



3Q23 EARNINGS RELEASE VIDEOCONFERENCE

Operator:

Hello, ladies and gentlemen. Good morning. Welcome to Kepler Weber's 3Q23 results videoconference. Joining us today are Piero Abbondi, CEO; Paulo Polezi, CFO and Investor Relations Director; and Bernardo Nogueira, Commercial Director, who will participate exclusively in the Q&A.

Please note that the presentation is being recorded and translated simultaneously. The translation is available by clicking on the interpretation button. For those listening to the videoconference in English, there is an option to mute the original audio in Portuguese by clicking on 'mute original audio'.

During the Company's presentation, all participants will be on listen-only mode, and after we will start the Q&A session. To ask questions, click on the 'raise hand' icon. When you are announced, a prompt to activate your microphone will appear on the screen, and you must then enable your microphone to ask questions.

We clarify that any statements that may be made during this conference call regarding Kepler Weber's business prospects, operating and financial targets are forward-looking statements by the Company's management, which may or may not occur. Investors should understand that political, macroeconomic and other operational factors may affect the Company's future and lead to results that differ materially from those expressed in such forward-looking statements. To open, the 3Q23 results video conference, I would like to give the floor to Piero Abbondi.

Piero Abbondi:

Good morning, everyone. It is a pleasure to be with you for Kepler's results video conference. The 3Q23 was marked by an improvement in the dynamics of first harvest business, mainly due to the assumption of projects in the farm segment, shortly after the announcement in July of the largest PCA in history.

At the same time, sales to Kepler's corporate customers, especially cooperatives remained strong. I would also like to point out that this upturn in turnover with a growth of 44% compared to 2Q23 led us to the second best 3Q record in the Company's history, second early to 3Q22.

As for EBITDA, Kepler delivered the second best performance for a 3Q, reaching a margin of 21.8%. I attribute this result to our commitment to operational efficiency and careful cost management.

As I said at the beginning, the boost in sales following the announcement of the 2023-2024 crop plan has also made it possible to build a healthy order book, which will enable good levels of turnover in the coming months.

I will now hand over to Paulo to explain the performance of the business segments in the 3Q.

Paulo Polezi:

Thank you, Piero, and good morning, everyone. Starting on slide 4, I present the evolution of the 5 segments in which we operate.

In farms, we reached R\$145.6 million, best quarter this year despite the 41.5% reduction in the quarter and 33.3% in the accumulated total for 2023. We did, however, see an important upturn compared to 2Q23, growing 76.3% wasn't higher only because of lower prices in the market, which is based on the fall of the price of our main raw material, which is galvanized steel.

In Agribusiness, the revenues were R\$154.2 million in the quarter, an increase of 3.6% regarding 3Q22. As in farms, we achieved the highest quarterly turnover in the year, up 81% regarding 2Q23.



A good level of turnover is explained above all by the growing demand for storage felt by cooperative cereal growers and agro industries, which is leading them to accelerate new investments.

International business also recorded the best performance of the year, driven by the favorable seasonality despite the 33.5% reduction in the quarter and 37% in the year-to-date.

The reduction in the pace of sales was mainly due to the slowdown in activity in Latin America causing some retractions in sales in important regions for Kepler such as Paraguay and Uruguay.

In ports and terminals, we had revenues of R\$3.2 million in the quarter, down 77%, and R\$63.9 million in the year-to-date, up 221%. And the quarter was impacted by the uneven pace of major projects in this segment, generating volatility in invoicing. Year-to-date and for the coming quarters, we enjoy a good portfolio of orders built up since 2022.

Lastly, in replacement and services, we saw an increase of 24% in the quarter and 25.6% in the year-to-date as a result of a wider range of operations, with a greater outreach of customers, growing coverage and now reinforced by the three new DCs in Balsas in Maranhão, Paragominas in Pará, and Sorriso in Mato Grosso state, generating greater volume of business. It is important to note that since March 2023, process revenue has been consolidated, adding R\$9.2 million in the quarter and R\$23.4 million in the year-to-date.

On slides 5 and 6, we look at some of the project delivered during the quarter, showing the scale of Kepler's work, the project in Balsas, Maranhão state, is a large-scale unit for one million bags, a milestone in the region because it has filled the logistical gap that farmers in Maranhão faced during the harvest season, with difficulties in freight, precarious roads and extensive rainfall, guaranteeing safety and preventing losses.

The Cambé project, in the state of Paraná was an expansion of the client volume making it possible to receive, dry and store 30,000 tons of corn in a new area of operation. The project with the KW Max drier with a high level of automation and the results of the 2023 corn crop exceeded expectations.

In the Campo Novo do Parecis project in Mato Grosso state, a traditional customer has once again bought the Kepler unit. Since he already owns another firm, the investment will avoid transportation cost between one unit and another.

On slide 6, we see the construction side in Lambayeque, Peru. This is another kind that made recurring purchases and an expansion of reception and storage that will give the client better purchasing power with local producers.

Finally, the La Paloma project in Paraguay that met the need for storage due to an expansion of the client's production area. Kepler is a benchmark in Paraguay, with a constant presence and strong after sales activities, generating repeated business for local customers.

On slide 7, one of the most important slides in our presentation represent the increase in the pace of new orders. There were 18 different supplies contracted in the quarter, which together add up to approximately R\$270 million in new sales. For the sake of comparison, if we revisit our 3Q22 presentation at the time with this relevant order, it closed in the amount of R\$93 million, a significant difference that we have now.

On the table, we can see that the agribusiness segments, together with ports and terminals are so-called CNPJ clients or corporate clients demand a greater number of projects given the increase in crop volumes and the need for greater speed and harvesting.

On slide 8, we show the better evolution of 3Q23. We generated R\$88.3 million with a margin of 21.8%. As Piero said, we are delivering the second best performance for the 3Q of all times despite the reduction of 43.3% reduction regarding EBITDA of R\$155.8 million in 3Q22, a moment in which we had a market that was growing strongly. In a challenging business environment like the one we live in, maintaining careful cost management to deliver a solid EBITDA margin is essential for the Company's sustainable growth.

On slide 9, we show the evolution of CAPEX. In 3Q23, investments amounted to R\$14.4 million, an increase of 20%, and in the full year, we invested R\$53 million, an increase of 70% compared to 2022.

I would like to highlight the entry in operation of AGVs in the sorting and shipping process, which are autonomous machines that carry out test without the need for human drivers. The factors we are advancing in towards greater productivity investing in collaborative robotics and the welding processes through technologies that allow robots to work together with human operators in a collaborative way.

On slide 10, I highlight the cash availability, which remained robust, ending September with a growth balance of R\$320 million and net cash of R\$113 million. I always like to point out that our business model makes it possible to quickly convert revenue into free cash flow. This allows the Company to continue investing. And at the same time, to compensate our shareholders. This quarter, we paid out R\$55 million between dividends and interest on capital, keeping our financial liquidity preserved.

On slide 18, I highlight the liquidity performance of our share capital tree, with average monthly financial volume closed had R\$15.2 million a day, an increase of 9% compared to December 2022.

On slide 12, we show ROIC for our 3Q23, which reached 50.6%, a set reduction of 56.9 p.p. compared to 3Q22. Unlike 2022 this year, we had a significant increase in CAPEX, mainly due to the new powder coating line together with a lower market price environment, leading to a decrease in our ROIC, but stabilizing at high levels and above the average for capital goods segment.

As mentioned earlier, on slide 13, we have the payment of R\$34.5 million in dividends and R\$20.4 million in interest on capital, paid on September 8 as a way to demonstrating our commitment to increasing shareholders' returns.

After more than a year of working involving the main areas of the Company and external consultants, on slide 14, I am pleased to share with you the definition of the 6 priority SDGs linked to the Company's strategy. Zero hunger and sustainable agriculture, health and wellbeing, clean and affordable energy, decent work and economic growth, action against global climate change, and peace, justice and effective institutions.

The SDGs are part of the 2030 agenda, a plan to eradicate poverty, protect the planet and ensure that people achieve prosperity. Thus, prioritizing the SDGs aligns Kepler with a global agenda facilitates an environment of innovation increases transparency and improves the communication of the impacts generated by our activities.

That concludes my part, and I turn over to Piero.

Piero Abbondi:

Thank you very much, Paulo. Before the Q&A session, I want to highlight the recent achievements and then comment on the outlook for the rest of 2023. Regarding recent achievements.

Firstly, we would like to point out that we had a solid quarter in terms of turnover and profitability, the second best 3Q in the Company's history as a result of the efforts made over the last few years, diversified segments and territories. Another payment of dividends and interest on capital, showing our commitment to delivering returns to our shareholders that are consistent with the generation of value from our business.

Inauguration or opening of the new power coating line with an investment of R\$33 million, the first in Brazil to work in this concept, which excels in the exceptional quality of the finishing of the product while at the same time, increases our care for operators and the environment.

As outlook for 2023, we have continued strong pace of grain production together with the lack of storage in Brazil, increases the pressure on production change and generates negative premiums on the price of agricultural commodities.

Growing demand for projects for corporate clients, mainly cooperatives and ports and terminals that will enable our operations to continue at a good level of activity. Well-structured, strategic and operational direction to build businesses with profitability at healthy levels, while carefully managing expenses and costs, leaving the Company prepared to continue growing in a sustainable manner.

I close here the main messages from the results of the 3Q23. Please, operator, we can proceed with the Q&A session.

André Mazini, Citibank:

Thank you for the call. Two questions. First on DCs and new geographies that you talked about. The question is whether these distribution standards have increased the market share that you have in silos. These new geographies, where are you placing them? And the presentation even shows the project of a silo in Balsas, it looks like it. And if you could explain how the DCs could increase share in a region for a greater trust of producers that will have both sales, better services after the silo have been placed, on a better brand recognition in the region.

Of course, Kepler started in the South, then Midwest, Brazil is very large, a continental size country. This promotes the brand. This effect, if it's like a "chiller" of the new region that has good services, post-sales or brand recognition. What other effects? If you could comment on that.

My second question is on competition. We see that the U.S. government is divesting in silos market globally. Does it make sense to an organic growth, or do you prefer to continue on organic growth? Thank you.

Paulo Polezi:

Andre, I am going to take the first one on the DC, and then I will turn it over to Piero to talk about the second question. This year pointed out quite well, we identified part of the answer. The DC has two strategic reasons: one is selling parts and the second is regional presence.

So we put our flag in Balsas, in Sorriso, and these customers that are deciding to buy a unit, they see that they have technical service, training for people that are going to operate the unit and they have planned items manufactured directly to Kepler customers. This is a perceived value that is quite important.

Data that proves this that we have this year, we have 3,256 customers served, a growth of 9% vis-a-vis last year. This geographical expansion gives us a relationship with a greater number of customers. with that more sales. I turn over to Piero to follow with the second answer.

Piero Abbondi:

Thank you, Andre, for your question. Speaking or talking about competition. First, I would like to say that Kepler has competitive advantages that are quite great. I am not going to mention my share, top of mind of the brand, complete portfolio coverage. And we are always working to maintain and expand our competitive margin or advantage in Brazil. Our goal is to continue in the next decade, continue being leaders in Brazil and Latin America.

As to your point on the U.S. competitors, yes, we always follow the moves of the competition, because we may have growth opportunities through acquisitions. We are following the moves and that was on the press that was a sign of strategic revision on their part, but we understand that it's much more to maintain the focus on their other operations that they are selling. It's more an internal thing.

We believe that it is important for us to evaluate those alternatives and see if they make sense to us. If they do make sense, we will certainly make a move. But this is very preliminary. So what we have in terms of information is that their operations are being evaluated strategically globally.

André Mazini, Citibank:

Thank you, Piero. If I could ask a brief third question, you have the Fiagro of the Company, 6 months, with the funding from BNDES. Speaking of this funding, Fiagro, interests are dropping, so real estate funds are being invested a lot. Do you see new Fiagros coming up helping the part of credit for buyers, and even those fundings for bricks that buy the silos themselves? I do not know if they already exist, if people separate or set out paper from brick. So do you have any Fiagro for bricks?

Paulo Polezi:

Thank you for your question, André. It's important what you are bringing up. I will answer in two parts. The first is the market we follow, and we agree with you. The Fiagro industry has grown a lot. It's been an instrument that is very much used and we have observed that the farmers themselves with large companies today have been seeking their own instruments.

Fiagro goes into a priority list of groups, investors, they are an instrument and this is happening, just as several other funding mechanisms, CRAs, CRIs, we have the Plano Safra, or the crop plant. But this is added to the instruments we have in capital markets. Fiagro is here to stay. There is a lot of easy access tools, and it's going to grow, and we are following it closely. This is the first part. It's doing very well.

Second, looking into Kepler, those following this videoconference of results, we have our own Fiagro. It's a fund that is closed, it's share agreement. So we have BTG Pactual, BNDES, so we have quota holders with R\$300 million fund. We tried to replicate as much as possible the Plano Safra plan, of course, the interest rate as a spread above the CDI. We cannot compete. It's a very competitive fund, the equipment and the construction work.

And to conclude, Andre, today we have a Copom interest rate meeting. So, since interest rates are dropping, drops the interest for search for our fund. We have about R\$100 million in our pipeline. So very closer with this slowing down of interest rates. So Kepler will be able to finance to our customers.

Piero Abbondi:

Perhaps, Paulo, I would like to add, because Andre talked about the two Fiagros, paper and brick Fiagros. Paulo answered quite well on paper. We were innovators, we were the first to be present to launch our own fund. We see the market having several funds, and we believe it's a good leverage for our segment, and a complement to PCA.

So speaking on rental fund for brick, this question always comes up in our calls, and we are following that up. We have some studies and projects underway. We have already seen some small initiatives actually with our own products with small rents and sort of a condominium, we believe very much in that.

We are also working towards being innovators and being in the forefront. It's relatively simple. It seems, but it has a complexity factor because it depends on equipment maintenance. It's not commodity equipment have to be a specific place. It has to have certain liquidity on the part of those that rent because there is any big fault and the rent must have the second, third or fourth client.

So we are very careful regarding that, but I believe that shortly, we will be able to bring good news on this opportunity that we believe is very important for us to further leverage our sales, and actually giving our customers opportunity to invest in a different way and having their storage plant.

Lucas Laghi, XP:

Good morning. Congratulations on your results. Some points I would like to explore with you, the first is regarding profitability. In the full quarter, we saw the strong revenue growth when we look at the 3Q, reflecting this expected stronger seasonality of the 2H of the year, based on the 1H that was relatively weak because of elections, margins affected.

Regarding profitability, despite these gains, especially in terms of SG&A, we saw an EBITDA margin that was stable compared to the 2Q. We see the effects of the extemporaneous credits. I would like to understand the main reasons for this smaller gross margin, which at the end is what justifies a stable margin in terms of EBITDA.

Thinking about some possible reason, thinking about products perhaps, unit prices lower than the 2Q, or cost reduction thinking about accounting of the quarter that showed this gross margin sequentially smaller, offset by cost reduction in the 3Q. Actually, I would like to ask the question of how we should think about the 4Q, another revenue growth for 4Q?

And the second question, we have seen last week the approval of *recibos*, and I would like to understand from you, if you can help us to quantify how relevant this program can be to encourage demand by silos, thinking about the forthcoming years in this context of high interest rates. These are the two questions I have.

Paulo Polezi:

Lucas, thank you for being with us and honoring our calls and asking questions, always attentive. Speaking of profitability, the first part of your question, actually, we had this quarter some revenue recognition that were extemporaneous, some financial fees, tax paid off. This is what we do every three years, and we end up capturing some benefits.

They were great, approximately R\$12 million in the quarter, and they helped boost even further the margin. Even without those benefits, we estimate about 1.5% to 2% of EBITDA margin. That would be a margin very much in line with this year's reality, quite healthy margin for the Company.

Moving into the second part of your question regarding profitability, first point, this year, we have explored materials a lot. We have the impact on the revenue, the change in the mix. We have been talking about the CNPJ or agri industries, vis-a-vis the individual tax ID, the CPF.

So the increase in the share of those corporate customers in our mix. So we end up having a difference in the margin. So prices do not change. We are at a very pricing stable environment. It still gives us stability. So there's a scale effect, but that's an effect purely of the mix. So there is no difference in our operations. The 2Q is quite similar. As we have an order portfolio that is more robust, it helps us to work on profitability. It's a bit of that.

So there's no change that deserves any greater attention. The market has been improving, prices provide stability, raw materials provide stability. So at the end what we have is the mix.

Piero Abbondi:

Paulo, I will take the opportunity and add to the question on the bill that we have underway. We are quite favorable regarding movements that improve competitiveness in Brazilian industry that helps close this gap in terms of storage. We believe it's a good initiative. We support it. We are following that up, not only ourselves, and we have our association, Abimaq, also following it so that it can be technically made well, the proposal.

What is important to remember is that it's still a bill. It has been approved in the commission of agriculture. There are still two commissions it has to go through to be voted in Plenary sessions, or Congress sessions.

We do not believe this should happen in the next months. Of course, it is an initiative that shows that the government and the legislative are concerned about this important pain of Brazilian agriculture, which is this deficit that we have featuring in all newspaper, was coverage of state Sao Paulo on Sunday.

And we, as a society, we as a company and in the industry should help bridge this gap and ensure that we do not leave any money on the table because with this deficit, we see there are losses to all in the chain.

Reinaldo Veríssimo & John Wine (via webcast):

Could we infer that great part of revenue orders because of the release of PCA will still happen in the 4Q23 and 1Q24? Therefore, the outlook would be a strong result in the forthcoming quarters.

Piero Abbondi:

Reinaldo, John, thank you for your question. I will talk a bit about the Plano Safra and PCA as a whole, not focusing so much on one quarter or another. Plano Safra has a record R\$6.6 billion, 30% over last year. When we follow here the amounts that are being released.

So we have a number around R\$1.2 billion already released. It's important information, reminding you that these funds well half goes to infrastructure at the plants and half to storage. So this is a relevant amount and a year of great need to expand storage as we have seen. Trying to infer how much will go into each quarter. That's more complex calculation.

The order entry has increased a lot since the turn in the 2H. We had an important effect of PCA or the Safra Plan, or the crop plan. What's important to say is that many times it's not matched. Producers of Plano Safra have a credit in their bank, and it takes months to be released. So farmers get the funds, and this helps the order entry indeed.

So what is really fostering, or bringing greater opportunities of boosting the market is the news of this Plano Safra, and releases happen over the year, but not necessarily they are always matching. And this is very positive. It helps. In the order and to say how much for each quarter, we will be able to tell you that later. But thank you for the question.

Ricardo Cosme & João Daronco, Suno Research (via webcast):

Good morning. initially, congratulations on the excellent results. On my side questions. First is referring segment of ports and terminals. We see investments that are relevant in the logistics sector in Brazil, a possible increase for outflow of grains up to 100 million tons in addition to certain government projections of doubling the railways by 2025. Could you comment a bit more how you see this segment in the mid-long term for the Company?

Bernardo Nogueira:

Thank you for your question. Ports and terminals are the essence of our thesis. We see the demand of food growing the world. Brazil is a protagonist, a leading player to provide that.

So we have to increase the railway system, and we have a growth of over 200% in the segment. And we keep on very confident that this is a trend. We have a very robust order portfolio of businesses closed in 2023 that will be invoiced over 2024. We start the year with an important proud for the segment. So we are answering your question very directly, yes, we are indeed very optimistic. Actually, this is very good for the logistic grade in Brazil, and we are very well positioned in this segment.

Piero Abbondi:

Just to add, we are an integral part of logistics. So we actually provide transfer, terminals from roads to rivers to seas. So the South grid with concession to Rumo, 2.5 years, led to investments of Rumo in two

terminals. One, Rio Verde, the other, Rondonópolis, where we participate in the supply of equipment to those two terminals. It shows clearly the investment in this segment.

And then speaking of Cerrado, the logic is to actually have the outflows through the Amazon River on the area of Mato Grosso state, Tocantins and north of Goiás state through the railway, the two areas that we see major investments in those areas.

So we are very much involved in those segments, not only in the short term, but also in the long term, because certainly, this growth of Brazilian agriculture that will take place in Cerrado for the outflow will need to use the North grid, and we have to have infrastructure built for that.

Daniel Hansson, Sweden Family Office (via webcast):

Good morning. Congratulations on your results. Can you talk about the working capital dynamics? The drop in inventory did not follow the drop in sales. Does it reflect a strategic price strategy, turnover, working capital or another influence?

Paulo Polezi:

Thank you for your question. Speaking of working capital, it's one of the competitive differentials that we have at Kepler at the year. Also, we work in detail all of the accounts payable, inventory, advanced payments every day, speaking on working capital from a year to date, it's improved, something that R\$10 million improvement, and we did have a reduction of R\$72 million in the account of inventory. It's smaller than the drop in sales basically because of price.

We work quite well, the management of the order portfolio. We work having matched deliveries having the raw materials in-house when we close the order in the contract. So we are always paying attention to customers so that the project be delivered at the time with quality. So it's important to have a good management to a customer that we had this drop that is basically adjustment of steel price that has been corrected.

So at the moment, to follow the growth in the portfolio that we see for the forthcoming quarters, we have a time of replenishing this inventory and to meet the demands of the next portfolio. For the next quarters, for a good reason, the trend is that we see a growth in this area, so to actually have the delivery for the growing order portfolio.

João Daronco, Suno Research (via webcast):

Kepler generates cash robustly year after year. I would like to hear a bit about how your minds are regarding investment of capital of the Company looking at forthcoming years.

Paulo Polezi:

João, thank you for the question. This is one of the subjects that we like to talk the most, the capital allocation, as it's one of our differentiation points. Our cash generation is very robust. So it's a business that has this the ability of converting EBITDA to free cash that is high, almost 1:1. So this gives us conditions to have several moments without stressing future capital of the Company.

So this is very important. These are examples for us to work on. We have, for example, CAPEX program, we have been investing more on modernizing the agriculture line, we do that with low need for leverage.

So working capital, as mentioned previously, we have to invest in working capital to meet a robust demand that is arriving. So we have this differential. We are going to have such a movement for better purchases better negotiation, this cash availability gives us a competitive advantage is quite big. So

when we look at other movements we had early this year, we had inorganic moves acquisition of Procer, we made the acquisition. We didn't need to leverage Kepler because of that.

So in our mind, further ahead is to continue that to keep on looking at opportunities, getting the best of this robust cash position and capital allocation. Obviously, if there are special projects, are there opportunities that come up, launch a product, investing more on innovation. All of this is on our radar, and the capital structure allows us to make those moves.

So just to conclude here, we have just gone through a period that was a long period of high interest rates. And Kepler goes through these periods relatively smoothly, again, because of our financial and robust financial conditions. And now with drop in interest rates, perhaps it's time for us to keep on leveraging more opportunities.

We are quite confident in our minds and use capital to support business growth.

Piero Abbondi:

I would just like to add, the past can explain the future. So over the past year, we have been distributing a good volume of dividends we are sharing with shareholders, the value generation with the Company, but we made a significant investments, both in our plant, as Paulo mentioned, the paints segment, and a series of investments in the plants, not only in capacity, but also improvements in productivity gains.

But also, we made acquisition of Procer. It's not a super significant volume to us, but it has been a volume of R\$50 million, and this also shows a competitive edge of Kepler. We are prepared. At a previous question, we talked about M&A. If there is an opportunity, we are prepared to have the levers to take part of a possible M&A.

This shows how careful the Company as along with the Board in managing the cash year-after-year, and this will allow us in the next years for Kepler to exercise this lever as one of its competitive margins.

Alessandro Menezes, Vista:

We understand the results of the 3Q22 were exceptional. With the slide of PCA in the release this year and a greater distribution relationship, we believe that there could be a maintenance of the level of margin, even if the level of invoicing dropped a bit. To which factors do you attribute the reduction in margins? How do you see these margins evolving for 2024?

Paulo Polezi:

Alessandro, thank you for your question. Quite important, we talked a bit about margin in the beginning with Lucas question. I think it's worth talking a bit more, and I will comment and Bernardo will help me in the answer.

I would like to start my side. Alessandro, saying that margin is something we always work on as priority. We always work to have the best margin possible considering the landscape. Today, we are working with stability of profitability that is quite attractive for a company of capital goods level around 20%, delivering almost 22% now. This is a bit our focus.

On my side, I will cover the part of expenses. I will leave Piero and Bernardo to talk a bit more about the strategy for expenses we have this view on details, every purchase what is done when the portfolio growth. We work on this future vision of profitability to work those levers better.

So when we have certain retraction, we are also able because it's a business that we have this benefit of looking the portfolio ahead on strategy of availability or not, yes, so we are able to make certain moves to control expenses, and planning that are more assertive so that we can have stability and margin growth as well. So to show you that margin is a priority to the Company, we are doing our best.

I turn over to Piero and Bernardo to complement it.

Bernardo Nogueira:

In addition to the discipline that we have, as Paulo said, we see the orders every Friday, we determine and value the best businesses to be carried out. It's important to talk about dynamics and market demand. We have noticed in 2023, our storage business moved from very necessary to the chain to critical. So high numbers and negative premium should be repeated in 2024.

Farmers in the whole chain perceived that and they invested in storage. This year, we have had over 419 works in 250 municipalities in 14 countries. This also shows a demand that is not specific throughout Brazil and the whole chain, with a focus that is huge in the agroindustry. So it's important to talk about industrialization, our Brazilian agriculture started in the past years, and it's speeding up quite a lot.

To give you an example, the production of ethanol moved from 2.6 billion liters to 6 billion liters in the past three years. We have stored every liter of ethanol produced, we need storage for that. These are things that were not present three years ago. So there's a very robust demand, and we conciliate this with a discipline that is quite big, and we can keep those margins.

And I turn it over to Piero to complement.

Piero Abbondi:

Thank you, Bernardo. Margin prices are the main assets of the organization as people with the plant and technology, the best management to price the margins, the priorities. So Bernardo and Paulo have talked about what we do internally. What I can add is that we have been maintaining margins, trying to maintain our margins equal or higher.

Obviously, with this the change in the steel price two years ago, there was a steep growth and then a drop. It is more difficult to manage because well, a stability of costs, but we have been trying to do that. Obviously, every segment and the main margin difference that we see in our results because of the mix because every segment has its own dynamic.

We have market segments and a margin to a brand and allow a margin that is a bit higher with price premiums that are bigger. So others are more technical, and then we have all this deeper analysis of steel price, previous year's cost and there's a whole dynamic. The end demand has put more pressure on our prices. But overall, we have been keeping for every segment, reasonably stable margins. And reminding you again where we have our competitive edge.

Kepler is a market leader with a major market share. So we try to exercise this influence to the market with this coverage and this presence and footprint that we have. So we, of course, depend on competitors, and we depend on the market, and for Kepler, it's important to have financial results that are healthy to continue serving this sector that has this huge deficit, and we need to deliver a large volume of our models to be able to meet this market demand.

Erico Salutti (via webcast):

Congratulations on your results. How does the Company evaluate the impact positively or negatively of the excess rainfall in the South of country, and the impact of future moves for the Company? Thank you.

Bernardo Nogueira:

Erico, thank you for your question. We follow closely this climate and weather event. This excess rainfall in the South, it was expected with the El Niño, the phenomenon. It will be positive for the South. We had

La Niña, we had drought in the South, Paraguay, Uruguay, Rio Grande do Sul and Paraná state, and this year, the rainfall has normalized, it's an excess. Now we are going to have a good crop.

The expectation is that the South of Brazil will recover the crops in the region. So the dynamics of Kepler has changed a lot compared to 10 years ago, along with Brazilian agriculture. It was very much concentrated in the Southern region and it has grown to Cerrado.

We have 250 municipalities, great footprint and we are operating throughout Brazil. So these seasonal shocks have a smaller impact, as we increase our diversification and resilience.

Renato Luiz Santos (via webcast):

Does Kepler think about continuing with the current dividend policy?

Paulo Polezi:

Renato, thank you for your question. We have a policy that is established. We do not have it, but the best way of explaining the way we work with dividends is going back to what I was saying regarding cash generation, how we work with capital allocation.

We always work with free cash, making all the investments and all our obligations the access, if there is no better opportunity, we will distribute dividends as we have done to this year to payment ordinary 1Q and advance payment in September. So as we continue with cash generation that is robust or visibility that this should change. The answer is yes. We will continue with this profile, paying investments as we have an opportunity that is better for the Company, we may make an adjustment.

But always, dividends are a consequence of a company that is great, that is generating cash with healthy profitability. We also have the dividend part that is present in our business model.

Guilherme Augusto (via webcast):

Both administrative expenses and sales expenses had a share of Procer that was highlighted in the release. What is the expectation of the Procer share from now onwards? Is it something that is going to be incorporated? Or can it be diluted?

Paulo Polezi:

Guilherme, thank you for your Procer's question. I will answer it in two parts. Procer is a business that grows in a fast way, and also has very attractive profitability. On average, higher than Kepler's itself. Investment that we believe very much in digitization, connectivity of customers. So it opens up many opportunities for business at Kepler. So when it's consolidated to us, it helps for us to have greater profitability. It adds to invoicing and costs and expenses, first part.

And the second part is, since it's a business that's growing a lot and fast, we will have times to expand hire teams, et cetera. We are going to manage that over time. But when you look and Mardo the Company. It is a business that indeed has greater profitability, a combination of revenue and expense that is as good as Kepler's. Now we have been working on that. Currently, it's helping and we believe that as it will continue growing, it will continue helping.

We are very happy with the acquisition. Since we acquired the Procer, there are many synergies taking place, and we are working in synchrony. And in our view, it was quite assertive to have Procer, and it will certainly help with the profitability of Kepler.

Operator:

The Q&A session is closed. We turn over to Mr. Piero Abbondi to make his closing remarks.

Piero Abbondi:

Very good. We have reached the end of our video conference, very happy to see the excellent questions. I thank you all for your participation, interest and for the excellent questions.

To wrap up, I would like to look with you the outlook expanded. If we look this last year, exactly at the same period, we had the landscape that was much more challenging. We had questions regarding interest rates, it was higher, farmers were more discouraged, their profitability. There was the Ukraine war, the impact of it, the impact on fertilizers and the landscape was much more challenging, especially 4Q22, 1Q23.

And we see the Company was very well positioned, robust, sustainable with footprint in different segments and responded quite well and it allows us to deliver such results. So this is the first important point.

If we look today comparatively to our position last year at the same time, the landscape is much more positive. In terms of our sales, we see a recovery. We have an outlook of much better portfolio, the macroeconomic scenario is much clearer, interest rates are dropping. There is more clarity. The profitability of farmers goes to a historical level and the deficit of storage that is huge on farmers.

Even if we have interest rates in Brazil for long term, investments that are quite high. The gains that farmers will have by investing in Silo plant that will certainly pay off the interest rates. It's not a matter of an absolute analysis, but relative analysis matter.

So we believe very much that this deficit will put great pressure on producers so that they can make historic investments. So what we see is scenario that is much clearer, better than last year.

And what does it mean to Kepler? It means that we are very optimistic regarding the forthcoming quarters, last quarter and the first of 2024. Then Kepler is prepared for the scenario. We are going to have better results, and we are prepared for a possible market growth, changes in the mix of segments, we have been investing in capacity. We have robust cash generation, which is very important for the Company.

We have been making major investments not only, as I said, in capacity, but improvement in operations and improvement in business productivity. In the commercial area, we have been making important moves of market coverage, operations. We talked about, our DCs, we talked about new products, processes in addition to all the new digital territory. We have a competitive differential in our core business, in customer service. So we have several fronts.

I would like to say that we are working to maintain and improve our competitive edge in the forthcoming years. We have all the conditions of doing that and delivering increasingly better and more robust results.

So somehow, we are optimistic. We are moving on to 4Q, we are already thinking about 2024. We are working on our budget to prepare for this new year that we believe will be better than 2023.

Thank you all very much for your interest in our Company, and I will see you in three months' time at our next video conference of our results. Thank you very much. Have a good day.

Operator:

The Kepler Weber video conference is closed. If you have any questions, you please submit your questions to the Investor Relations group through the e-mail ri.kepler@kepler.com.br. We thank you all for your participation and wish you a very good day.