

Operator:

Good morning, ladies and gentlemen. Welcome to the conference call of Tupy S.A. for the earnings for 1Q24.

This conference call is being recorded, and the replay can be accessed at the Company's website at ri.tupy.com.br. The presentation is also available for download on the platform and on the IR site.

All the participants will be in the listen mode only during the presentation, and after that, we will begin the Q&A session, when further instructions will be supplied. The presentation is being recorded and translated. It is available through the interpretation button. For those who want to hear in English, you can silence the original audio clicking on 'mute original audio'.

Before continuing, I would like to reinforce that the declarations are based on beliefs of the management of Tupy and information currently available to the Company. These declarations may involve risks and uncertainties because they refer to future events and therefore, depend on circumstances that may or may not occur. Investors, analysts, and journalists should bear in mind that events related to the macroeconomic environment, the segment, and other factors may result in different results from those expressed in the declarations made here. We have with us here in this conference, Mr. Fernando Cestari, Mr. Rodrigo Périco, CFO, and the IR team.

Now, I would like to pass the floor to Mr. Fernando, who will begin the presentation. You may begin, sir.

Fernando Cestari de Rizzo:

Good morning. Thank you. I would like to thank you for your presence.

This quarter, we continued with discipline in executing our strategic agenda. We carried out many cost-cutting exercises, apart from optimizing the organizational structure. In the last few years, we made important acquisitions and we are operating with a structure that has surplus capacity and overlapping of areas. This integration with costs associated and with modest volumes and unfavorable exchange rate have had an impact.

In comparison with 1Q23, these external factors had an impact on EBITDA, R\$130 million in this quarter. These effects were compensated by an internal agenda aimed at capturing efficiency and also synergies. The Company is very lean and prepared for the recovery as of 2025 in the volumes.

The net revenue reached R\$2.6 billion with a drop of 7% in comparison with 1Q23. This performance represents lower volume, especially due to the normalization in heavy trucks abroad. This scenario began in 2023, which had very high sales for trucks and lower demand for off-road applications, especially due to a worsening in agribusiness.

Also, we have observed a better product mix and more services with value added. The adjusted EBITDA represented R\$308 million with a margin of 11.9%, 70 bps higher than last year, reflecting initiatives of the Company in an environment that is still challenging. Net profit was R\$112 million.

On the next slide, we have a synthesis of our operational strategy, which becomes more relevant when there is fluctuation in demand. Tupy has performed an important role as consolidating in the industry and also fostering industry. The acquisitions represent assets that do not have an adequate allocation, with higher costs in CAPEX.

On the next slide, we are optimizing synergies and optimizing the allocation of products to the different plants, bearing in mind availability and cost. This is a complex process, involves the transfer of equipment and approvals, but will contribute to reduce fixed costs and variable costs, apart from CAPEX. Naturally, our current margins do not reflect the actions that we are carrying out.

On the next slide, we can see operational cash, which reached R\$121 million in 1Q24, the best performance of the Company in our 1Q. This performance is even more significant if we bear in mind that due to seasonal factors, the beginning of the year is characterized by cash consumption by operations.

As with recent quarters, we are giving priority to cash management. And thus, we stopped some lines, which have a great impact due to less cost dilution. We reduced inventory, which helped to have a better result in the Company's cash.

Now to talk about the main indicators, I pass the floor to Rodrigo, our CFO.

Rodrigo Périco:

Thank you, Fernando. Good morning. The revenue had a drop of 7% in comparison with the same period of the previous year, reaching R\$2.6 billion. 44% had origin in North America, 37% in South America and Central America, 17% in Europe and 2% in Asia, Africa and Oceania.

The division of this revenue, 87% came from structural components and manufacturing contracts, which are products in cast iron and services with high value-added services, and 66% had origin in energy and decarbonization. For example, generator sets, our own engines, naval applications, lighting towers, products and services related to decarbonization. 7%, remaining 7% came from distribution, which considers the revenue with replacement parts from MWM and hydraulic products.

On the next slide, in the domestic market, the revenue from structural equipment and contracts for manufacturing were impacted by the lower production of commercial vehicles. Revenue from foreign markets represented a drop due to more cautious clients. Clients being more cautious and also a drop in agriculture results and also a drop in off-road machines. The production of trucks, especially heavy trucks also had a drop in comparison with 2023. Last year, the sales were very high. And finally, the products with higher value-added, represented 44%.

On the next slide, we had the performance of the unit for energy and decarbonization, which includes our own engines, naval applications, lighting towers, and products and services related to decarbonization. The segment had a drop of 15% in Brazil and 26% in the foreign market due to lower sales of engines used especially in agribusiness, and a lower volume in exports. This represented 13% in the domestic market and 2% abroad.

On the next slide, we show the units of distribution, which has replacement parts of MWM and hydraulic products. In Brazil, the sales of this unit correspond to 13% of the revenue in the domestic market and had a drop of 12%. Replacement parts were affected by stops due to a new software for warehouse management. This will be recovered during 2024. Hydraulic products had an impact due to lower volume of industrial construction and a drop in exports.

Going on to the next slide, the cost of products sold had a drop of 7%, maintaining gross margin. And despite the reduction in volumes, appreciation of the Mexican Peso, and inflation in labor and services mitigated by our initiatives in cost cutting. Operational expenses had a

drop of 13% in comparison with 1Q23 due to renegotiation of contracts, reduction in volumes and the capture of synergies.

Continuing the presentation on the upper part, adjusted EBITDA reached R\$208 million in 1Q24. The margin in relation to revenue reached 11.9% in comparison with 11.2% in the same period in the previous year. We continue capturing synergies from acquisitions and also a better performance.

The relation of expenses and contract negotiations with clients and suppliers compensated factors, which had a relevant impact. We also had lower expenses. On the upper part, we see net profit R\$112 million in the quarter, with a net margin of 4%. The comparison was impacted by the exchange rate effect.

On the next slide, we have financial results in the period. A drop in financial expenses is due especially to the drop of the interest rates in an appreciation of the exchange rates with a lower impact on interest, debentures, and bonds. Now financial revenues in the period reached R\$31 million greater and higher than previous years. Now in exchange rate variation, we added an expense of R\$5 million due to result in hedges, hedging activities and variations in equity.

On the next slide, we have the variations, the main variations in working capital. In accounts receivable, an increase of R\$116 million due to seasonality and also exchange rate variation of receivables in foreign currency. In inventory, the increase was R\$29 million, especially due to exchange rate variation and increase in the volume of products being produced and despite actions to reduce inventory in operations.

In the comparison with 1Q23, the inventories dropped by R\$196 million, with a drop of 9%. In accounts payable, the increase was at R\$35 million being affected by many initiatives with management and talking to suppliers, and also the appraisal of foreign exchange rates, which represented 33%.

Finally, the net debt in the quarter was R\$2.4 billion. Our payments in foreign currency represented 65% of the total cash, 39% was in local currency. We closed March 2024 with a cash position better than in December. The R\$1.9 billion better.

Now, I would like to pass the floor to Fernando, who will make his final comments.

Fernando Cestari de Rizzo:

Thank you, Rodrigo. In the next few slides, I will share our vision concerning the main markets where we are beginning with structural components and manufacturing.

In the domestic market, after a year with bad performance, the projections for the recovery of heavy vehicles are being confirmed. The production of trucks, according to Anfavea, rose 29%, but the volume is still lower than in 2021, 2022. Investments in infrastructure, together with lower interest rates and improvement in agribusiness should contribute with the growth of sales in the next few years.

Off-road applications were affected, especially due to the performance of agribusiness, climate problems and the drop in international prices for commodities, higher than 20% have impacted the revenue of farms. And with this, the demand for trucks and agricultural machines has dropped.

Now in 2024, in the domestic market, we see a normalization of sales. Clients continue adjusting their inventories, and we would like to say that this is due to the very high sales in

the previous years. The sales of trucks, Class 8 in the U.S., for example, were 20% higher than the average of sales in the last 10 years. This happened in the previous year.

Also, we have a research company called ACT and some clients have increased their projections for the truck production in 2024. Our clients are all confirming high recoveries in 2025 due to programs for infrastructure and pre-buy of trucks and also emissions. The recovery in the sales of Class 8 trucks should benefit a lot Tupy, which won relevant contracts and will increase its share in this segment as of the next year.

Now, the off-road machines have been affected by the global performance of agribusiness with lower investments for agribusiness due to the economic activity in China, and nonresidential construction in segments such as generators for data centers should continue to grow during the year. The combination of the competencies of Tupy and MWM have brought the interest of OEMs to outsource services. Many OEMs announced investments in Brazil to outsource their services and are talking to us.

On the next slide, we see business opportunities, which began at MWM. In aftermarket, we have expanded our portfolio in diesel engines of all the brands, including naval engines. With the acquisition, we are leaders in Brazil for generator sets used as backup for energy in many applications such as residential and commercial buildings, logistics, warehouses, hospitals, data centers and rural properties.

During its 70 years, MWM has brought solutions for agribusiness in Brazil, beginning with diesel engines. The portfolio was increased, offering engines and generators with biogas and biomethane, evolving from greater solutions that were shown in our trade show called Agrishow. This trade fair is the largest every year in Brazil and received 195,000 people in 2024.

We announced our ethanol engine, a solution that will contribute to decarbonize and reduce costs in important segments in agribusiness. And also, there was a lot of interest in our solutions for irrigation pumps, generators, and initiatives for vehicle transformation.

We understand in agricultural equipment, cargo transportation should use fuels that are available in Brazil from biomass that is used very little until now and sometimes thrown away. That's why we are investing in research and development for the combustion of biofuels and working with our clients in Agri to develop efficient solutions, economic solutions, and clean solutions.

In March, we announced the expansion of the agreement with Primato and the project with Rancho da Lua. We have relevant negotiations for new projects on an even greater scale. The projects announced recently show that we are on the right track, long-term contracts with margins that are higher than the traditional businesses of the Company.

On the next slide, I want to talk about sustainability. The management of environmental factors, social factors and governance factors are integrated in our strategy and our business. Recently, MSCI Agency raised the ESG rating of the Company. The upgrade reflects the recognition of the evolution of our practices and our commitment with the integration of systems. Tupy also has the classification low risk by Sustainalytics. Last month, we produced a sustainability report.

And I would like to highlight actions. For example, the first census for diversity and social responsibility impacting more than 19,000 people in the communities where we are present. Please access the document which is available in our IR website and has details of new business, explaining services and products that contribute for decarbonization of the networks where we are present.

I thank you, and now we will begin the Q&A session. Thank you.

Luiz Capistrano, Itaú BBA:

Good morning. Thank you for the space. I would like to hear more about two topics. First, domestic market. The growth we see in truck production, 30% growth from January to April, do you believe this will continue during the rest of the year, the 30% increase in truck production?

And also, agribusiness in Brazil, the demand for equipment. Have you felt return and recovery of the demand? We know that last year, things were difficult.

And also, margins. You mentioned once again about synergies. So, do you believe we will see the results of these synergies on margins this year? Thank you.

Fernando Cestari de Rizzo:

Good morning, Luiz. Thank you for the question. Concerning the truck market, we see that the market will have 20%, 25% growth in relation to last year. We have seen fluctuations, but there are many factors that affect this: the strength of agribusiness, the interest rate. So, we are working with a growth of 20%, 25% this year.

Concerning agro, when you look at our data on decarbonization in products that we sell, these are engines that we sell for small agricultural machines for seeding, which need an engine. And in this segment, we had a drop. And this was the drop in decarbonization. We are not seeing a reaction yet, but we might see this year because there is inventory in the system, and we need a change.

In terms of synergies, what you said is very relevant. And we have seen this a lot in the last calls and conversations with analysts. So, it's important to observe, we have low volumes right now, relatively low volumes. We are operating with a company that has all the acquisitions. So, we have more equipment than we would need for the volume we have today, and surplus capacity. We are reallocating products. We are transferring products between plants.

We saw a diagram that shows this. And we have seen a relevant competitive edge in relation to countries. We see the Peso appreciating, Peso has continued to rise in value. All of this has created a complex scenario in terms of production cost, but the Company has delivered stable margins.

When I look at some market projections, they do not reflect actions we have made because we went through all of this in the pandemic. If you go back to 2018, 2019 to make these adjustments, we have this strategy, and now we are going through a period when we buy portfolios, when we acquire companies, but we also are buying surplus capacity.

We estimate that this will take 3, 4 years to capture all the synergies. So, we are in the middle of this journey, but this journey has become more difficult to buy an exchange rate that appreciated volumes that dropped more than we expected, but we have reacted. We have carried out many actions to reduce cost and maintain margins.

And we are still focused on cash generation. To generate cash, we have to reduce inventory and reduce production. When we reduce production, the dilution of cost suffers. We are generating cash, which we hadn't done in the previous quarters, and we are maintaining the margins, which is not the standard that the Company wants.

Tupy operated with 14%, 15% margin before these acquisitions. And what we estimate at the end of this process is that we will stabilize the Company's margin.

On your question about this year, it's difficult to say about this year. Things are happening. Our internal agenda, what is under our control. It's being done, an expense of R\$16 million, for example, in 1Q to reduce costs.

Cost reduction has a cost in the beginning. We are continuing with this agenda in spite of the difficulties we are going through, in terms of volume and exchange rate problems. We will continue making progress.

What can happen this year, for example, sometimes clients have inventory, and they stopped buying. And when they stop buying for a period to adjust their inventory, the manufacturers received the whip factor. It affects us. We are still in this process. I trust that 2025 will be much better than 2024, with better volumes and the conclusion of our cost reduction programs. But there is a possibility of seeing an improvement in the 2H24.

André Ferreira, Bradesco:

Good morning. Thank you for taking my questions. I have two questions, the first in relation to structural components and manufacturing contracts. This quarter, we saw once again machining products growing to 44% of the revenue. What do you expect in terms of the expansion of these contracts in your main contracts, machining, and assembly? And how much do you think this will grow, these 44% of machined and assembled products in 2 years? Are you expecting larger contracts with biomethane fuel?

And please talk about new contracts. Are these contracts in agro, or do you have expansion for other types of fuels too?

Fernando Cestari de Rizzo:

André, thank you for the question. Let me try to accelerate. Manufacturing contracts, we will continue to see growth, yes, because as our sales grow in Brazil. What happened in 2023. Sales in Brazil have a greater content of value-added services. There is more machining and assembly for products in Brazil. So, this year, the market will be a 25% growth. This even growing 20%, 25%, volumes will be lower than the previous 2 years.

Brazil is a market that will have more truck sales in the future with all the growth of agro and infrastructure. So, this will happen in the next few years. We are very optimistic because the CAPEX that you see in the Company in 2023, 2024 is for manufacturing contracts. These are the contracts we announced at the beginning of last year, part of them in Brazil. for pickup trucks to be made in South America.

We are making engine blocks, totally preassembled and machined, and especially a large project in Mexico for 2 OEMs of Class 8 trucks that will transfer their production from Europe to North America, and we will be the suppliers of engine blocks heads that are machined, and that's why this will create a great leverage as of 2025. Our CAPEX is around R\$200 million to R\$230 million. This is to maintain the Company the way it is. All the difference above this are projects that we are investing in.

In 2023, 2024, the main part of this difference is for these new projects for manufacturing and value adding. So, I insist, we are building a new Tupy that will be very strong in the next few years.

So, the results that we have maintained with the drop in sales shows this, but the new contracts we have, and we are working to develop products and building these plants will have a greater leverage in the future. Concerning bio plants, I was very happy with your question.

What we announced, I can tell you, these are relatively small projects because now we are discussing with the main meat packing plants, the large meat packing plants, which have the greatest production of pork and poultry. So, we will be working with focus on these areas because we have a solution that is truly necessary for decarbonization of these companies. So, we should make announcements during this year, many negotiations in progress.

Also, I would like to highlight these are expenses that we had since 2023 to develop this business in the Company. These expenses are affecting our current margins, and we have not had a corresponding revenue.

We will inaugurate our first plant in the middle of the year, bio plant, our partnership with Primato in Parana. And next, during this year, we should talk to you about much larger projects linked to these biofuels. We cannot announce yet because we are still discussing, calculating the revenue, the location of these projects. But I can tell you that this has brought a lot of attention from the large players in Brazil using biofuels, and also, the improvement of the Company's traditional business.

André Mazini, Citibank:

Good morning. The Chinese are investing a lot in Brazil. Great Wall, Chery, BYD, and many talk about ethanol engines for them. You have the product, ultra-light iron blocks. So please talk about your participation in light vehicles.

And linked to this, Tupy had more products for light vehicles in the past, and the Company today works more with heavy vehicles. So, why did you decrease products for light machines? Are the margins lower? Are they cyclic? Please explain.

Fernando Cestari de Rizzo:

André, going back in history, in 2005, 2006, we worked mainly with light vehicles. These were contracts where we had more fluctuation in prices and exchange rate. Also, engines for light vehicles are consumption goods. So, there are more problems with demand. At the time, the Company had some restrictions, and we decided to look at sectors that were essential for society and with long-term growth. So, cargo transportation, infrastructure, and food production.

As of 2006, we decided to make some acquisitions that would make us become the main partner of truck manufacturers. In Asia, they have integrated companies. Here, they are not integrated. And then came the idea of MWM, the acquisition of MWM. We are today the main partners for agricultural machines and cargo transportation. So, we said we will add value and thus, we made the acquisition of MWM. So, we see growth in this sector.

When we look at decarbonization and its challenges, the product that was substituting was aluminum. Aluminum has an energy content that is much higher, for example, an aluminum engine block for cars contains 6 to 8x more energy to be manufactured, the aluminum engine block, because it's not a clean process, it's not clean energy.

And now we have a new opportunity with this our technology. We can make an iron block that is as light as aluminum. And we have technology to do this. That's when we launched ultralight iron.

This was developed with Ricardo a company in the U.K. that manufactures the engines for McLaren. So, we are working with them to do this. This product is ready. And today, we have an open negotiation with many OEMs in Brazil to convert aluminum products to iron or develop new products with ultra-light iron. We do not have projects to announce yet, and the impact we may have from this business will come, I estimate, in 2 to 4 years. But yes, it has a smaller carbon footprint. It's cheaper for the OEM. And in the same package, it can generate more power than with aluminum.

So, this is the logic. And we believe that when biofuels become the main reference, and the calculation of the industry looking from cradle to grave, when they analyze the costs from cradle to grave, this product should have more interest. We do not have anything to announce yet, but that's the idea.

André Mazini:

Very clear. Thank you. Can you talk more about the new standard of emissions in the U.S. from the EPA 2027, 2028? It depends on the weight of the vehicle. Do you believe this pre-buy will be as important as in 5 and 6?

Fernando Cestari de Rizzo:

Yes, there will be a pre-buy in 2025, 2 years of pre-buy for the new emissions. What's happening is the following: it's growing. The world is growing. This growth needs transportation. The solutions that were ready, they are not ready, and they are very expensive.

So, what we see, we see 2025, 2026 with very high sales of trucks in the U.S. Our market share will grow in 2025, 2026. And yes, this fleet has to be substituted. The new trucks, the new engines that we have developed with our clients, all of them have a better consumption of fuel, 8% to 10% more efficient in fuel than the current trucks. So, this is very relevant carbon footprint, efficiency, and operational costs of these new engines.

That's why we believe there will be a great economic advantage in substituting these trucks in 2025, 2026. And we are preparing the Company to really use this opportunity.

Fernanda Urbano, XP:

Good morning. Thank you. My question is about the same point, demand from the U.S. As you mentioned, thinking of the short-term, before this period of pre-buy due to the change in legislation, you mentioned that you are reviewing truck production. Can you talk about the demand in this segment, trucks and also in agro, and residential and nonresidential construction in the U.S? Thank you.

Fernando Cestari de Rizzo:

Good morning. This year it's difficult to identify because we see many OEMs adjusting inventory, stopping production. When an OEM stops production for 3 weeks, we do not deliver for 3 weeks. We do not have a uniform effect.

What we believe is that 1Q, 2Q should be worse, we should see an improvement in 3Q, 4Q. It depends on the interest rates. Interest rates affect purchases. We heard from some clients, in the conferences of some clients, they said "we are waiting to see what will happen with truck production". The interest rates are high for investments, buyers are expecting discounts.

What I can say is that our clients are asking us to be ready for a strong 2025. Agro, we still see commodity prices very low in agribusiness in comparison with historical levels, and the farmers revenue has dropped, and substitution of machines is not high. We see difficult times.

In residential construction, the machines are selling not very well, but we see a lot of strength in large equipment, large engines for large machines in nonresidential construction for infrastructure, and also this sector should grow a lot in the next few years and will affect us in the following way.

The demand for data centers. The new data centers, due to artificial intelligence and so forth, there will be a great need for data processing, and they will need many engines, many generator sets. They need 3 sources of energy, one of them is diesel. Many generators, many machines, and the demand for these products is very high in the next few years.

This will affect our business, supplying large parts for the large manufacturers of engines in the U.S. and Europe, and will affect our business also in generator sets in South America, too, with additional sales.

Andressa Varotto, UBS:

Good morning. Thank you. We heard the main points. I would like to talk about distribution. This nonrecurring impact of R\$20 million, you mentioned lower demand. So, perspectives for this year, bearing in mind that we thought there would be more growth, especially in 2025. So, I would like to better understand how you see this drop this year and growth of the segment in the future.

Fernando Cestari de Rizzo:

Andressa, thank you. When we show distribution, we are talking about 2 different businesses: replacement parts for MWM and hydraulic connections, which is a traditional business. Connections linked to construction and growth in Europe, in some regions, exports are suffering. This is the area that suffered.

When we look at replacement parts, this area is growing this year. Replacement parts is growing. We changed software. We had a change in software that affected our capacity to bill. That was in January, a new software for warehouse management, but daily rates of sales are better than last year. We will close in a better way as we said in the beginning.

So, we continue to advance with new products. We launched 3 product lines: genuine MWM parts, alternative parts for engines, and a line for all the other engines in Brazil. Many components. And there, we see a lot of growth and should grow even more. Apart from this, we continue studying ways to sell products that have more value added.

We are working on this. We have not launched yet. We want to offer more elaborate products. We are short blocks preassembled. So in Brazil, these vehicles stop for weeks for a new engine, agricultural machines, and also harvesting machines. It takes weeks to redo the engine.

And in other regions, when this equipment stops, they change the engine in 1 day. So, we are working on this to create solutions with more value. Why? When we combine distribution, MWM brand, our engineering, and the capacity we have in our plants, we will be able to help to redo these engines, supply redone engines. And we have given priority to CAPEX for replacement parts and decarbonization. Why? Because these have a quick payback, better margins.

And we foresee a lot of growth in these areas with biofuels. We are well-protected to be able to grow in the future because we have the set of assets in bio plants and also replacement. When we combine distribution, the Company's brand, our engineering, our plants, and the knowledge we have in engines to test these engines before selling to agro to substitute existing engines with problems.

The Company will have great conditions to capture most of this market, which is a new market in Brazil, and it will be similar to what happened in the U.S. and Europe, where the equipment does not stop for long periods.

And also, we talked about ethanol engines and biomethane. This is to substitute existing engines that are in operation in Brazil. Also there, we are beginning to see an interest, a greater growth for this, especially in agro, in pumps and also truck engines in the farms, and now to substitute tractor engines where the ethanol producer, the biomethane producer can use their own fuel in their equipment.

So we are dedicated to this, and we are talking to the large ethanol mills in Brazil, and we will make interesting announcements this year in this area. Agrishow trade fair was the first.

Gabriel Frazão, Bank of America:

Good morning. Thank you for the space. I have a question on recovery of prices in manufacturing contracts, especially recovery due to inflation and the appreciation of the exchange rate. How much space do you have to increase prices due to increases in costs in the last few quarters?

Fernando Cestari de Rizzo:

Thank you, Gabriel. It's a relevant topic. Our prices are not in line with the exchange rate. Yes, we have to recover prices in Brazil and especially in Mexico. Mexico has become a challenge for companies there because we have contracts for supply to the U.S., in U.S. currency, but most of the expenses are in Pesos.

So, the wages have grown in Mexico. In the last 4 years, we had an appreciation of the Peso by 14% with a local inflation of 22% in Mexico. This has brought many difficulties to companies. So, we need to recover prices.

I can tell you, in contracts that we foresee, these price increases will come, others are being negotiated, and it depends on alternatives we have, for example, reallocation of products. When we do the acquisitions, we have a lot of capacity available. I can send production to other plants.

Yes, we are increasing prices according to our contracts. But apart from this, we need to reduce the Company's costs to produce the same volume we have produced, and we know this volume will grow. So, in a year, we should be producing the same thing with a better cost than today. And on the other hand, we will need a period to recover this revenue.

What happened in 2H23? Inflation in Brazil and in Mexico was higher. Inflation was higher in Mexico. Wages have gone up, the exchange rate is high, and there is a lot of investment in Mexico due to nearshoring. This creates difficulties for our operation.

And going back to our topic in the call, looking at the margins we have been able to preserve with all these problems, these scenarios, we see a much better scenario in the future, and we have been able to maintain the margins at 11%, 12% because everything we are investing with expenses, CAPEX is to increase this margin as of 2025.

Marcelo Motta, JPMorgan:

Good morning. One question. Please comment on government incentives. Brazil is trying to reindustrialize its plants, its industry. Is there any use of government incentives to help the profitability, not only Tupy but the whole sector?

Fernando Cestari de Rizzo:

Thank you for the question, Marcelo. I will give you an example. We are we are eligible for the Mover project. Mover has a good clause. Yesterday, an announcement was made for hybrid engines from Europe to Brazil. And similar to this is what we are doing, our capacity to bring used machines from abroad for foundries or assembly machining, our capacity to bring used tools to Brazil facilitates a lot the reallocation of products to different plants.

Yes, we have participated a lot, talking to the government, BNDES, to talk about possible alternatives to generate value. Brazil is more competitive than Mexico today. This is becoming clear. You can see the indicators. So, we are using this opportunity in plants where we have surplus capacity due to acquisitions.

For example, the plant in Joinville has excellent production, Tupy uses a lot the government finance lines from FINEP. Although we have high expenses to develop these new initiatives, R\$50 million to R\$60 million a year, these financing lines were for example, for R&D and ultra-light iron, combustion of biofuels, because Brazil has to work with the fuels we have here. So Brazilian trucks should work, and also tractors should work with fuels we have in Brazil.

So, we are working in this direction. We are sure that with the pressure for decarbonization, we can bring a decarbonization that will lower the costs, different from other projects like SAF. SAF is more expensive than kerosene. When you put biomethane or ethanol in a truck, you lower the operational expenses of the truck.

Also, we are working with the Fuel of the Future. We are collaborating in the construction because it makes sense for Brazil, and we need companies ready in Brazil to offer solutions using these fuels.

So, we use engines that are developed for the U.S. and Europe with the fuels that are used there. This will be questioned and we need solutions that are adequate for Brazil, based on what we have available in Brazil.

MWM is working in this direction, but yes, the government's programs will help us a lot to bring production lines. This represents low CAPEX, low expenses, manufacturing in the best locations, generating jobs.

Ygor Araujo, Genial:

Fernando, I would like to go back to the point that you mentioned on data centers. I would like to understand, do you know what percentage goes to engines for data centers? I know it's difficult to measure. What kind of revenue will come? And also, whether you know the size of this market, engines for data centers for generators. This would help us a lot. Thank you.

Fernando Cestari de Rizzo:

Ygor, good morning. This is allocated in what we call off-road. Why? The same engine for the data center is the engine that goes for mining, large-sized construction engines. These

machines for moving earth, engines from 40 to 100 liters, very large engines, and generators also use these engines, the supply backup energy.

We have seen great investments, Google, Microsoft, large investments. Our clients that manufacture generators in the U.S. are partners of these companies. They manufacture engines for large construction, naval engines. This is the class of engines for these large data centers that will operate with artificial intelligence.

So they are thinking of changing the fuel. They do not want diesel, but they need backup energy. They are thinking of biodiesel until SAF. There are initiatives. We also see river transportation with fuel substitution in engines. So that's the market. We are under pressure. There are Americans, European companies that manufacture large engines, and we supply to them, and they are reserving capacity for decades.

So that's how things are, because to increase the production of this equipment is not easy. You need very large engines for machining, but they are preparing themselves for this demand, and we are working with them.

On the other hand, in MWM, our generator sets, these data center solutions are very complex. The engine takes 20 to 40 seconds to be turned on, and the data centers need immediate energy. So, for this, you need a battery system, too. We work with batteries too. We redo batteries. We recycle batteries.

We have visited data centers in Brazil, but for artificial intelligence, they will need larger data centers, to understand how we can adjust our products generators for these needs. But yes, we are looking at these projects. We have some products that we are supplying, and we see a lot of growth in the future. I hope I helped you.

Ygor Araujo:

Perfect. Thank you. I know it's difficult to quantify. We look a lot at Caterpillar. This part on energy was the only one that grew in Caterpillar, but you helped us.

Fernando Cestari de Rizzo:

There's Caterpillar, Cummins, MAN, Enion that acquired General Electric engines. These are engines the size of locomotives. This is happening because they know there will be a lot of demand in the future.

Ygor Araujo:

That's why I asked. On one hand, you have infrastructure with drops, but you have a boom in artificial intelligence.

Fernando Cestari de Rizzo:

There's a lot of money being allocated. Petrobras made an investment in a data center recently. This is new market for fuels, for engines.

Operator:

The Q&A session is concluded. We would like to pass the floor to Mr. Fernando for his final comments for the Company.

Fernando Cestari de Rizzo:

Thank you very much for participating. I would like to highlight some points. When we made our acquisitions, we knew we had a period to capture the benefits, 4 years to capture the benefits, optimizing the structure, allocating products to the best plants. This takes time, and also involves expenses initially. All of this is happening in a challenging period with unfavorable volumes, which have impacted our EBITDA. We estimated R\$130 million effect in comparison with 1Q23.

All of this makes things more difficult, but we have been able to maintain margins, especially when we compare the margins of the acquisitions. The 2 acquisitions we made came from margins that were 3% to 6%. We are being able to maintain, with all the problems, our margins. The Company is doing well. The Company is preparing itself and we are making decisions today that are affecting our margins today, looking at the future.

So, when we make projections, we see better times in the future than we have today. We are generating cash with many commercial actions, also cutting expenses, and managing working capital.

We had an important recovery in the domestic market that will affect our business in a positive way, especially manufacturing contracts at MWM. And for 2025, our clients are saying we will have a strong recovery in heavy trucks in the U.S.

So, this combination of growth with a lighter structure, a more efficient structure will contribute to elevate margins, and we are making these investments for a new level. And our vision isn't being priced by the market.

So, in terms of new business, we have talked to the main players in agribusiness. Our solutions linked to pumps generators and circular economy have and will generate much more demand in the future, especially by participating in the trade fairs Agrishow, for example, this area will grow a lot. And MWM has a strong link to agribusiness. Apart from this, replacement also has high margins and a great potential for growth for Tupy. This will create a lot of value for us in the next few years.

Thank you very much for participating. We wish you a good day. Thank you.

Operator:

The conference call of Tupy is concluded. We thank you for participating, and we wish you a good day.

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