



Grupo TRAXION



Quarterly Earnings Release

2Q18

Mexico City, July 25, 2018

Relevant Information for the Quarter

TRAXION REPORTS FINANCIAL AND OPERATING RESULTS FOR THE SECOND QUARTER OF 2018 REVENUES INCREASED 26%, EBITDA GREW 28% AND THE FLEET REACHED 6,748 POWER UNITS

The figures presented in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) and are expressed in nominal million Mexican Pesos (MXN), unless otherwise stated.

Relevant information for the quarter

- **Consolidated revenues** totaled 2,236 million pesos, an increase of 25.9% compared to 2Q17, mainly due to a growth of 26.9% in the contracted personnel and student transportation segment, and an increase of 24.7% in the cargo and logistics segment.
- **Cost-to-revenue ratio** in 2Q18 was 69.2% which represents a 290 basis-point compression compared to 2Q17, due to synergies and cost efficiencies.
- **General expenses** totaled 418 million pesos, an increase of 52.1% compared to 2Q17. This increase was driven by growth in revenues, the contribution of 37 million pesos of expenses from Redpack, and the growth of the corporate and commercial structure that was not in place in 2Q17.
- **Consolidated EBITDA** reached 428 million pesos, a 28.2% increase compared to 2Q17. This increase is mainly due to the growth in revenues and efficiencies in both costs and expenses, achieving higher operating results.
- **EBITDA margin was** 19.1%, a 30- basis point expansion compared to 2Q17.
- **Net income** totaled 250 million pesos, a growth of 419.1% compared to 2Q17, and was mainly driven by higher operating income, a positive comprehensive financial result, and a lower effective tax rate than 2Q17.
- **Cash flow from operations** recorded 222 million pesos, a 39.8% increase compared to 2Q17.
- **Investment in fleet** totaled 739 million pesos in the quarter compared to 379 million pesos in 2Q17.
- **Average fleet** consisted of 6,634 power units, which includes 6,178 power units plus 570 units of the last-mile fleet¹.
- **Total kilometers driven** reached 106.2 million kilometers during the quarter, an increase of 11.2% compared to 2Q17.
- **THE COMPANY CONFIRMS ITS 2018 GUIDANCE.**

Relevant aspects of the quarter

- **First strategic acquisition** after Initial Public Offering, investing 307 million pesos in cash and assuming 163 million pesos of debt.
- **Cost of debt** was reduced 115 basis points as a result of the financing strategy.
- **Synergies** in costs from procurement of fuel, lubricants and fleet insurance.
- **The synergies plan** moves forward in the operating side of the business with the integration of the cargo Operations of MyM with Grupo SID.

¹ Last-mile fleet units include Redpack's fleet consisting of 89 trucks, 287 light trucks, 38 cars, and 156 motorcycles.

Message from the CEO

Dear fellow shareholders,

I am very pleased to share with you the results of a very strong quarter for the Company. In addition to the excellent operating and financial results, the quarter was marked by two great milestones for TRAXION: its debt refinancing, and its first acquisition as a publicly-traded company. These events reflect our focus on fulfilling the commitments we assumed during our Initial Public Offering in September 2017.

In April, we executed a credit facility for 4.5 billion pesos to refinance our outstanding debt, optimize the amortization profile, and strengthen the financial structure of the Company. We improved significantly our cost of debt and broadened our financing sources in much more efficient conditions. With this new facility, we secure access to additional resources to finance our growth and enhance the capital utilization timing.

Furthermore, in May we announced our first acquisition since the IPO. We acquired Redpack, a leading player in the last-mile, logistics services, courier and packaging services in Mexico. This is a transcendental addition to our company, since it strengthens our footprint in the last-mile and LTL segments, positioning us strategically in the growing e-commerce market.

For us is very important to participate in these high-growth potential segments, consolidate ourselves as the one-stop solution, from beginning to end for all our clients' needs for transportation and logistics, and be the industry benchmark in Mexico. We have several plans for Redpack within TRAXION's platform, and we expect to generate sustainable efficiencies and synergies in both the short and long terms.

TRAXION continues analyzing several companies that meet our acquisition criteria, and that contribute to inorganic growth in a profitable and strategic manner. We expect to announce more accretive acquisitions in the short-term.

Moving on to the financial results, the Company recorded total revenues of 2,236 million pesos in the second quarter, a 25.9% growth compared to the second quarter of 2017, and an EBITDA of 428 million pesos, which implies a margin of 19.1%, and an increase of 28.2% when compared with the same period of last year. Consolidated net income showed a healthy growth as well, totaling 250 million pesos.

In operating terms, I am delighted to tell you that TRAXION ended the quarter with a fleet of 6,748 power units, totaled 106.2 million kilometers driven, and the average revenue per kilometer grew in both business segments. During the second quarter several units that were delivered on the first quarter entered service, which made the revenue growth possible.

Beyond the financial and operating results, we move forward with our synergies plan, through which we will integrate areas of our different subsidiaries in order to leverage our scale and expertise and guarantee sustainable value creation over time.

We continue to observe strong demand levels in both segments, and we are ready to face growth. We have been able to capitalize on all opportunities in an efficient and profitable manner. Our business model and competitive advantages are unique in the industry, which will enable us to keep investing and growing. In 2018 we will benefit from our investments, in line with our strategy and our commitments with the market.

I want to reiterate our value creation responsibility with all our clients and stakeholders and confirm that we are on track to achieve our guidance for the year. Once again, thank you for your confidence in TRAXION.

Sincerely,

Aby Lijtszain Chernizky

Co-Founder and CEO

Financial and Operating Indicators

| Financial Indicators | Second Quarter | | | Six Months ended June 30 | | |
|---|----------------|-------------|----------|--------------------------|-------------|----------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Consolidated revenue | 2,236 | 1,777 | 25.9% | 4,095 | 3,465 | 18.2% |
| Consolidated operating income | 271 | 221 | 22.8% | 407 | 390 | 4.4% |
| Consolidated EBITDA ² | 428 | 334 | 28.2% | 710 | 630 | 12.8% |
| EBITDA margin | 19.1% | 18.8% | 30 bps | 17.3% | 18.2% | (90) bps |
| Consolidated net income | 250 | 48 | 419.1% | 101 | 53 | 91.6% |
| Earnings per share ³ | 0.46 | 0.15 | 216.5% | 0.19 | 0.16 | 16.8% |
| Operating Indicators^{4,5} | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Kilometers driven (million) | 106.2 | 95.5 | 11.2% | 200.9 | 188.5 | 6.6% |
| Cargo | 44.4 | 44.6 | -0.4% | 85.5 | 88.6 | -3.5% |
| Contracted personnel and student transportation | 61.8 | 51.0 | 21.3% | 115.5 | 99.9 | 15.5% |
| Average fleet size (power units) | 6,634 | 5,275 | 25.8% | 6,490 | 5,242 | 23.8% |
| Cargo | 1,625 | 1,558 | 4.3% | 1,628 | 1,552 | 4.9% |
| Contracted personnel and student transportation | 4,439 | 3,717 | 19.4% | 4,292 | 3,690 | 16.3% |
| Last-mile ⁶ | 570 | - | - | 570 | - | - |
| Avg. revenue per kilometer ⁷ (Ps./km.) | | | | | | |
| Cargo | 24.35 | 20.06 | 21.4% | 22.45 | 19.57 | 14.7% |
| Contracted personnel and student transportation | 15.46 | 14.77 | 4.7% | 15.31 | 14.41 | 6.3% |
| Avg. cost per kilometer ⁸ (Ps./km.) | | | | | | |
| Cargo | 16.69 | 14.21 | 17.4% | 16.21 | 14.41 | 12.5% |
| Contracted personnel and student transportation | 10.30 | 10.29 | 0.1% | 10.25 | 10.22 | 0.3% |

Figures in million MXN except per share and per kilometer information

² EBITDA is operating income plus depreciation and amortization.

³ For 2Q17 and six months ended June 30, 2017 EPS was calculated using a weighted average of 331,355,360 shares, and 543,478,261 for 2Q18.

⁴ Unconsolidated figures including inter-company transactions.

⁵ Includes cargo; does not include neither logistics nor last-mile fleet.

⁶ Last-mile fleet units include Redpack's fleet consisting of 89 trucks, 287 light trucks, 38 cars, and 156 motorcycles.

⁷ Does not include information for Redpack's fleet (last-mile).

⁸ Means costs incurred per driven kilometer: wages, maintenance, net fuel, net tolls, and other costs, including depreciation and excluding warehousing costs.

Quarterly MD&A

| Consolidated Revenues | Second Quarter | | | Six months ended June 30 | | |
|---|----------------|--------------|--------------|--------------------------|--------------|--------------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Cargo and logistics | 1,276 | 1,023 | 24.7% | 2,297 | 2,018 | 13.8% |
| Contracted personnel and student transportation | 955 | 753 | 26.9% | 1,792 | 1,440 | 24.5% |
| Other income | 5 | 1 | 277.4% | 7 | 7 | 0.5% |
| Total consolidated revenue | 2,236 | 1,777 | 25.9% | 4,095 | 3,465 | 18.2% |

Consolidated revenues in 2Q18 totaled 2,236 million pesos, a growth of 25.9% compared to 2Q17. This increase is mainly due to:

- A growth of 203 million pesos in the personnel and student transportation segment that represents a 26.9% increase versus 2Q17. This increase stems from the execution of our commercial strategy which allowed to capture new clients in response to strong demand levels mainly in the Bajío and North regions. This represented an increase of 21.3% in kilometers driven, totaling 21.8 million kilometers for the period. Revenue per kilometer was 15.46 pesos, recording an increase of 4.7% compared to 2Q17.
- A growth of 253 million pesos in the cargo and logistics segment, which represents an increase of 24.7% compared to the same period of 2017. This increase is mainly due to higher levels of revenue per kilometer and fleet, from both new and existing clients, and to higher prices in some of our services. Kilometers driven totaled 44.4 million kilometers a marginal decrease of 0.4%, mainly due to the operation of shorter routes, where less kilometers are driven with higher prices. Even though there is a slight decrease of kilometers driven in the quarter, there is an increase of 3.3 million kilometers compared to 1Q18.
- Within this segment, logistics revenues increased 31.0% compared to 2Q17 mainly due to operations with new clients. This resulted in an increase of 62,000 square meters (667,000 sq. ft.) of storage space, a growth of 21.4% compared with the same period of 2017.
- Redpack, our last-mile, courier and packaging services subsidiary, was acquired on May 17, and its revenues were consolidated for May and June, contributing 125 million pesos to quarterly revenues of the cargo and logistics segment.

During the second quarter of the year we started observing the positive impact of the strengthening of our commercial structure in both segments. The Company has a sound corporate and commercial structure, that allows capturing opportunities in an efficient and profitable manner. It is important to consider that the investments made for growth are not fully reflected in this quarter, and we expect additional contributions from these investments in the following months.

Note on Seasonality

It is important to consider that TRAXION's business is seasonal. Typically, the fourth quarter of the year shows increased activity in all our segments given that it is a time of the year with more economic and consumption activity, both in Mexico and in the United States, which drives our business. In consequence, the first quarter shows a less dynamic performance than the rest of the year mainly due to a dip in consumption during the first months. Finally, the second and third quarters behave very much alike, with an operational activity tending toward the average. We expect the business to continue following this seasonality.

| Total Costs | Second Quarter | | | Six months ended June 30 | | |
|-------------------------------|----------------|--------------|--------------|--------------------------|--------------|--------------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Fuel (diesel and gasoline) | 389 | 355 | 9.6% | 752 | 737 | 2.0% |
| % of revenue | 17.4% | 20.0% | | 18.4% | 21.3% | |
| Labor cost | 337 | 319 | 5.8% | 633 | 570 | 11.2% |
| % of revenue | 15.1% | 17.9% | | 15.5% | 16.4% | |
| Tolls | 98 | 56 | 75.1% | 185 | 137 | 35.5% |
| % of revenue | 4.4% | 3.1% | | 4.5% | 3.9% | |
| Fleet maintenance | 139 | 120 | 16.4% | 267 | 233 | 14.6% |
| % of revenue | 6.2% | 6.7% | | 6.5% | 6.7% | |
| Other costs (ex D&A) | 459 | 348 | 32.0% | 804 | 636 | 26.3% |
| % of revenue | 20.5% | 19.6% | | 19.6% | 18.4% | |
| Depreciation and amortization | 126 | 85 | 47.7% | 236 | 212 | 11.2% |
| % of revenue | 5.6% | 4.8% | | 5.8% | 6.1% | |
| Total costs | 1,547 | 1,281 | 20.8% | 2,877 | 2,525 | 14.0% |
| % of revenue | 69.2% | 72.1% | | 70.3% | 72.9% | |

Total costs increased 20.8% to reach 1,547 million pesos. This increase is in line with the growth of consolidated revenues, showing certain efficiencies. The main costs performed as follows:

- Fuel cost totaled 389 million pesos, an increase of 9.6% compared to 2Q17. This increase is due to an increase in kilometers driven from new units that started operating during the quarter, and to a general increase in fuel prices. As a percentage of revenues, fuel cost represented 17.4%, a compression of 260 basis points versus 2Q17, stemming from a greater fiscal incentive (IEPS).
- Labor cost reached 337 million pesos, an increase of 5.8% compared to 2Q17, and represents a compression of 280 basis points as a percentage of revenues. This contraction is due to an increase of 50 million pesos that was partially offset by a decrease of 27 million pesos derived from synergies and efficiencies stemming from the integration of the cargo operations of MyM with those of Grupo SID.
- Cost of tolls increased 75.1% compared to 2Q17 and is mainly explained by higher utilization of highways in shorter routes on the cargo and logistics segment, a higher utilization of tolls roads in the personnel and student transportation segment, and to a general increase in toll prices in roads and highways we operate frequently. As a percentage of revenues tolls represented 4.4%, an expansion of 130 basis points versus 2Q17.
- Maintenance cost reached 139 million pesos, an increase of 16.4% compared to 2Q17. This increase is mainly explained by the increase in fleet and in kilometers driven but was partially offset by newer units that require less maintenance levels.
- Other costs (excluding D&A) totaled 459 million pesos, increasing 32.0% when compared to 2Q17. This increase is mainly due to an increase in the Company's operations, including a 31.0% growth in logistics, and other costs from Redpack, that are concentrated in this line given its nature. These costs include the increase in warehouse space, monitoring services, materials related to packaging and shipments and costs related to points of sale. Furthermore, there are other costs related to growth such as contract outsourcing of the American portion, port maneuvers, ferry services and other.

| General Expenses | Second Quarter | | | Six months ended June 30 | | |
|-------------------|----------------|-------|-------|--------------------------|-------|-------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| SG&A ⁹ | 418 | 275 | 52.1% | 811 | 550 | 47.5% |
| % of revenue | 18.7% | 15.5% | | 19.8% | 15.9% | |

General expenses reached 418 million pesos, an increase of 52.1% compared to 2Q17. This increase is partially due to the contribution of expenses of Redpack for 37 million pesos, which represented 8.9% of total expenses. Excluding this amount, the Company's expenses were 381 million pesos, an increase of 38.5% compared to 2Q17, and is mainly due to the increase in consolidated revenues and to the expenses related to the corporate and commercial structure that was not in place in 2Q17.

It is very important to consider that, although general expenses represent 18.7% of revenues, including the effect of Redpack, this ratio is lower than that of 1Q18, which recorded 21.2%. Excluding Redpack's contribution, general expenses represented 17.0% of revenues, a significant decrease compared to 1Q18. It is worth mentioning that Redpack's expense structure is different to that of TRAXION, and that this 37-million-peso contribution in 2Q18 does not take into account synergies and efficiencies that are being reflected within Redpack.

This implies that the Company is generating more revenues with a lower level of expenses. Furthermore, we expect the expense-to-revenue ratio to be gradually reduced in the coming quarters as a result of our synergies plan.

| EBITDA Reconciliation | Second Quarter | | | Six months ended June 30 | | |
|-------------------------------|----------------|-------|--------|--------------------------|-------|----------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Operating income | 271 | 221 | 22.8% | 407 | 390 | 4.4% |
| Depreciation and amortization | 157 | 113 | 38.7% | 303 | 240 | 26.4% |
| EBITDA | 428 | 334 | 28.2% | 710 | 630 | 12.8% |
| EBITDA margin | 19.1% | 18.8% | 30 pbs | 17.3% | 18.2% | (90) pbs |

EBITDA totaled 428 million pesos in 2Q18, a growth of 28.2% compared to 2Q17, which implies a margin of 19.1%. This increase is mainly due to:

- An increase in consolidated revenues, that starts to generate an operating leverage using the same level of expenses as in 1Q18.
- Redpack, our last-mile, courier and packaging services subsidiary, acquired on May 17, contributed 16 million pesos to the quarterly EBITDA, from May and June. Excluding Redpack's contribution, EBITDA margin was 19.5%.
- Certain synergies and efficiencies both in cost and expenses (fuel, lubricants, insurance policies, among others).

These figures are in line with the Company's budget and guidance for 2018.

⁹ Includes general expenses net of other income, other expenses and allowance for doubtful accounts.

| Comprehensive Financial Result | Second Quarter | | Six months ended June 30 | |
|-----------------------------------|----------------|-------|--------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest expense, net | (85) | (82) | (193) | (184) |
| Foreign exchange gain (loss), net | 91 | (8) | (45) | (18) |
| Effect of financial instruments | 15 | (37) | (14) | (37) |
| Interest income | 13 | 8 | 35 | 10 |
| Other | (18) | (4) | (21) | (5) |
| Comprehensive Financial Result | 17 | (123) | (237) | (233) |

Comprehensive financial result recorded an income of 17 million pesos for 2Q18. This income is explained by:

- A foreign exchange gain of 91 million pesos. As of the end of 2Q18, the Company completed its CapEx plan denominated in USD, so there is not relevant treasury cash remaining in USD, and we do not expect any significant foreign exchange effect in the coming quarters.
- The elimination of the effect of 15 million pesos of the interest rate SWAP related to the debt that was repaid during the quarter.
- An income of 13 million pesos generated by the current cash position.

The above was partially offset by an interest expense of 85 million pesos, and other items that include financing commissions, and others.

| Net Income | Second Quarter | | | Six months ended June 30 | | |
|------------|----------------|------|--------|--------------------------|------|-------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Net income | 250 | 48 | 346.4% | 66 | 53 | 25.2% |

Net income totaled 250 million pesos in 2Q18, an increase of 346.4% compared to 2Q17. This increase is mainly due to:

- A higher operating income
- A positive comprehensive financial result.
- A significant reduction of the effective tax rate compared to 2Q17, stemming from an improvement of pre-tax income of some of our subsidiaries.

Cash Flows from Operating Activities

| | Second Quarter | | | | Six months ended June 30 | | | |
|---|----------------|------------|-----------|--------------|--------------------------|------------|-----------|-------------|
| | 2Q18 | 2Q17 | \$Δ | %Δ | 2018 | 2017 | \$Δ | %Δ |
| Consolidated net income | 250 | 48 | 202 | 419.1% | 101 | 53 | 48 | 91.6% |
| Income taxes | 38 | 50 | (12) | (24.3)% | 69 | 104 | (35) | (33.6)% |
| Depreciation y Amortization | 157 | 113 | 44 | 38.7% | 303 | 240 | 63 | 26.4% |
| Interest expense | 85 | 82 | 3 | 4.1% | 193 | 184 | 9 | 4.7% |
| Other financial costs | (29) | 29 | (58) | (197.6)% | -21 | 26 | (47) | (178.9)% |
| Unrealized foreign exchange loss | (124) | - | (124) | - | - | - | - | - |
| Loss (gain) of transportation equipment and machinery | (6) | (8) | 1 | (19.7)% | (2) | (18) | 16 | (86.9)% |
| Financial cost of the defined-benefits plan | 1 | - | - | 277.2% | 1 | - | 1 | 210.0% |
| Cash flow before working capital | 372 | 314 | 58 | 18.4% | 643 | 589 | 55 | 9.3% |
| Working capital | (150) | (155) | 6 | (3.6)% | (411) | (355) | (56) | 15.8% |
| Net cash flows from operating activities | 222 | 159 | 63 | 39.8% | 232 | 224 | 9 | 3.8% |

Net cash flow from operating activities totaled 222 million pesos, an increase of 63 million pesos compared to 2Q17. This increase stems from a growth of 28.2% in EBITDA and a better working capital management.

Shareholders' Equity

As of June 30 2018, shareholders' equity totaled 9,717 million pesos, which represents an increase of 75 million pesos compared to December 31 2017, and is mainly explained by the net income generated during 2Q18.

CapEx

Paid CapEx in 2Q18 reached 739 million pesos that were destined mainly to fleet and equipment acquisition. Approximately 62% of the investment was conducted in the personnel and student transportation segment, and the remainder to the cargo and logistics segments. Likewise, 89% of invested resources were for acquisition of new, incremental fleet, and the rest was to replace older units.

Since the Initial Public Offering, the Company has invested 2,129 million pesos in fleet acquisitions and replacements, moving forward with its fleet expansion plan for 2018.

Operating Results by Business Segment

The following figures do not include inter-company eliminations

Cargo and Logistics

| Financial Indicators | Second Quarter | | | Six months ended June 30 | | |
|----------------------------------|----------------|-------|---------|--------------------------|-------|-----------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Cargo and logistics revenue | 1,281 | 1,024 | 25.1% | 2,303 | 2,025 | 13.7% |
| Total costs | 918 | 757 | 21.3% | 1,682 | 1,504 | 11.8% |
| Operating expenses ¹⁰ | 228 | 187 | 22.1% | 438 | 352 | 24.3% |
| Operating income | 151 | 101 | 49.9% | 203 | 196 | 3.4% |
| EBITDA | 228 | 167 | 36.7% | 356 | 344 | 3.4% |
| EBITDA margin | 17.8% | 16.3% | 150 pbs | 15.4% | 17.0% | (160) pbs |

| Operating Indicators | Second Quarter | | | Six months ended June 30 | | |
|---|----------------|---------|--------|--------------------------|---------|--------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Kilometers driven (million) | 44.4 | 44.6 | (0.4)% | 85.5 | 88.6 | (3.5)% |
| Average fleet size (power units) | 1,625 | 1,558 | 4.3% | 1,628 | 1,552 | 4.9% |
| Last-mile fleet ¹¹ (units) | 570 | - | | 570 | - | |
| Average fleet age (years) | 5.2 | 5.4 | | 5.2 | 5.4 | |
| Average revenue per km. ¹² (Ps.) | 24.35 | 20.06 | 21.4% | 22.45 | 19.57 | 14.7% |
| Average cost per km. (Ps.) | 16.69 | 14.21 | 17.4% | 16.21 | 14.41 | 12.5% |
| Warehouse space (m ²) | 351,500 | 289,500 | 21.4% | 351,500 | 289,500 | 21.4% |
| Average revenue per m ² (Ps.) | 164.35 | 124.64 | 31.9% | 159.83 | 139.98 | 14.2% |
| Average cost per m ² (Ps.) | 108.27 | 113.08 | -4.3% | 105.08 | 104.51 | 0.5% |

- Revenues of the cargo and logistics segment totaled 1,281 million pesos, a growth of 257 million pesos, which represents an increase of 25.1% compared to 2Q17. This increase is mainly due to greater levels of revenue and fleet, both from existing and new clients, to the contribution of Redpack to the revenues for the segment and, to a lesser extent, to the increase in prices of some services. This implies that the company is more productive.
- Moreover, the client optimization strategy is proving successful. Proof of that is the increase in revenues with a marginal decrease in kilometers driven of 0.4%. Currently, the Company has a more diverse and productive client base. We continue executing this strategy in order to identify more profitable fleet allocation opportunities.
- Redpack, our courier, packaging and last-mile subsidiary, contributed with 125 million pesos to the quarterly revenues of the cargo and logistics segment. Excluding Redpack's contribution, revenues of the segment were 1,156 million pesos, a growth of 12.9%.

¹⁰ Includes general expenses net of other income, other expenses and allowance for doubtful accounts.

¹¹ Last-mile fleet units include Redpack's fleet consisting of 89 trucks, 287 light trucks, 38 cars, and 156 motorcycles.

¹² Includes cargo; does not include neither logistics nor last-mile fleet.

- Logistics revenues grew 31% compared to 2Q17 mainly due to the start of operations with new clients and that resulted in an increase of 62,000 square meters (667,000 sq. ft.) of storage space, implying a 21.4% growth compared to 2Q17.
- Total costs of the segment were 918 million pesos, an increase of 21.3%. This increase is in line with the growth in revenues, showing some operating efficiencies.
- Operating expenses reached 228 million pesos, an increase of 66.9% compared to 2Q17. This increase is partially due to Redpack's contribution of 37 million pesos to the expenses. Excluding the effect of Redpack, total expenses of the segment were 191 million pesos, a growth of 21.6%, which is in line with revenue growth of the segment, showing some efficiencies.
- EBITDA of the segment reached 228 million pesos, an increase of 36.7% compared to 2Q17, implying a margin of 17.8%, a 150 basis-point expansion compared to 2Q17. Redpack contributed with 16 million pesos to the EBITDA of the segment. Excluding this effect, EBITDA of the segment was 212 million pesos, an increase of 26.9%, resulting in a margin of 18.3%. EBITDA growth is greater than that of revenues, confirming the efficiency of our business model and the corporate and commercial structure.
- Revenue per kilometer was 24.35 pesos, a growth of 21.4% compared to that of 2Q17. This increase is mainly due to a growth in sales derived from a better productivity and higher prices. It is important to observe that the cost per kilometer grew 17.4%, reflecting operating efficiency as well.

During the second quarter, the effect of the new regulation in the United States in place since the first quarter, preventing cargo operators to drive more than 8 hours, and that generated equipment scarcity in cross-border operations, is beginning to normalize. In the case of TRAXION, we took action to face this situation and during the second quarter invested in new trailers, redistributed a portion of our equipment and started operating more than 120 trailers on the cross-border routes. We expect additional trailer deliveries in the next months, with which our operations in this service are normalized.

Contracted Personnel and Student Transportation

| Financial Indicators | Second Quarter | | | Six months ended June 30 | | |
|--|----------------|-------|----------|--------------------------|-------|---------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Personnel and student transportation revenue | 955 | 753 | 26.9% | 1,792 | 1,440 | 24.5% |
| Total costs | 636 | 524 | 21.4% | 1,196 | 1,021 | 17.1% |
| Operating expenses ¹³ | 183 | 124 | 47.8% | 362 | 229 | 58.1% |
| Operating income | 133 | 124 | 7.4% | 242 | 211 | 15.0% |
| EBITDA | 202 | 161 | 25.6% | 371 | 283 | 31.3% |
| EBITDA margin | 21.2% | 21.4% | (20) pbs | 20.7% | 19.7% | 100 pbs |

| Operating Indicators | Second Quarter | | | Six months ended June 30 | | |
|----------------------------------|----------------|-------|-------|--------------------------|-------|-------|
| | 2018 | 2017 | Δ | 2018 | 2017 | Δ |
| Kilometers driven (million) | 61.8 | 51.0 | 21.3% | 115.5 | 99.9 | 15.5% |
| Average fleet size (power units) | 4,439 | 3,717 | 19.4% | 4,292 | 3,690 | 16.3% |
| Average fleet age (years) | 5.2 | 6.5 | | 5.2 | 6.5 | |
| Average revenue per km. (Ps.) | 15.46 | 14.77 | 4.7% | 15.31 | 14.41 | 6.3% |
| Average cost per km. (Ps.) | 10.30 | 10.29 | 0.1% | 10.25 | 10.22 | 0.3% |

- Revenues of the contracted personnel and student transportation reached 955 million pesos, a growth of 26.9% compared to 2Q17. This increase is due to addition of new clients in response to strong demand levels mainly in the Bajío and North region, and that resulted in a 21.3% increase in kilometers driven in the quarter. This growth is due, to a lesser extent, to price increases derived from inflation and fuel prices.
- Total costs for the segment reached 636 million pesos, a 21.4% increase compared to 2Q17. This increase is lower than the growth in revenues, which reflects the efficiency of the structure developed to support growth.
- Operating expenses totaled 183 million pesos, an increase of 47.8% compared to 2Q17, and is mainly due to the growth in revenues, the expenses related to the corporate and commercial structure that was not in place in 2Q17, and to expenses in connection to the commissioning of new units.
- EBITDA of the segment reached 202 million pesos, a healthy growth of 25.6% compared to that of 2Q17, which translated in a margin of 21.2%.
- Revenue per kilometer driven was 15.46 pesos, an increase of 4.7% compared to that of 2Q17. This was paired with a marginal increase in cost per kilometer of 0.1%, which reflects the efficiency in our operations.

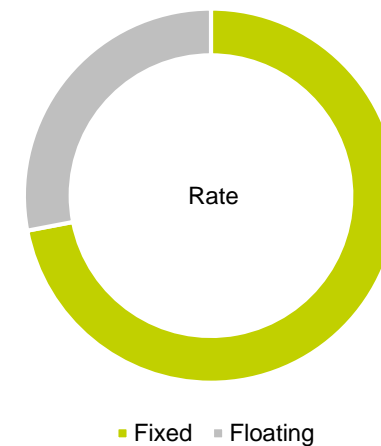
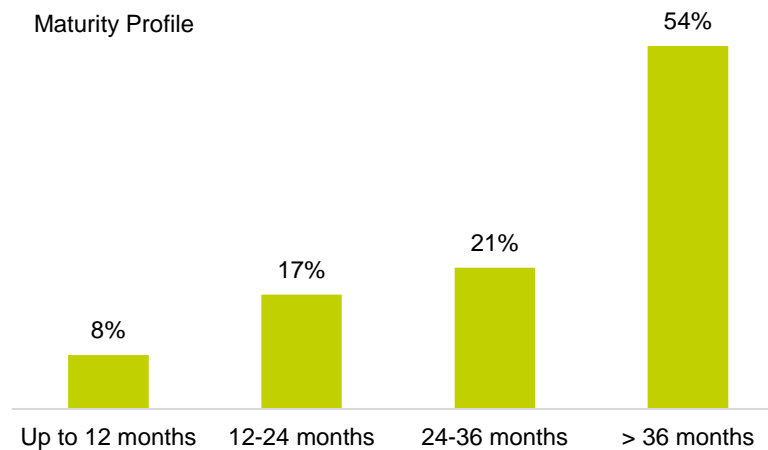
¹³ Includes general expenses net of other income, other expenses and allowance for doubtful accounts.

Debt Profile

| Debt Breakdown | 2Q18 | 2Q17 | Δ% | Δ\$ |
|---------------------------|-------|-------|---------|---------|
| Short-term debt | 122 | 378 | (67.7)% | (256) |
| Short-term capital leases | 74 | 59 | 26.6% | 16 |
| Long-term debt | 1,890 | 2,805 | (32.6)% | (915) |
| Long-term capital leases | 339 | 185 | 83.2% | 154 |
| Total debt | 2,426 | 3,427 | (29.2)% | (1,001) |
| Cash | 537 | 366 | 46.9% | 171 |
| Net debt | 1,889 | 3,061 | (38.3)% | (1,173) |

| Leverage Ratios | 2Q18 |
|--|-------|
| Total debt / EBITDA LTM | 1.77x |
| Net debt / EBITDA LTM | 1.38x |
| Total liabilities / Shareholders' equity | 0.46 |

- Total debt at the end of 2Q18 reached 2,426 million de pesos. This considers the debt refinancing in April 2018.
- Net debt totaled 1,889 million pesos mainly due to a decrease in total debt and to the cash position.
- 100% of the debt is denominated in Mexican Pesos (MXN).
- The Company executed an interest rate SWAP to fix the interest rate for 75% of the amount drawn from the credit facility for 75% of the maturity. With this, TIIE was fixed at 7.95%.
- Cost of debt for the quarter was 10.78%, which is equivalent to TIIE + 285 basis points, and represents a decrease of 115 basis points compared to the rate of the former credit of TIIE + 400 basis points.



Relevant Events in the Quarter

Execution of a new Credit Facility and Debt Refinancing

On April 10, 2018, TRAXION announced the execution of a credit facility for 4.5 billion pesos, in line with its commitment of optimize its financial structure and improve both financing conditions and overall debt profile, as well as to have resources to finance both organic and inorganic growth.

Initially, the Company drew 2.0 billion from this new facility and, together with approximately 923 million pesos of its cash, paid the outstanding long-term debt amount for approximately 2,923 million pesos. TRAXION also executed an interest rate SWAP to fix the interest rate of the new outstanding amount, which reduced significantly the Company's cost of debt. For future draws of this facility, TRAXION will execute the same hedge.

TRAXION will have an 18-month period to draw the remaining 2.5 billion committed on the facility, which contributed to optimize capital utilization timing for the remainder of 2018 and 2019.

The new facility is a simple credit line with a 5-year term. The rate is 28-day TIE plus a spread that will move from 200 to 315 basis points, and whose calculation will be determined by the total debt to EBITDA ratio on a quarterly basis. For 2Q18, the effective interest rate was 10.78%.

Acquisition of REDPACK, a Leading Company in the Last-Mile Segment

On May 17 2018, TRAXION announced the acquisition of Redpack, a leading company in the last-mile, courier and packaging segment. This acquisition has a strategic relevance for the TRAXION, and a very good opportunity for the Company by providing a solid platform to grow in the e-commerce and less-than-truckload (LTL) segments.

TRAXION will take advantage of opportunities to develop synergies and share best practices such as cross-selling, cost savings through procurement, facilities and fleet, strengthening Redpack's capabilities and positioning TRAXION as a one-stop solution before its clients.

TRAXION already started to implement a plan to achieve synergies by integrating the Operations of Palex, its LTL and last-mile subsidiary, through which points of sale and fleet will be better utilized, boosting significantly the Company's capabilities in these services.

At the end of 2Q18, Redpack had a fleet of 570 units including 89 trucks, 287 light trucks, 38 cars and 156 motorcycles. It has 192 points of sale across the country. In 2017, Redpack reached sales for 715 million pesos and generated 84 million pesos of EBITDA.

The acquisition price was 470 million pesos, subject to certain conditions, and includes debt of 163 million pesos, which will be assumed by TRAXION.

REDPACK Acquisition Details



Company Overview

Key Mexican last-mile player

- **Last-mile services:**
 - Domestic: Express, EcoExpress, Metropolitan
 - International: Economy, Express, Import/Export, Less-than-truckload
 - Logistics solutions: e-commerce, retail
- **Footprint:** 192 points of sale nationwide
- **Fleet:** 543 units
 - 71 trucks & light trucks
 - 156 pick-up trucks
 - 159 motorcycles
 - 128 vans
 - 29 cars

Acquisition Overview

- **Acquisition date:** 17 May 2018
- **Acquisition Price:** Ps. 470 million
 - Ps. 163 million – debt assumption
 - Ps. 307 million – cash payment

Acquisition Rationale

REDPACK Competitive Advantages

- Key player
- Strong brand positioning
- Broad national footprint
- Commercial agreements
- Services pricing
- Service umbrella
- Expertise
- Systems

REDPACK in TRAXION Platform

- LTL service growth through REDPACK's installed capacity and fleet
- Consolidation of LTL + courier and messenger segments
- Smaller vehicles fit for last-mile service
- Back-office integration
- Fleet maintenance
- Procurement synergies
- Optimization of logistics facilities



2Q18 Earnings Call Invitation

Grupo TRAXION cordially invites you to join its 2Q18 earnings call, during which senior management will discuss financial results for the quarter

Conference call details:

Date: Thursday, July 26, 2018

Time: 11:00 am New York City (10:00 am Mexico City)

Dial-in:

- **International:** Those participants dialing from outside the US please dial +1 (201) 689 8565
- **United States:** Those participants dialing from within the US please dial +1 (877) 407 0778 (toll-free)

A replay of the call will be available for two weeks

Replay dial in:

- International: +1 919 882 2331
- United States: +1 877 481 4010 (toll-free)
- Replay passcode: 33505

Immediately after management's presentation, there will be a **Questions and Answers** session available to participants

Call hosts

- Aby Lijtszain - CEO
- Victor Bravo - CFO
- Rodolfo Mercado - COO
- Antonio Tejedo - IRO

If you need assistance, please contact

Antonio Tejedo

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Financial Statements – Balance Sheet

Thousand Pesos (MXN)

| Assets | <u>Jun 2018</u> | <u>Dic 2017</u> | Liabilities and Shareholders' Equity | <u>Jun 2018</u> | <u>Dic 2017</u> |
|---|--------------------------|--------------------------|--|--------------------------|--------------------------|
| Current assets: | | | Current liabilities: | | |
| Cash & equivalents | 537,229 | 3,272,162 | Current installments of long-term debt | 122,259 | 360,499 |
| Receivables, net | 1,765,624 | 1,412,940 | Obligations under capital leases | 74,431 | 91,659 |
| Related parties | 24,371 | 50,081 | Suppliers | 485,088 | 472,553 |
| Other receivables, net | 788,647 | 658,715 | Creditors | 199,658 | 41,389 |
| Inventory, net | 103,120 | 89,924 | Other taxes | 397,628 | 294,992 |
| Prepayments | 74,517 | 30,914 | Provisions | 190,684 | 117,553 |
| Total current assets | <u>3,293,508</u> | <u>5,514,736</u> | Income taxes | 53,994 | 64,634 |
| Non-current assets: | | | Employee statutory profit sharing | 30,007 | 43,288 |
| Transportation equipment and machinery, net | 5,752,255 | 4,628,848 | Related parties | 18,767 | 17,627 |
| Investments in associated companies | 3,365 | 3,365 | Advancements from clients | 31,922 | 48,502 |
| Goodwill | 3,609,585 | 3,370,456 | Total current liabilities | <u>1,604,438</u> | <u>1,552,696</u> |
| Intangibles and other assets | 1,334,651 | 1,212,765 | Non-current liabilities: | | |
| Deferred income taxes | 159,148 | 139,106 | Long-term debt, excluding current installments | 1,890,128 | 2,700,141 |
| Financial instruments | 2,483 | 27,763 | Obligations under capital leases | 338,949 | 344,053 |
| Total non-current assets | <u>10,861,487</u> | <u>9,382,303</u> | Aportaciones para futuros aumentos de capital | 921 | 921 |
| | | | Contributions for future capital increases | 46,073 | 40,880 |
| | | | Employee benefits | - | - |
| | | | Financial instruments | 557,378 | 615,805 |
| | | | Total non-current liabilities | <u>2,833,449</u> | <u>3,701,800</u> |
| | | | Total liabilities | 4,437,887 | 5,254,496 |
| | | | Shareholders' equity: | | |
| | | | Equity | 8,930,167 | 8,930,167 |
| | | | Share suscription | 135,944 | 135,944 |
| | | | Legal reserve | 34,169 | 23,159 |
| | | | Actuarial losses | (2,185) | (2,646) |
| | | | Gains from financial instruments | 2,483 | - |
| | | | Other equity accounts | 212,502 | 176,297 |
| | | | Retained earnings | 404,029 | 379,622 |
| | | | Total equity | <u>9,717,108</u> | <u>9,642,543</u> |
| Total assets | <u><u>14,154,995</u></u> | <u><u>14,897,039</u></u> | Total liabilities and shareholders' equity | <u><u>14,154,995</u></u> | <u><u>14,897,039</u></u> |

Financial Statements – Income Statement

Thousand Pesos (MXN)

| | Second Quarter | | | Six months ended June 30 | | |
|---|----------------|---------------|---------------|--------------------------|---------------|--------------|
| | 2018 | 2017 | Δ% | 2018 | 2017 | Δ% |
| Service revenue: | | | | | | |
| Cargo | 964,709 | 880,356 | | 1,804,310 | 1,741,057 | |
| Logistics services | 186,576 | 142,435 | | 367,662 | 277,322 | |
| Courier and packaging | 124,549 | 0 | | 124,549 | - | |
| Contracted personnel and student transportation | 955,281 | 744,084 | | 1,792,044 | 1,430,993 | |
| Other revenue | 5,052 | 9,891 | | 6,801 | 15,320 | |
| Total operating revenue | 2,236,167 | 1,776,766 | 25.9% | 4,095,366 | 3,464,692 | 18.2% |
| Total costs | 1,547,373 | 1,281,342 | 20.8% | 2,877,262 | 2,524,873 | 14.0% |
| Gross profit | 688,794 | 495,424 | | 1,218,104 | 939,819 | |
| Margin | 30.8% | 27.9% | | 29.7% | 27.1% | |
| General expenses | 426,863 | 310,101 | | 830,434 | 578,143 | |
| Allowance for doubtful accounts | 5,329 | 5,179 | | 7,575 | 19,055 | |
| Other (income) expense, net | (14,629) | (40,688) | | (27,047) | (47,289) | |
| Operating income | 271,231 | 220,832 | 22.8% | 407,142 | 389,910 | 4.4% |
| Margin | 12.1% | 12.4% | | 10.0% | 11.3% | |
| Comprehensive financial result: | | | | | | |
| Interest expense | (84,953) | (81,582) | | (192,569) | (183,920) | |
| Financial cost of the defined benefit plan | (630) | (167) | | (834) | (269) | |
| Financing fees | (17,390) | (4,251) | | (20,009) | (5,132) | |
| Foreign exchange (loss) gain, net | 91,292 | (7,744) | | (44,553) | (17,665) | |
| Effect of valuation of financial instruments | 15,302 | (36,874) | | (14,065) | (36,874) | |
| Interest income | 13,202 | 7,670 | | 34,899 | 10,457 | |
| Comprehensive financial result, net | 16,823 | (122,948) | | (237,131) | (233,403) | |
| Profit before income taxes | 288,054 | 97,884 | | 170,011 | 156,507 | |
| Income taxes: | | | | | | |
| Fiscal basis | 61,420 | 56,401 | | 96,119 | 116,662 | |
| Deferred | (23,824) | (6,766) | | (27,280) | (12,957) | |
| Income tax | 37,596 | 49,635 | | 68,839 | 103,705 | |
| <u>Consolidated net income</u> | <u>250,458</u> | <u>48,249</u> | <u>419.1%</u> | <u>101,172</u> | <u>52,802</u> | <u>91.6%</u> |
| Margin | 11.2% | 2.7% | | 2.4% | 1.5% | |

Financial Statements – Cash Flows

Thousand Pesos (MXN)

| Cash flows | <u>Second Quarter</u> | | <u>Six months ended June 30</u> | |
|---|-----------------------|------------------|---------------------------------|------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Cash flows from operating activities: | | | | |
| Consolidated net income | 250,457 | 48,249 | 101,172 | 52,802 |
| Depreciation and amortization | 174,916 | 113,071 | 303,260 | 239,948 |
| Income taxes | 37,597 | 49,635 | 68,839 | 103,705 |
| Unrealized FX losses (gains) | (123,829) | - | - | - |
| Interest expense, net | 71,751 | 73,912 | 157,670 | 173,463 |
| Other virtual items | (38,848) | 29,478 | 12,488 | 18,785 |
| Cash flow before variations of working capital | 372,044 | 314,345 | 643,429 | 588,703 |
| Accounts receivable | (116,369) | (86,195) | (289,012) | (258,385) |
| Accounts receivable from related parties | 15,694 | (8,684) | 34,610 | (17,546) |
| Other current assets | 31,161 | (43,702) | (5,257) | 69,456 |
| Creditable taxes | (37,870) | (65,534) | (107,480) | (118,589) |
| Suppliers | (106,628) | 37,318) | (222,937) | 87,880 |
| Accrued liabilities | (8,285) | (42,442) | 115,709 | (43,055) |
| Accounts payable to related parties | 482 | (3,481) | 1,140 | (4,200) |
| Advancements from clients | 2,741 | 949 | (16,580) | 12,010 |
| Income taxes | 69,388 | 56,503 | 78,759 | (92,462) |
| Net cash flows from operating activities | 222,358 | 159,077 | 232,380 | 223,812 |
| Cash flows from investing activities: | | | | |
| Acquisition of transportation equipment & machinery | (739,198) | (378,836) | (1,276,221) | (468,592) |
| Other assets and liabilities, net | (475,630) | 142,343 | (467,637) | 150,794 |
| Interest income | 12,364 | 12,058 | 26,002 | 14,848 |
| Net cash flows from investing activities | (1,202,465) | (224,435) | (1,717,857) | (302,950) |
| Cash flows from financing activities | | | | |
| Debt payments | (956,150) | 90,438 | (1,018,385) | (10,145) |
| Payments of capital leases | (22,531) | 8,126 | (42,515) | (16,937) |
| Payment of financial instruments | (56) | (12,770) | 13,698 | (12,770) |
| Bank loans | - | 137,527 | 53,900 | 233,415 |
| Return of contributions for future capital increases | - | (7,160) | - | (12,768) |
| Interest expense | (110,522) | (200,109) | (256,154) | (203,621) |
| Net cash flows from financing activities | (1,089,259) | 16,052 | (1,249,456) | (22,826) |
| (Decrease, net) net increase in cash and equivalents | (2,069,366) | (49,306) | (2,734,933) | (101,964) |
| Cash and equivalents at beginning of period | 2,482,766 | 415,037 | 3,272,162 | 467,695 |
| Revaluation effect on cash | 123,829 | - | - | - |
| Cash and equivalents at end of period | 537,229 | 365,731 | 537,229 | 365,731 |