



**International Conference Call  
TUPY S/A (TUPY3)  
4Q22 Earnings Results  
March 28<sup>th</sup>, 2023**

**Operator:** Good morning, thank you very much for waiting. Welcome to the conference call for earnings for Q4 2022 for Tupy.

All the participants are in the listen mode only and later on there will be a Q&A session when further instructions will be given. If necessary, please request the help of an operator during the conference call, dial \*0. This conference call is being recorded.

The company would like to remind you that this event is also being transmitted simultaneously through the internet via webcast and can be accessed at the address [www.tupy.com.br/RI](http://www.tupy.com.br/RI) where you will find the presentation. The slide selection will be controlled by the participants.

Tupy clarifies that any declarations made during this conference call on business perspectives, projections or operational goals, financial goals concerning the company's business or forecast based on the expectations of the management in relation to the future of the company. These expectations are highly dependent on market conditions, both domestic and international, the economic performance and are subject to change.

With us we have today Mr. Fernando Cestari de Rizzo, CEO, and Mr. Thiago Struminski, CFO.

Mr. Fernando, you may proceed.

**Fernando Rizzo:** Good morning, thank you for your presence.

We will begin talking about the results and the main achievements of 2022. 2022 was a year of transformation, we consolidated the operations of Teksid, and we announced the acquisition of MWM. We were also able to have new businesses which increased revenue and profitability of the company now and for the next few years. This intensity of movements had a clear objective: make Tupy a larger, more efficient, more diversified company generating more value. It was also a year of challenges, the impacts of the COVID-19, the conflict in Eastern Europe and lockdown in China had an impact on production chains. These factors also caused clients to have unplanned production stops, this affected our revenue and margins and increased the need for working capital. This creates inefficiency, we prepare the company for a scenario and we had a different one. For this, even with a high demand and favorable economic indicators, volumes were low even lower than before the pandemic.

With this bad export scenario and also expenses to transform Tupy, in spite of all this, we had record results with a good cash generation and also comfortable



financial situation. Net revenue reached 10 billion, increase of 44% due to price renegotiations, our adjusted EBITDA reached 1.3 billion, an increase of 390 million in comparison with 2021. This result is very high if we consider the high materials and freight inflations and sudden production stops.

We concentrated on the search for efficiency, we're only in the beginning of obtaining the synergies foreseen with the acquisitions of Teksid, but we reduced costs and expenses in our lines, including our organizational structure and synergies in purchasing. We captured synergies upwards of 130 million, which brought benefits to all the plants.

If we compare the result of 2022 with the proforma of the sum of Tupy and Teksid in the 12 months of 2021 – reminding you that the acquisition happened only in October –, we went from a margin of 11 to 12.5% and EBITDA went up 250 million. In spite of the progress made, Betim and Aveiro still have margins that are lower than the other units of Tupy.

In capital allocation, we observed in the first semester the recovery of inventories in the operations of Betim and Aveiro since the inventory belonged to the previous owners and were not part of the transaction. For this, we had a negative operational cash flow in the first semester worth 254 million. We also made investments in safety environment and also the recovery of assets in Betim and also new equipment that will increase the efficiency this year.

In the second semester of 2022, we had an incident in an equipment in Mexico. This equipment had Tupy rebuilt, and the production allocated to other plants. The costs of the stops were considered in the result of Q4 with a negative impact of R\$41 million since we have not concluded yet all the procedures to obtain reimbursement from the insurance company. And since our focus was on monetization of working capital, we decided to have a longer stop to reduce inventory. This made us lose efficiency and margin, but it allowed us to monetize our inventory and reach an operational cash generation of 650 million in the second semester, 426 million in Q4, the highest in our history.

The result of all of this was a ROIC of 13.5%. In spite of still having excess working capital and the increase in assets due to the acquisition of MWM – we will talk about this at the end of the conference –, net profit reached 502 million, a growth of 148% versus 2021 due mainly to a better operational result.

Now I'd like to pass the floor to Thiago, our CFO, who will talk about the financial results of Q4 beginning on slide 7.

**Thiago Struminski:** Thank you, Fernando. Good morning. Revenue had a growth of 26% in the quarter, reaching 2.6 billion, and the main effects and this due to price increases and also one extra month of MWM worth R\$246 million. In comparison with Q3, we had a drop of 4% due to seasonality since Q4 is the weakest of the year. In relation to the mix and sales, the MWM helped us, Latam reached 32%, especially Brazil 32%, and also commercial vehicles and off-road 85%.



Going on to the next slide, the cost of products sold increased 23% in the annual comparison, especially due to materials and services, and also the beginning of the operation of MWM in December 2022. Also, we also had non-recurrent effects, a recovery in Mexico, we had to rebuild the foundry system in one of the ovens that cost was 41 million in the quarter and the report made by the company with specialized assistance was sent to the insurance company and the process for reimbursement is being analyzed.

During the quarter we had a gross margin of 16.7% and a growth of 190 basis points versus Q421. The increase of operational expenses happened due to higher freight prices, but also, we had an increase in revenue and the beginning of MWM and labor negotiations. Adjusted EBITDA reached 150 million in Q422 and 1.3 billion for the year, 44% higher than 2022. Q4 received some important effects such as focus on the reduction of working capital and cash generation, the stop and rebuilding of equipment in Mexico, an impact of 41 million in the EBITDA and 27 million in net profit, the inclusion of MWM and seasonality in the month of December working with standard Euro 6 and had a margin of 3%. Apart from this, net profit was affected by expenses not cash of 14 million and reached 502 million with a net margin of 5%.

On the next slide, we talked about financial results. The increase of financial expenses in Q422 is due to gross debts, we had a debentures worth 1 billion to pay for the acquisition of MWM and higher interest rates that have a direct impact on the interest of loans in Brazilian currency. Financial revenues in the period 46 million, higher cash in reais and higher interest rates. Net monetary and exchange variations and expense of 5 million due to negative variations in our assets and also hedge operations which correspond to a revenue 14 million in the period with a positive cash effect of 5 million in the operations that were liquidated.

Here are the main working capital in Q3, using Q322, reduction of 15 days in accounts receivable, an increase of inventory of 5 days in relation to the cost of product sold, this increase is due to the inclusion of MWM and seasonality, reduction of 3 days in accounts payable and this we had a cycle of cash conversion 7 days better than in Q3 2022. We have a net debt of 1.9 billion corresponding to 1.6 times adjusted EBITDA in the last 12 months. Here we're not counting 11 months of MWM, which are not included in this result. Our obligations in foreign currency which represented 57% of the total, in relation to cash 62% in local currency.

In September we issued debentures worth 1 billion to acquire MWM and the cash balance coming from MWM Brazil is 243 million and we will return this totally or partially to this selling shareholder, and once again we have 1.7 times net debt over EBITDA without counting 11 months of the EBITDA of MWM. We closed Q4 2022 with a comfortable cash position, 1.5 billion.

Now Fernando we'll talk about the agenda 2023. Thank you.



**Fernando Rizzo:** I believe that you followed the recent announcements, our plans for 2023. I will separate this into two parts: first, opportunities and current business and perspectives concerning sales; second, the new fronts for growth and diversification.

In the current business considering this short-term synergies, we will continue capturing value in new commercial contracts and in the operations, in efficiency gains and competitiveness which were already mapped and are being executed as demonstrated on slide 14. We made progress in Mexico in 2022, but we still see a lot of value in more efficiency and labor, use of assets, and fixed costs and expenses. We also see opportunities in purchasing, our Mexican plants have available capacity and will be important in USMCA, which requires more local content and will attract products that are made in other reads, following the global trend to increase outsourcing, machining and assembly will have a more relevant role in these plants.

Industry is going through a replanning of production chains with the migration of supply chains to countries that are closer. This movement is called nearshoring and is not only in Mexico, in Brazil we see a movement to produce locally engines that now we import, and this represents a great opportunity for Tupy. In Betim, x-Teksid Ferro Brasil, we see the potential to be very competitive operation for Tupy due to costs, location, and opportunities for gains in efficiency. Thus, we can direct volumes to the locations that are better.

This is being captured in the second semester with new investments that are being made as products transferred are approved.

In Joinville, apart from concentrating the manufacturing of more complex products with important investments in digital transformation, we're growing with new structural components that are machined not linked to engines and that have interesting profit margins. In Aveiro we have a mature and efficient operation and we're working now on sales.

On slide 15 I will talk about the scenario for markets where we are present. In the domestic market we see many unfavorable factors that led to a drop in the market for trucks with Euro 6 engines that are more expensive with high interest rates, economic uncertainties, and an expectation of more favorable conditions to invest. In the export market we see better conditions in the supply of semiconductors, we have a good demand for trucks and non-residential construction that were not impacted by high interest rates.

In pickup trucks and light commercial vehicles, we see stability in relation to other years. We still observe clients with great fluctuation in consumption levels due to oriental markets and difficulties in components. I reinforced that our great opportunity in 2023 is within Tupy. The graph on the previous slides shows how we can improve both in cost reduction, in cost reduction of cash and gains in efficiency, we have a strategy to do this and we're following this in the last few years with the benefits of consolidation. We will continue capturing them in the next periods. There's a lot of homework and internal activities to be done.



When we talk about the new Tupy, on slide 16, the client base and products which was expanded with Teksid allows us to add value with manufacturing contracts, with machining and assembly which will be leveraged with the abilities we have now with MWM.

Apart from the projects we announced recently, we have a pipeline of discussions of other manufacturing contracts, which include machining and assembly. We will benefit from the strategy of OEMs to increase outsourcing of non-core activities. In this context, new Tupy is the only company in the world capable of offering complete solutions end-to-end in the production. Now including the expertise of the MWM and complete machining, assembly of engines, and other engineering services, we can increase significantly our revenue and strengthen our export capacity to increase revenue placing us on a new level.

Now going on to slide 17, manufacturing contracts announced last week already bringing many trends, outsourcing, USMCA, nearshoring and things that add value. The new contracts increase our participation in relevant markets, for example, class 8 vehicles in the US and represent approximately 50% of sales of trucks in the country, and where we have a low participation, a low share. We also announced new contracts for pickups in South America, a segment similar to agricultural and construction machines and including light, medium, and heavy trucks still use imported engines. The trend to reverse this scenario presents a great commercial opportunity and we're having negotiations with clients for this. The contracts are for 8 years with an aggregate revenue of 650 million. The acquisition of MWM leveraged these contracts and the two companies together will be a decisive factor to obtain new contracts.

Now talking about new business areas, I'd like to begin with energy and decarbonization. The highlight is in mobility, production of biofuels and energy generation. We are leaders in generating equipment generators in Brazil with growth with many applications, backup systems for energy and also energy in remote areas. We have benefited from the demand for companies that want to rent this equipment, apart from selling the equipment we also offer maintenance, leveraging the distribution. In road transportation, we're selling projects for the transformation of fleets of buses and trucks from diesel to natural gas or biomethane, thus, reducing emissions and reducing the cost of transportation without the need for subsidies.

The large markets are in fleets of urban trucks, for example, garbage collection and urban buses. Another market also is in fleets for rural environments with the production of biomethane, and also for pumps irrigation systems and other movement mechanisms. In the last years, we developed knowledge in biotechnology, biofuels, and generator equipment generators, all this together with our technical assistance in the whole country prepares us to offer complete solutions for biofuels based on surplus matter from agribusiness and urban also residues. These generate clean energy and biofuels.





This alternative, apart from reducing the costs for producers, allows the production of biofertilizer, reduces emissions, guarantees carbon credits and also energy safety. Many initiatives are being studied, and recently we announced a partnership with Primato Cooperative, which has 9.000 farmers, this first phase is very interesting and has a great potential to grow. The investment was 9 million with 13 farms which will be covered by a biogas plant to be installed in Ouro Verde in the state of Paraná.

As you can see on the diagram on slide 19, the system produces biofertilizers which substitute mineral fertilizers. For the farmers, this represents lower cost on imported products and also reduces the carbon footprint of the property, which improves the price of protein produced and access to developed markets. Primato is one of the 5 cooperatives that are part of Frimesa. Together they represent 55,000 producers or farmers.

With the combination of MWM, we're also part in the aftermarket with many components for diesel engines that we can see on slide 20. This is a sector that we knew the potential, but we hadn't entered due to the network that was necessary to make this possible, which is anticyclic and is growing. We have 1,400 points of sale, 500 service companies authorized in Brazil and abroad. Right now, MWM distributes more than 16,000 products and is increasing the portfolio. The combination with Tupy will allow us to include blocks, heads, and structural components for engines. These have a high added-value component.

The expansion of channels is another objective of our business units with international expansion and a more proximity with Agri business.

On slide 21, I'd like to talk about the initiatives by Tupy in our innovation arm. We have the evolution of Shift T, our startup accelerator company, and in 2022 began a second cycle of acceleration. We received 85 startups from Brazil and thus we expanded our acceleration cycle. Of these startups, 2 are increasing scale, one focused on preventive maintenance and the other one ergonomics and productivity. In the second cycle, we're selecting and approving the startups we will accelerate. The first already announces Microciclo with focus on the use of bacteria for the recovery of residues, and one of the objectives is to study the application of technology and how it can expand our current capacity of recycling sand used in foundries.

In the next two slides, I will talk about progress of our projects in R&D being that new fuels and new opportunities from the green economy. Many discussions and the offer of products and services are happening, we're also advancing technically in accordance with the schedule and TRL in each product. My objective is to give you an update on the progress of the main initiatives.

In the battery recycling project, the results until now are very promising with the reuse of good materials, such as lithium, cobalt, nickel, and manganese with rates superior to 90% recovery. A performance that is very high in relation to traditional techniques. We are also gaining scale and we intend to build a



demonstration plant at the end of 2023 to be launched in 2024, which will help in commercial opportunities.

In a more advanced state, the Ultra Light Iron Technology also enables the use of aluminum, one of them is for engines with a weight similar to aluminum with a reduction of manufacturing costs and carbon footprints. We're presenting this technology to potential clients with a positive return, especially in the use of hybrid vehicles and ethanol vehicles. This technology is not only for engine blocks, we're discussing opportunities in products such as heads, also transmission cases and clutches for commercial vehicles.

On the next slide we talk about hydrogen, an important alternative and we consider this essential for the decarbonization of transportation, especially in heavy vehicles and machines in the future. Recently, the regulation of emissions of the European Union defined that vehicles with hydrogen engines are considered as zero emission, in the same category as electric, battery vehicles and those that use fuel cells.

We're also making progress with partners such as IPT in Brazil and AVL, Westport in Austria aimed at material resistance and hydrogen engines. Many companies have already announced engines with hydrogen for 2024-2027, some of them Cummings, Deutz, Liebherr, MAN and Hyundai. This knowledge is already being applied in new products; we already have projects with European OEMs to manufacture components dedicated to this market of hydrogen engines. We hope Tupy able to announce many things in 2023.

Now Thiago will talk about our sustainability initiative.

**Thiago Struminski:** Thank you, Fernando. In 2020 we had our first report on sustainability in the GRI standard, 2022 our sustainability committee began and this transparency with the search for adoption of better practices contributed for important upgrades in some of the main ESG global ratings. We went from high to low risk in the Sustainalytics and triple C to B in MSI and 4 to 31 in S&P.

I thank you for your participation and now we will begin the Q&A session. Thank you.

### **Question and Answer Session**

**Operator:** Ladies and gentlemen, we will begin now the Q&A session. To ask a question, please dial \* 1. To remove your question from the list, please dial \*2. This conference call is exclusively for investors and investment professionals and analysts.

Our first question from Mr. Gabriel, Itaú BBA.

**Gabriel Rezende:** Hello, Fernando, Thiago, good morning, congratulations for the results. Two questions. First, I'd like to congratulate you for the contract that you closed including foundry and also machining and assembly. How are the



conversations to replicate this? And do you have an estimate of nearshoring and what can help the company in the regions where you are present? The percentage of OEM's depending on suppliers and that have distant suppliers in Asia. Is this relevant for the market where you are present? What is the potential for nearshoring?

The second question, Fernando mentioned hydrogen. So, we saw recently Germany questioning the production of combustion engines in 2035 and including the use of synthetic fuels. Can you talk about this and the movement of OEMs and regulators for more reasonable rules that could include other solutions?

**Fernando Rizzo:** Gabriel, thank you for the question. Let's begin with nearshoring. There is a dynamics in our industry and what happened in the last 20-30 years, this was an industry that traditionally worked with OEMs and in these conditions, they manufactured all the structural components of the vehicles. Tupy is focused on heads because they are the most complex products in the chain, so with the rules with the emissions, these products were modified to become more efficient and to work with better resources, increasing density, power.

When we look at this industry, one of the components, the brakes, the suspension and the gearbox, all the structural items of trucks, pickup trucks, construction machines and agricultural machines in the US and Europe, these products migrated, and I'd like to begin with this then I'll talk about heads, so these products are going back to nearshoring.

I talked about other components and these clients once nearshoring this is very good because we have capacity available both in South America and North America, especially the plant in Portugal which has a machine model that is very adequate for this. So, that's the first element of nearshoring.

I'd like to mention this, we have other foundries in Brazil that operate in this market in Brazil and Tupy is going back to this market in a strong way because Brazil with Teksid, reallocation of products, we have excess capacity that can be used for these items. They are normally sold machined and pre-assembled and in North America there's a lot of interest from our clients because they suffered a lot during the pandemic and now with local regulation, they are demanding more local content for these engines. So, that's the first great opportunity.

The second has to do with engines and block, engine blocks. The US market always imported engine blocks and heads, the foundries in the US closed during 2005-2008 this volume was transferred, it was transferred to companies like Tupy in Brazil, German companies, a large foundry in Spain and some Chinese companies, and another one in South Africa. Now with USMCA, which changes the rules which demands local content, which has to get to 70% in 2027 and gradually is increasing, so the current demand 50%, so by 2027 it'll get to 70% and then it will stabilize.





So, for all passenger vehicles, light commercial vehicles, and also medium and heavy vehicles, we will see this rule in a market that is now nearshoring the items for one of the three countries part of the USMCA, and of course, the foundries are located in Mexico.

I remind you that the situation with Teksid was an example of this, but Tupy is the largest player, we have a local capacity of 320,000 tons in North America and we have capacity available because the market is being supplied and we also have the Swedish truck companies that exported to the US.

So, this is what is happening we announced some projects last week that were defined, we're beginning investments and they will begin to be produced in 2024-2025. On the other hand, with the acquisition of MWM, we have now a new model for the market. We believe these OEMs are discussing the allocation of capital, they are investing in electric vehicles, autonomous vehicles and other technologies and we believe that Tupy is ready, we may receive the outsourcing of these activities as long as we have technical capacity for this.

It's not an issue of investing because these products are very complex, they have to have the trust and now comes MWM that they have machining, assembly, and engine testing to be supplying this to Volkswagen Brazil and also Navistar and also some projects for MWM Germany. So, now we have a full model to add value.

So, looking at all this that is happening around the world and looking at the strategy we have, first acquisition of Teksid that we connected and now we're supplying to all OEMs for transportation, machines, agricultural machines, construction machines, and we believe we can add value to this product and with this connection with MWM we have technical conditions, and this called the attention of our clients. There's a great opportunity to export because many products that we have in our foundries they are exported and come back to Brazil as engines. We can manufacture basic auto parts, like flywheels, pistons, valves, components that we have surplus capacity in this area, and we believe that with the right engineering and with the trust we can add value with these products that we already export and have new projects.

Another opportunity is that Brazil is also an importer inventions. Most of the engines that are in construction machines, agricultural machines, harvesters and also in many trucks in Brazil are engines that are imported. These medium size engines with the exception of Volkswagen, the largest competitors import medium engines from India, semi assembled, many import from China and all of this we believe now we can have conditions to bring these products in Brazil and supply them, also pickup trucks, if you look at the main 7 pickup trucks in Brazil, 6 import engines for them. Some are assembled in South Africa, some in Germany, some in Spain, some are assembled in Hungary, but they are imported engines for pickups, and this pickup market is growing with agrobusiness and more revenue for agrobusiness.



So, the pickup market will grow a lot in Brazil so we're getting ready for this, we're talking to clients, and I can tell you clients are very alert to us, we have negotiations, we cannot give you details, they are projects that are being analyzed by OEMs.

So, the second question on hydrogen, 2 items here: last month, hydrogen combustion engines were considered as zero emission, so there's a regulation in Europe OEMs have to sell part of their vehicles as of 2030, they have to be zero emissions as of 2030 part, and we only had electric vehicles and battery vehicles. So, as of 2030 hydrogen engines were included in this classification as zero emissions and they may be used, and we believe this is a spectacular solution because 70% of a traditional engine is easy to use and manufacture and you use the traditional structure of the vehicle.

The challenge is availability of hydrogen, but there is a great advantage over fuel cell, and hydrogen engines can use combined cycles or exclusively with hydrogen and they don't need purified hydrogen. So, we believe that what will happen we will introduce this in the next 4-5 years, companies already announced construction equipment that this will be the solution, specially for off-road vehicles, and this will happen in 2035.

So, it's a great alternative and we have worked on a project that we announced with the right materials, and we have agreements to supply components for this market. These products are being launched and they're very good products, they have the right torque, the right power should be used in substitution to diesel vehicles. So, these are important topics for the future of Tupy outsourcing, USMCA, nearshoring.

**Gabriel Rezende:** Thank you.

**Operator:** Our next question comes from Mr. André Mazini, Citibank.

**André Mazini:** Hi, Fernando, Thiago, thank you for the call. First question in nearshoring. Fernando mentioned that you still have surplus capacity in Mexico, and you were investing 340 million, this was said in the material fact and you announce these points. How do you see Capex in the future due to nearshoring? Nearshoring will take many decades, so most of the 340 million will be in Mexico as you announced. And how much will you reach in terms of capacity, 80%? And how much idleness will you have in Mexico?

And the other question which you announced 14 million in the Mexican plants, retrofit in the foundry and you said the insurance company will it cover all the expenses the insurance company? And what is the probability of getting the money back, the expenses?

**Fernando Rizzo:** André, Fernando. Considering the announcement of CapEx, most of it is in Mexico, yes, although we have excess capacity in the foundry, our projects include foundry, machining, and the little assembly. In machining and assembly, we don't have surplus capacity, we have a plant in Mexico that is



recent, it grew a lot in 2019 and now it will suffer expansion and focusing on machining and assembly. There are investments in the foundry, we're making it flexible. When we talk about structural components, trucks and so forth, we're talking about another type of iron, nodular iron, but the greatest part is in machining and the smallest part its foundry.

So, when we look at the future of the company, gradually we will have to make these investments, we have surplus capacity in MWM, the projects in Brazil we will discuss where we will have expansion, there is surplus capacity in MWM and we can't produce more using a better way these resources, but as these projects happen, we will have more CapEx.

**Thiago Struminski:** Thiago speaking. Concerning the rebuilding of assets in Mexico, we have insurance, this impacts 41 million, the expense was high, we are rebuilding the asset and we are requesting the reimbursement by the insurance company. I can't talk to you about probability, there are many requirements for the reimbursement. We hope this will happen in the next quarters the reimbursement.

**André Mazini:** Thank you.

**Operator:** Our next question in English for Mr. Kamal Ashari, Bearings. Mr. Kamal, you may proceed.

**Kamal Ashari:** *Hello, can you hear me?*

*Hello, my question is if you could give any guidance on your very new predictions and margin predictions, and also if you think pent up demand is going to hold in a weaker consumer environment.*

**Thiago Struminski:** In terms of guidance, concerning guidance for revenue and EBITDA, we don't have a formal guidance, we can say that we practically doubled revenue with new businesses and this amount has nothing... it does not include anything from MWM, it's entirely from new projects that we're announcing. Now in terms of margin, there's an effect of the mix and now we will have to adjust with the MWM coming in, when you have more manufacturing contracts at MWM the margin drops, but every time the other segments, like generators, after parts and equipment for biogas go up, we have a higher profit margin.

So, initially with the natural consolidation of MWM, it will drop, we will rebuild this with synergies and opportunities. Fernando we'll talk about pent up demands in main markets, in the Brazilian market and US market.

**Fernando Rizzo:** We have seen that sales are lower than our historical indicators and we're seeing fleets getting older, this motivates us in some markets, the Brazilian fleet is very old so Brazilian fleet must be updated. When you look at heavy pickup trucks, we see with the inventories are low at OEMs,



so we're looking at this dynamics, but these are low volumes in a market that is growing.

I can tell you that our clients asked us, especially those who work with parts for heavy pickups, to expand our capacity in the next few years. The manufacturers of trucks also requested us more capacity. The economy is growing in these markets and their fleet is getting older.

**Operator:** Our next question Mrs. Fernanda Urbano, XP Investments.

**Fernanda Urbano:** Good morning. Based on the previous question, how do you see MWM at the beginning of 2023? Is it better or worse than December? Thank you.

**Thiago Struminski:** December at MWM it is a slow month at MWM December, and this is also affected by Euro 6, in the first months of 2023 MWM has a challenge, like other companies, inventory to sell to Euro 6, they sell a little less in the first two months of the year and then they recover. The first quarter has these issues.

What we're seeing with the new contracts at MWM will have a better margin, unless we have more manufacturing contracts. When you have manufacturing contracts, the margin is a little lower. It depends on the type of contracts.

**Fernanda Urbano:** Thank you.

**Operator:** Our next question comes from Mr. Rogério Araújo, Bank of America.

**Rogério Araújo:** Good morning, Thiago, Fernando. I have a follow-up for new contracts. The first issue, can we interpret that there is a new policy because you pulled the market about new markets when you sign new contracts for nearshoring or energy? Will the company announce the new contracts as you are doing now? In the new contracts, can you give us estimates for this contract that you announced for manufacturing, for finishing machining assembly, for pickups in Euro 8? And when this needs CapEx, can't the company inform the amount of investments that will have to be made?

And finally, in new contracts, in the contract with Primato we see investments of 9 million, which will not be very relevant because of the size of Tupy, but I'd like to know the size of this market. How can it grow in the next few years? I believe that this first contract is symbolic, and will this increase in the next few years, the contract with Primato? Thank you.

**Thiago Struminski:** Thank you, Rogério. These announcements have to do with machining contracts and assembly, they offer us a better return because they give us more profit than the foundry, and machining and assembly have better margins. We can't give you too many details, these projects are in progress with clients, but, yes, every time we can do this we announce the new contracts and we will continue to do this.

**Fernando Rizzo:** Good morning. Concerning Primato, yes, Primato is beginning, it's a small project, but we will follow this type of model, we see a lot of scalability, this project represents only 13 farmers in a cooperative, it represents 31,000 heads of hogs. Today these projects already exist, this is important, they are farms that have biodigesters and we rent or sell energy systems to these farms using biomethane, and the transformation is also used in vehicles to use biomethane in the farms.

Now where's the opportunity? Two: first, these installations, great possibility of scaling in rural properties, this is biomethane, it is a great problem for farmers because they deposit this material in lakes and this can cause many problems in the region, and we bring a solution to them converting this into fuel. We not only generate electricity, but we use this biomethane as fuel, we produce biofertilizers and the production of these farms, of this protein, the pork, has a higher value because they have a small carbon footprint. So, that's one point.

We are discussing with other companies with the same model, we will also use the same model for urban solid wastes to work with urban solid wastes with organic residues and the organic parts can be converted into energy. This leverages also gas engines, this is important, gas engines sometimes are not well seen because of the use in taxis and small garages, now we have well-designed systems for engines with the same power and it's an excellent solution for urban vehicles because you decarbonize using also residues from protein and also you decarbonize, for example, the emissions from garbage trucks.

Because of the noise, they have limited work times. When you use the gas solution for urban buses, you reduce the noise produced by the engine, you reduce carbon emissions and operational cost. It didn't become popular because we depend on a network for gas distribution, it's limited, and it depends from the gas we import from Bolivia through a pipeline and it goes until we have this gas coming.

Now with the gas from the pre-salt oil wells, of course, this opportunity becomes stronger and these regions will use natural gas and biomethane for their fleets. So, we see a lot of potential, we're selling well, sugar cane farms with the residue, with the wastes from ethanol companies like Raízen that produce a lot of biomethane they're using the waste from sugar cane to produce biomethane.

So, just concluding, some OEMs are bringing gas powered engines from abroad and this solution is very good because you can convert your current fleets easily to gas engines. We have a very good project, it is ready and brings great benefits for the clients.

**Rogério Araújo:** Thank you. An extra question. On the shareholder agreement, the members of the council will have their term ended in 2023, can you tell us if there will be any change in practice for the members of the council? Will there be changes? Will we see a new shareholders agreement being made? And when will the members be reelected?



**Thiago Struminski:** Rogério, we are preparing this documentation for our meeting and also this shareholder agreement can be renegotiated. For the time being, we continue this way, there is a good agreement between controllers and minority shareholders, and probably we will have a situation similar to that of the past.

**Rogério Araújo:** Thank you.

**Operator:** Our next question comes from Mr. Victor Mizusaki, Bradesco BBI.

**Victor Mizusaki:** Good morning. Two questions. The first, in relationship capital allocation, you mentioned that you will begin building a plant for batteries, hydrogen engines. Can you give us details about CapEx in relation to these projects? And thinking of the new Tupy capital allocation, do you believe there will be another M&A?

**Thiago Struminski:** Thank you. We have many avenues of growth to build the new Tupy, we can grow organically with these new projects, capital allocation is important, so initially we're close to 25, we're always close to 25% in dividends, so we may supplement.

**Operator:** If there are any more questions, these dial \*1. Thank you.

Please, wait while we collect the questions.

Our next question comes from webcast, Guilherme:

“Good morning. I'd like to ask two questions. The first: why do we have the growth in operational expenses in the quarter and the second? Concerning the maintenance in the oven in Mexico, you said that the insurance company is analyzing. Will you recover this amount from the insurance company? What is the probability of recovering?”

**Thiago Struminski:** We already mentioned the recovery of the assets in Mexico, when we compare with Q3, we have low growth, but when we compare with Q4 2021 we have a large difference due to the cost of freight, we also here we have the beginning of MWM, we have other effects related to wage negotiations, union wage negotiations that increase these costs.

**Operator:** Thank you. Our next question plans for Mr. Igor Araújo, Genial Investimentos.

**Igor Araújo:** Congratulations for the results. I have a question. In Q4 2021 we saw low margins for the first quarter of Teksid. I'd like to talk about Betim and Aveiro, what is the margin at the plants of Betim and Aveiro, in Portugal? I'd like to know about the synergies. Thank you and congratulations.

**Thiago Struminski:** We are evolving a lot, Betim and Aveiro are not individual businesses, we don't inform details per plant and, for example, depending on





the scale, we distribute the orders in the plants. it's important to look at the growth as a whole, which went up, it is a project under construction, the combined margin is still lower than Tupy's margin, there's a lot of space for us to increase the margin in these plants you mentioned.

Now concerning MWM, we hope to increase the margins, but we believe that the first semester for MWM will have challenges because of truck production.

**Igor Araújo:** Second question, you mentioned a lot about nearshoring, we talk a lot about Brazil and Mexico because of USMCA, talk about the plans for the plant in Aveiro, Portugal, due to the new laws in Europe which will prohibit combustion engines by 2035. So, what is the outlook in Europe, the plant in Portugal?

**Fernando Rizzo:** Igor, Fernando. Aveiro is a very competitive plant, well-balanced, well-designed. Aveiro is dedicated to the company that used to be the owner, but it's a very important plant for other structural components, for trucks and agricultural machines, it's a very flexible plant, the way it was built, I can make many products there. Though we're discussing, we brought new projects for Aveiro in the last year, we brought projects for truck components, energy engines, many items and we know that it's a very competitive plant, it has a very good team and we will introduce new products there, we will rotate products.

Today manufacturers diesel engine, 60-70% of the production is diesel engine blocks for light commercial vehicles, but obviously we're looking at changes in the market and product rotation, products that we export to Europe we can build in Aveiro, also products to the US, it's close to the sea, it's very close to the sea, very easy to export, there are many opportunities.

Aveiro will receive machining, we will introduce machining and this is a natural process.

**Igor Araújo:** Thank you.

**Operator:** Thank you. We'd like to conclude the Q&A session of Tupy. I'd like to pass the floor to Mr. Fernando for his final comments.

**Fernando Rizzo:** Well, thank you for participating, it was a long call, we tried to comment on all our businesses and what we will do in terms of new businesses, new fronts, the strategies and how they are becoming a reality.

2022 will be remembered in our history as a year of transformational acquisitions, allowing Tupy to grow its traditional business and going into new segments, and we're adding value with two engine blocks and we're going into new segments, as I said, always with a comfortable financial structure.

When we look at the period before the pandemic, 2019, so we doubled the billing since the beginning of COVID-19 and we're maintaining a conservative leverage, close to our historical levels, and we improved our ROIC.



You have to see Tupy in two spaces: first, business opportunities in the traditional business, our presence in Brazil and Mexico with competitive edge will allow us to grow with these trends of outsourcing and nearshoring, the model we brought with MWM has also called the attention of our clients, we have high value services like machining and assembly, so our projects will have a lot of growth in the next few years as we announced last week, and they expand our presence in trucks class 8 US trucks.

The result of 2022 brought us synergies, but there's a lot to be captured still, we have different performance in plants, the difference in costs, in purchases and opportunities that we still have in sales. This is happening and Tupy operates on a new scale, but there is a lot to be done still.

Second, the building of this new Tupy dedicated to the low carbon economy working on opportunities that we call feasible decarbonization, the one that doesn't depend on the subsidies. Here we have fronts in energy, decarbonization with great potential of scalability like projects of Primato, generating clean energy, biofertilizers, and also engines and generators with biomethane or natural gas.

Apart from this, in aftermarket we will be able to include many new products, it's an anticyclic sector that will give us more resilience to market fluctuations.

To conclude, this month Tupy became 85 years old, so I'd like to thank our clients, our shareholders who always gave us support in our initiatives, our council, investors, suppliers, technology partners and specially our more than 19,000 employees which are part of our history and have dedicated themselves to building new Tupy, which is Brazilian, an exporting company generating jobs and helping the country. More and more this will be important in the low carbon economy.

Thank you, we wish you a good afternoon and thank you for participating in the conference call.

**Operator:** The conference call of Tupy is concluded. We thank you for participating, we wish you a good day and please disconnect your lines.