentioned held back payments by clients, coupled with the effective use of tax credits that we can, as previously noted, which was duly enabled, the company's cash improved markedly and is, at this point, at levels over BRL 100 million. I'll take this moment to stress that as disclosed to the market through advisories and material facts, the current scenario of the COVID-19 pandemic and its resulting impact on the company, with the interruption of an important part of our operations, we are adopting all necessary measures to strengthen our cash even more, either through debt rollover and additional funding or through the postponement of disbursements of all sorts. We are also reassessing all of our investments.

Again, focusing on Q4 '19 results, we highlight that our average cost of debt remains at CDI plus 1.14% (sic) [1.41%] and our national rating by Fitch remains flat at A. As regards on our return on invested capital, net of the effects of the extraordinary PIS/COFINS tax credit in Q3 '19, our ROIC dropped compared to Q3 '19, 33% versus 35%, mainly due to a reduced growth rate of the vehicles of expedition and due to compulsory investments which did not bring additional revenue and relative to existing contracts and which were explained in the CapEx section previously.

Q4 '19 return on equity of 28.6%, also disregarding the effects of Q3 '19 PIS/COFINS tax credit, was slightly lower quarter-on-quarter on account of the higher equity base in this quarter. Speaking about 2019 dividends, we should highlight that in the management's proposal submitted with our financial statements, we propose not to pay supplementary dividends and interest on equity. Obviously, this decision stays with the set of measures adopted aiming to strengthen the company's cash to face the impact of the coronavirus pandemic. So worth of note is that the proceeds already paid during the year 2019 will correspond to 43% of our net income.

Lastly, as regards to performance of Tegma's share, I would like to point out that in 2019, our shares appreciated 34% compared to 27% of Ibovespa index. Now when we consider only the first quarter of 2020, our shares depreciated 49% against the 41% of the Ibovespa index, again, as a result of the COVID-19 pandemic. Our average daily trading volume has been BRL 13 million in the period.

Now I'll turn the floor back to Marcos for his final remarks.



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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [4]  
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Again, I would like to thank all of you for participating in this call, particularly in this very difficult moment. I think you can begin the Q&A session now.

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Questions and Answers  
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Operator [1]  
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(Operator Instructions) We have a question from Lucas Marquiori, BTG.  
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Lucas Marquiori, Banco BTG Pactual S.A., Research Division - Research Analyst [2]  
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Again, I would like to welcome Marcos in his new role as CEO of the company. I have 2 questions. First, Marcos, could you share with us what you have heard from the carmakers in terms of the wholesale operations? What can we expect in terms of volume reduction for the second half of the year? Can we expect a reduction of total vehicles transported? Is this what you're expecting in terms of demand? That's my first question.

And my second question, Ramon, the PIS/COFINS tax credit amounting to close to BRL 100 million, how much do you expect to cash in? How much will you be able to post in the balance sheet this year? I just want to have a sense of the cash reinforcement coming from the PIS/COFINS tax credit. These are my 2 questions.  
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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [3]

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Lucas, thank you. And thank you for the nice words. Well, your question is important, and we ask ourselves the very same question every single day morning, afternoon and night. We've been in permanent contact with the main automakers through the company's contacts and my own. About 10 days ago, they told us, is that all of the automakers would halt operations. On average, they would suffer 19 days, some more, some less. One of them, and a very important one, recently increased that time. They were expecting to suffer around 13 days. But now with the trend scenario, they're increasing to around 20 days. So every day, they're kind of gauging what's happening and the measures to be taken because on one hand, they have production. On the other hand, they'll have the car dealers receiving these automobiles. It's no use if they manufacture the cars, Tegma transports the car. But when we get to the dealers, we cannot unload our trucks. That would create even other types of problem and additional costs to Tegma. So it's a daily assessment and we assess this more than once a day. And they have a lot of questions. Many of the automakers have just been waiting from decisions from their own headquarters. They see what's happening abroad and then they kind of apply it to what's happening here. So a daily assessment and an assessment that takes place many times a day, and we're in constant contact with them. So we address the scenario day by day. We use the strategy of many scenarios, and we adjust our management accordingly. I will turn the floor now to Ramon to answer your second question.

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Ramon Perez Ariaz Filho, Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board [4]

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Lucas, regarding the use of PIS/COFINS tax credit and regardless of COVID-19 pandemic and how this is going to impact our performance this year, we had already the possibility of using 100% of what corresponds to the calculation by ICMS already paid. I guess you will remember. I guess most of you are aware of this discussion. We have a tax credit that was posted, millions of reais and all of that was calculated in -- and was enabled and calculated according to ICMS. So we calculate by ICMS rate. So it amounts to about BRL 80 million. And we were considering to use the BRL 80 million along 2019. In principle, this is what we are going to do.





Now why am I highlighting this? Because we still have some fact that we can decide to use or not, this remaining BRL 20 million. Initially, we were waiting for the ruling by the Supreme Court, but as you probably know, this has been postponed. So BRL 80 million, we're going to use all of that, and we have a buffer of BRL 20 million (inaudible). In addition to this, as we have adopted all of the possible strategies, we will also benefit from some delays in the withholding of federal taxes. I can postpone for a couple of months the payment of income tax and PIS and COFINS. That will not bring me an immediate cash effect, because I discontinued my tax credits to offset that. But that increases even further my ability eventually to have more time to use these credits. I don't know if I answered your question.

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Operator [5]

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We have a question (inaudible).

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Unidentified Analyst, [6]

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Could you comment on the outlook of industrial logistics in this new scenario?

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [7]

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Now here, we have more positive news. In this division, we have 2 major clients. And they are in the segment of essential products, personal care products and e-commerce. So since these are essential services, at this point, the volume is actually increasing. We are reinforcing our teams in this division in partnership with our 2 major clients. We have very little impact in terms of halting production. There was just one segment which was not considered essential and they stopped production for a few days.

Now looking forward, the positive news is, last week, we received a request to take part in 3 bidding practices, which for the short-term, mid-term, how to define what short-term and mid-term given the instability of COVID-19. But that is fine, that



Tegma is better positioned as a logistics operator because we have been actively sought by our clients. And secondly, it's a positive perspective that there will be work ahead. So for this division, we are somewhat more optimistic considering the whole situation. And another point that is helping us is that in the last 3 to 4 months, I was dedicated to designing the growth strategy of this division. We completed this strategy, the design, and now we'll be able to take advantage of these competencies and attributes included in this strategic design.

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Operator [8]

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There's another question here by [Marcello].

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Unidentified Analyst, [9]

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What is the quarterly fixed OpEx of the company? And what about the agreements with third-party or outsourced drivers?

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [10]

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I'll turn the floor to Ramon to start answering, and then I'll add to that.

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Ramon Perez Ariaz Filho, Tegma Gestão Logística S.A. - CFO, IR Officer & Member of the Executive Board [11]

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Thank you, Marcos. This is Ramon. Come back to the first part of the question, fixed OpEx -- fixed monthly OpEx. You can multiply it by 3, but monthly, it's about BRL 25 million to BRL 27 million. And I'm referring to cash outlays involving costs and expenses in terms of accounting classification. And of this BRL 25 million to



BRL 27 million, about BRL 15 million refer to personnel. So it would be cost and administrative expenses included in this. So it's BRL 25 million to BRL 27 million, that's the OpEx. And of this BRL 25 million to BRL 27 million, BRL 15 million refer to personnel expenses.

And I'd like to take this moment to emphasize that we are acting strongly on this topic. Led by Marcos, we have an internal committee, which was formed, and it's equivalent to a process committee. And it is deliberating on all of our expenses, costs, et cetera, so in addition to disbursements. As I quickly mentioned during the presentation, we are revisiting our investments, our CapEx. So these are the numbers, this BRL 25 million to BRL 27 million is the OpEx prior to the cost reductions that we are implementing. Marcos, over to you.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [12]

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Thank you. And just to add, Marcello, in the last part of your question, we don't have anything different. The only thing that came from our service providers is that they're concerned about their health. But of course, with volume in our way, that tackled that concern that they had. One thing we want to avoid, and I think I touched on that in Lucas' question. We want to avoid having the trucks carrying vehicles and when they want to unload the trucks at the dealers, the dealers are closed. So we want to avoid those kind of wasted trips. So we didn't have any problems with our outsourced drivers or our own drivers.

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Operator [13]

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There's a question by [Marcello]

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Unidentified Analyst, [14]

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Any idea of how the automotive industry would rally after this?



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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [15]

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Well, I mentioned that they're going to sell a lot less. There will be unemployment, and there will be less income. So Marcello, I touched on that in Lucas' question, but let me add to that. We don't know exactly what's going to happen after the pandemic. We don't know what's going to happen during the pandemic. When we look at the latest information by the Central Bank, they talk about a negative GDP for this year, still keeping interests low \$4.50 (sic) [4.50%], and inflation about 2.94%. And looking at year, the signaling is positive, but it really depends on how long the crisis will last because we talk about COVID-19 pandemic crisis. But post the COVID-19 and all of the health problems, we'll have different ways of crisis, an economic crisis and eventually a social crisis. So it's hard to tell now how consumers will behave. But it's possible that there will be a pent-up demand and as soon as people feel safer and go back to consuming, they might rally. But again, looking at Central Bank numbers on inflation, vehicle consumption, we think this was strong, to give you an idea. In March, until March 20, car sales were above average. And after that, the numbers started to fall because of the automakers that halted their production. I hope I have answered your questions, Marcello.

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Operator [16]

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(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Medeiros to proceed with his closing statements. Go ahead, sir.

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Marcos Antonio Leite De Medeiros, Tegma Gestão Logística S.A. - CEO & Member of the Executive Board [17]

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Well, again, I would like to thank all of you for joining us on this call, particularly in this very difficult moment that we're all living. I'd like to say that our Investor Relations team remains available if you have further questions later on. If there were webcast questions that were not answered, we remain available. I am



personally available to all of you. So have a good rest of day. Stay safe. We shall overcome. Thank you.

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Operator [18]

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That concludes Tegma's conference call for today. Thank you very much for your participation. Have a good end of day, and thank you for using Chorus Call.