



International Conference Call
Tegma Logística S/A
Third Quarter 2019 Earnings Results
August 8th, 2019

Q3 2019 Tegma Gestao Logistica SA Earnings Call

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Corporate Participants

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* Gennaro Oddone

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

* Ramón Pérez Ariaz Filho

Tegma Gestão Logística S.A. - CFO & 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



Operator [1]

Good day, and thank you for waiting. Welcome to Tegma Gestão Logística S.A.'s conference Call to review third quarter 2019 earnings results. Today, we have Mr. Gennaro Oddone, CEO and IRO; and Mr. Ramón Pérez, CFO. We would like to inform you that this event is being recorded (Operator Instructions)

Before proceeding, let me mention that forward-looking statements 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 will turn the conference call over to Mr. Gennaro Oddone, Tegma's CEO and IRO, who will start the presentation. Mr. Oddone, you may begin.

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

Thank you. Good day, everyone. We will start another conference call to discuss Tegma's results. I thank you for your interest in our company. In this presentation, we will focus on the most important points about Q3 in an attempt to shorten the time spent presenting information, that is already available in our earnings release, and to leave more time for your questions.

On Slide 2, we present the highlights for the quarter. The first item refers to the credit resulting from a final court decision in a claim filed by our parent company, Tegma, in which ICMS-exemption of PIS/COFINS base was questioned. In this quarter, as a result of this ruling, we recognized that tax credits amounting to BRL 91.4 million restated by select interest rate with BRL 55.3 million impact on our net income.



We also highlight that on October '18, the company was subjected to a search and seizure joint operation by the Brazilian Federal Police and GAECO Special Group to fight organized crime in collaboration with CADE, the Brazilian antitrust agency. This was due to an investigation until then unknown to the company. This investigation was triggered by a partial leniency agreement signed by one of Tegma's competing companies in the brand-new vehicle transportation market.

Considering the information already disclosed to the market and following governance best practices, the company planned an independent committee made up of 3 members and advised by a specialized law firm to conduct an in-depth and thorough investigation of the facts attributed to the company. This committee will report directly to Tegma's Board of Directors.

Considering the preliminary stage of the investigation and the need for the independent auditors to study the theme in-depth and the need for some necessary previous legal authorizations, the review report by independent auditors is not yet available. The company shall continue to spend more efforts for the independent auditors to finalize their review procedures as soon as possible, and the company underscores that we do not expect any relevant changes compared to the results disclosed to date.

The third item on the slide refers to the second investment made by our start-up accelerator, tegUP. This year, we identified a fleet management automation company called Rabbot. This company solves operational fleet management challenges faced by rental companies, carriers and the insurers, industrial facilities and companies with historically high costs and analog processes. tegUP will invest BRL 3.2 million through convertible debentures in 3 tranches.

And lastly, we have the pleasure to announce that for the second consecutive year, Tegma's IR team received nominations by IR Magazine Awards - Brazil. In this award, myself, Gennaro; and our CFO, Ramón, were nominated among the 5 best CEOs and CFOs in Investor Relations profession in the small cap category. And Ian, our Head of IR, was nominated 1 of the 5 best IR executives of Brazil's small caps. We believe that such awards reflect all the efforts that our Investor Relations team has put into improving transparency and mainly the work developed by all Tegma employees. This award increases our responsibility to improve even further Tegma's communication with the market. On November 12, the award ceremony will take place to announce the winners of each category.

On Slide 3, we show the highness of the Automotive division, always comparing Q3 '19 with Q3 '18, and excluding IFRS 16 effects and other nonrecurring events explained in our earnings release. Despite growth this year falling and looked really below our initial expectations, we expect the domestic market growth for the



automotive industry between 8% and 9%, as shown by the market indicators presented here. Exports, as expected, continue their downward trend and should end the year with a 30% reduction.

Talking about our operational indicators. The numbers are in line with the market. Lastly, we highlight the expansion of our yard management activities in the city of Araquari, state of Santa Catarina, for vehicles imported for one major client.

Moving on, speaking about the Automotive division's revenue, several factors pushed our revenue to grow 1.3% in Q3. Among these factors, we highlight: revenue growth of the yard management operation, price adjustment for the vehicle transportation operation in May 2019, the growth of the transportation operation itself resulting from increased total distance traveled, and finally, a negative impact stemming from the change in the point of entry of imported vehicles of one major client.

On the right, talking about the division's margins. Stable numbers of vehicles transported and revenue stability were responsible for a flat gross margin in Q3. On the other hand, a 1.6 percentage point reduction of adjusted EBITDA margin in the quarter at 15% resulted from a rise in provision for lawsuits related to supplements, updates and resolution of civil lawsuits. Operational margin was also 1.6 percentage point lower for the very same reasons.

On the next slide, we see the Integrated Logistics division, and we show some indicators that we consider to be important for the division's sector, such as manufacturing of home appliances in the country, up 14% in the quarter and a 23% improvement in the Industrial Entrepreneur Confidence Index of the personal care sector.

Next, we announced a new industrial logistics operation for our clients in the chemicals sector, for whom we have started to handle a complementary logistics flow of another product with a potential to add BRL 11 million to the annual revenue of this division. This new operation helped grow the chemicals operation revenue by 3.5% in the quarter, which has a high comparison base with Q3 '18 revenue due to higher client inventories in the aftermath of the truckers strike in May of 2018. Our other warehouse operation retracted 18% in Q3, resulting from one major client loss in Rio de Janeiro in the beginning of the year.

These facts, coupled with better dilution of fixed costs, lead this division to post increased gross margins and adjusted EBITDA, both growing more than 4 percentage points, with operating margin reaching 18.7% in the quarter, a record mark.



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

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

Thank you, Gennaro. Good afternoon. A qualitative analysis of our numbers confirms the continuous improvement of our financial and economic indicators. A reduction in financial results, coupled with lower leverage in the recovery of equity income of our parent company, GDL, contributed to a recurring net income of BRL 36.9 million, up 19%, and I should remind you that this excludes the PIS/COFINS tax credit in the effects of IFRS 16. Actual net income was BRL 91.4 million.

As regards to the company's cash flow, our operational cash generation was up 15% in Q3, also excluding IFRS 16, coupled with a lower CapEx of BRL 4.1 million against the BRL 15 million year-on-year. Together, this operational cash generation and this lower CapEx contributed to a significant increase of our free cash flow in the quarter, which totaled BRL 34.4 million.

Regarding our indebtedness and cash. In the third quarter, we paid BRL 28.5 million in dividends and interest on capital referring to the first half of '19. Our capital structure remains very unleveraged. Our average cost of debt remains at 1.44% per annum despite a better national rating by Fitch, as there was no new debt issued recently. This cost that I mentioned is in addition to CDI.

Speaking about return on invested capital and return on equity, we did not see any substantial changes when we exclude the effects of PIS/COFINS credit.

It is worth mentioning that recently, our Board of Directors approved payment of BRL 0.69 per share in dividends and interest from capital to be made on November 26. This amount corresponds to 50% of Q3 '19 net income. Considering the last 12 months, we had dividend yield of 5%.

Lastly, as regards to the performance of Tegma's shares, I would like to show that our shares appreciated 8% in 2019 against 19% of Ibovespa index average daily trading volume of our -- shares have been BRL 7 million, and we are currently trading at multiples of 14.4x price earnings and 8.6x enterprise value over EBITDA.



On the next slide, please. We would like to inform that because of restatements due to accounting changes, such as IFRS '16 and also the magnitude of the nonrecurring event in this quarter, we included in our historical series spreadsheet in the Annex's tab an income statement with events and restatement highlighted, so analysts and investors can have a better understanding of our results. We hope this will help you.

Now I turn the floor back to Gennaro.

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

Thank you, Ramón. Again, thank you for participating with Tegma's conference call. We would like to begin the Q&A session.

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Questions and Answers

Operator [1]

(Operator Instructions) Our first question comes from Lucas Marquiori, BTG Pactual.

Lucas Marquiori, Banco BTG Pactual S.A., Research Division - Research Analyst [2]

I have some questions on my end. I think a little sensitive topic, Gennaro, but no one better than you guys to explain and make things clear. I think my questions have to do with the independent committee. I would like to understand exactly the



mandate of this independent committee. Will they be investigating specifically this claim against you triggered by the leniency agreement? Do they have the limited mandate to investigate only this claim? Or will they look for other things? I think it would be nice to understand if the company now is the target of any other type of investigation. I think I would like to know more on that.

And about the composition, 3 members, as you mentioned, and 3 independent members. And I would like to know if you have a deadline for those independent committee to end? Do you know how long they will be working? So these are my questions. I would like to hear from you and to make it clear for everyone.

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

Lucas, thank you for the question. I think it is important to clarify things. So the independent committee is formally fund. It was approved by the Board of Directors, and we communicated this to the market on Wednesday, and they will start working immediately, possibly in the beginning of next week. Most likely, it will start working.

The committee is formed by 3 independent members. One independent member of the Board, Décio Carbonari; the coordinator of our auditing committee -- independent auditing committee, Vanessa Lopes; and will be coordinated by Dr. Paulo de Tarso Ribeiro, a very renowned jurist. He was a former Minister of Justice, General Secretary of the Ministry of Justice, so somebody very renowned and knowledgeable. In addition, they will count on the specialized law firm to do the forensic analysis. The committee was formed specifically for this event.

As mentioned before in our prior advisories, we feel very comfortable. We are sure, we're convinced that we don't have any problems. But given good governance practices, the company decided to form this independent committee so that we could -- so that they could do an in-depth assessment and investigation of this specific event to strive for transparency.

Regarding the deadline, we are asked in the hearing that this activity will extend for around 90 days.



Lucas Marquiori, Banco BTG Pactual S.A., Research Division - Research Analyst [4]

Excellent, Gennaro. If you will allow me a second question more regarding the operation, could you explain Rabbot? Because I was been doubt that they provide a management solution for our current rental companies. I mean I just want to understand the specificity of this investment. Could you explain? Could you give us some color on that?

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

Lucas, yes. But before I speak about Rabbot, you had asked for whether there are other processes. Everything is in our reference form in Item 4.7. So this was already communicated to the market, okay? Okay. Thank you.

Now let's speak about Rabbot. Rabbot is a start-up, and basically, they optimize fleet management, as we said. They are the major processes, which are currently very manual. Just to give you some examples. They also made control of vehicle washing, vehicle maintenance, tire changes. So they can automate the processes of rental companies, carriers, companies with large fleets. And these companies that normally have manual procedures, Rabbot can automate all of them and more. Rabbot monitors the time spent in each one of these activities to ensure that these activities will be performed in the least time possible. Let's say vehicle wash. Sometimes, the vehicle would stay waiting for a whole day or 2 days. Now with Rabbot, in a matter of a few hours, the vehicle is washed and is returned to the fleet. So this is the main focus of Rabbot.

Operator [6]

(Operator Instructions) Next question comes from Lucas Marquiori with BTG Pactual.



Lucas Marquiori, Banco BTG Pactual S.A., Research Division - Research Analyst [7]

Well, if I can make a -- if I can ask another question. I was a little curious regarding the industrial logistics result with margin expansion quarter-on-quarter. Could you explain what caused this? Is this a recurring level for industrial logistics? And if there is more room to expand a contract with the client that could add another BRL 11 million to the revenue source, there are more space to improve industrial logistics?

Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [8]

Well, yes, the margins are consistent. Now we have a very mature and stable operation. And obviously, by adding new services, considering that we have a fixed cost structure that allows us to expand services, not to our -- not only to our current clients, but to new clients as well, we end up diluting our costs, and we have the potential to improve our margins even further.

So in a nutshell, what I can tell you is the margins are very consistent. As we add new services to current clients and to new clients, we can improve the margins even further. We have a much focus on that, and we are reinforcing our commercial department, aiming to be more aggressive in the market.

Operator [9]

(Operator Instructions) Next question comes from [Rafael Maldonado].

Rafael, Tarpon [10]



Regarding monetization of this PIS/COFINS credit, do you have any visibility in terms of how long it will take to use these tax credits?

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

This is Ramón speaking. Well, actually, we are in the process now of enabling the tax credit. This can take some days, 30 to 60 days, give or take. And once this is enabled -- and this is a simple formality because we've had a final ruling, as we said. So we are thinking that we will be using this credit around 12 months by the end of 2020. And we'll use the types of credits for other federal taxes, basically payment of PIS/COFINS, income tax and social contribution.

Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [12]

Next question is from the webcast. Question by [Alexandre]. He asks, what carmakers are expecting in terms of growth for 2020?

Well, Alexandre, we are trying to hear more from our clients. But what I can tell you is that, as I mentioned, ANFAVEA is talking about a domestic market growth between 8% and 9%. But considering that credit conditions are improving, interest rates dropping and the approval of the pension reform, what we have perceived is that the car manufacturers are more optimistic now, particularly because this year's growth was very much driven by direct sales. So we expect that end consumers will gradually come back. And although I cannot give you a number, what we have felt is that they were expecting higher growth than what was seen this year. This is all I can tell you for now.

Operator [13]



(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Gennaro Oddone to proceed with his closing statements.

Gennaro Oddone, Tegma Gestão Logística S.A. - CEO, IR Officer & Member of Board of Executive Officer [14]

Well, again, I would like to thank all of you for participating, for your questions, and we remain available with our IR team if you have further questions. I wish you all a great rest of the day and excellent weekend. Thank you very much.

Operator [15]

That concludes Tegma's conference call for today. Thank you very much for your participation. Have a good day. Thank you.

Start the conversation