

Operator:

Good morning, ladies and gentlemen. Welcome to Tupy S.A.'s earnings call for the 3Q24.

We would like to inform you that this conference call is being recorded. You may watch a recording of it at the Company's website, ri.tupy.com.br. A PowerPoint presentation is also available for download on this platform in the Investor Relations website.

We would like to inform you that all participants will be in listen-only mode during the presentation. After that, we will begin the questions and answer session, when further instructions will be given.

This presentation is being recorded and translated simultaneously. You may listen to the interpretation by clicking on the 'interpretation' button. If you are listening to the conference call in English, there's also an option to silence the original audio in Portuguese by clicking on 'mute original audio'.

Before proceeding, I would like to reinforce that the statements made during this call are based on assumptions and beliefs of the Company's management and on information currently available to the Company. These statements may involve risks and uncertainties. They refer to the future 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 scenario, this industry and other factors may make results materially different from those expressed in the forward-looking statements made here.

We have with us in this conference call Mr. Fernando Cestari de Rizzo, CEO; and Mr. Rodrigo Périco, CFO. The Investor Relations team is also available. I would now like to give the floor to Mr. Fernando Cestari de Rizzo, who will begin the presentation. Please go ahead, sir.

Fernando Cestari de Rizzo:

Thank you. This was a challenging quarter because of reduced volumes in the foreign market, and there were significant reductions of up to 30% in some industries. Even in Brazil, we saw some reductions.

The Company is more efficient. We are operating at low volumes with idle capacity, but we have still been able to improve our gross margin because of our favorable exchange rate, but also because of efficiency gains and cost optimization initiatives that saved us R\$140 million this quarter, certainly above the exchange rate benefit. EBITDA margins were stable despite some nonrecurring debottlenecking initiatives. We have also had price reductions and costs that were not passed forward.

As we have explained in other calls, we are gradually capturing synergies from a combination of the assets we acquired that will be implemented by 2026. That include a revision of structures and processes to reduce waste, especially an increased flexibility in our plants. We had about R\$11 million in costs for the restructuring we have been making, and we are redirecting our production to lower-cost units.

On the commercial front, besides what we have already announced for 2025, we have a good pipeline for new projects, and we are passing on costs that have been kept. All of this will be essential to increase our margins structurally in the next years.

We are also growing in new markets. For example, revenues in the replacement and aftermarket segments have reached their highest historical level in the 3Q. We are still launching new products, we increased this rate by 120%, and we are expanding distribution channels. This strategy, combined with the strength of the MWM brand, supports our double-digit growth aim, which will have higher margins than the traditional business.

On the next slide, we see the performance of the markets we are working in. Our clients have been affected by a lower demand, especially in the U.S. and Europe, in some cases, drops of over 20%. We have high interest rates for acquiring vehicles, and a relatively young fleet with reduction in shipping prices have reduced profits for transportation companies, which has inhibited their renewal of their equipment. But there have also been double-digit drops in agricultural commodity prices. So companies are reducing their inventories, and this impacts us significantly as suppliers working in the starting stages of the production process.

This drop is often expanded considering how extensive the production chain is. And this affects suppliers like Tupy significantly. All of the chains in the off-road products are longer than automotive products, and this has been offset by the appreciation of the USD. So this affects our revenue with a major highlight for manufacturing contracts, which are benefiting from the reuptake of the domestic market.

So with all of this, with ramping up new contracts and for positive perspectives for the American market, which I will go into detail soon, may have a positive impact to our results starting next year.

I will now pass it over to Rodrigo Périco, CFO, who's going to talk about our main financial indicators.

Rodrigo Périco:

Thank you, Fernando, and good morning, everyone. Revenues have dropped by 7% in the comparative period to R\$2.8 billion. 43% have been sourced in Latin America, 41% in North America, 12% in Europe and 3% in Asia, Africa and Oceania.

According to segments, 87% of our revenue came from structural components and manufacturing contracts, cast iron and high added value products such as component milling; 5% of our revenue is from the energy and decarbonization segments, so generators, engines, maritime applications, towers, products and services related to decarbonization; and the remaining 8% came from the distribution segment, which considers replacement parts with MWM and hydraulic products.

The next slide shows our domestic market. We can see that our revenues have been impacted by an increase in lower commercial vehicle sales. The foreign market has also contracted as we have had fewer off-road applications impacted by the lower price in agricultural commodities, civil construction, higher interest rates, and macro and microeconomic implications of the U.S. elections. Trucks have been negatively impacted as 2023 was an above-average year. And finally, added value products represented 47% of our manufacturing contracts.

The next slide shows energy and decarbonization, which includes generators, engines, maritime applications, lighting towers, and products related to decarbonization. This segment had an increase of 2% in the domestic Brazilian market. a slight growth because of commodity prices, credit restrictions, and climate conditions. In the foreign market, we saw a reduction of 54%, impacted by lower sales of engines especially used in agriculture.

And in the next slide, we see the distribution unit, which includes replacement parts and hydraulic products. In Brazil, sales for this unit represented 14% of our revenues, an increase of 7%, mainly boosted by an extension of our replacement parts portfolio. In the foreign market, we saw a 6% increase.

The next slide shows our operating costs. Cost of goods sold reduced 7% and gross margin dropped by 0.3 p.p.. This was impacted by exchange rates and inflation in labor and products. Operational expenses have had a 5% increase versus the 3Q23. And this is due to an increase in shipping expenses impacted by logistical bottlenecks. In the 9M24, we had a reduction of 4% versus the comparative period. And this reflects how successful our contract renegotiations have been. We have also seen reduced volumes, and we are capturing efficiency and gains from the last months.

On the next slide, we see our adjusted EBITDA, which reached R\$338 million in the 3Q24. Our adjusted EBITDA margin reached 12.2%, and we are still capturing synergies and cost reduction initiatives. As we mentioned, we have had expenses being passed on to the market and contract renegotiations, which have offset some factors that impacted this quarter, such as reduced volumes, inflation in services and labor.

At the bottom part of the slide, we see our net income, R\$50 million for this quarter. The comparison was impacted by increased financial expenses. There was an impact from the tax basis in foreign currency.

And on the next slide, we see our financial results. This increase is due to new capture operations and expenses with interest rates as a consequence. There's also a depreciation of the BRL, which impacted our corporate bond debt. And there was also the effect of the anticipated debenture liquidation. Financial income was R\$42 million higher than the same period last year, especially due to our cash position due to funding and generation of operating cash.

Looking at our foreign exchange variation, there was a R\$15 million expense due to our hedging instruments, and R\$89 million have had a cash impact. There were also variations in the balance sheet lines in foreign currency due to the depreciation of the BRL, and it had a positive impact of R\$35 million.

The next slide shows our variations in the main working capital accounts. The 1Q24 is the comparative basis here. In receivables, there was an increase of R\$19 million, an impact to our average receivable days, and this represents 72% of our total.

In inventories, we had an increase of R\$24 million due to market performance and logistical issues that we mentioned before. However, this impact was partially offset by initiatives related to reducing inventories, especially in raw materials. In accounts payable, there were several management initiatives with our suppliers.

The next slide shows our operating cash flow. On a quarterly basis, there was a reduction of 37%, especially explained by reduced volumes, which impacted our revenue and working capital. Moreover, there was an impact due to adjustments to derivatives carried out during this quarter.

However, we continue with a strong operating cash generation, a total of R\$762 million in the 9M24, which represents a growth of 97% versus the same 9M23. This reflects the efforts of our management in optimizing working capital, a favorable foreign exchange, and positive operation from MWM.

Finally, we have our indebtedness, which was R\$2.3 billion this quarter, corresponding to 1.81x our adjusted EBITDA for the last 12 months. Financial operations represented 64%, and in cash, 60% of it was in local currency. So our cash position is at R\$2.6 billion.

Now I will pass it over to Fernando for his closing remarks.

Fernando Cestari de Rizzo:

Thank you, Rodrigo. On the next slides, I am sharing our vision on the main markets that we are working in, but I would like to start by speaking about the U.S. elections.

With the election of the Republicans, our main clients in the U.S. will be positively impacted. This has already been reflected in share prices and reports that list them as the ones that are the most benefited by this new administration. This political current has reduced regulations to stimulate economic growth. In the transportation industry, this means that we will be more flexible and will have reduced operational costs.

Moreover, there is a tendency toward adopting an energy policy that will maintain fuel prices at competitive levels. And with Congress, it will be easier to pass investment packages for infrastructure.

Tax cuts and other pro-business initiatives should boost the economy. A recent survey by an investment bank after the U.S. election shows that the likelihood of people acquiring new cars has gone up again. Seeing a stronger USD is also favorable for our business.

About any tariffs, since our chains are integrated, we do not believe that any measures will be taken to harm American companies that have strategic partners in Mexico. Our impact in Mexico, as we have been seeing, are higher operating costs there, especially with reduced volumes. In the foreign market, 2024 will see a reduced production in the U.S. and Europe.

The scenario for 2025 still depends on many factors. Shipping prices and using the fleet remain pressured. Reduced interest rates and other effects in the second half of the year might boost sales for heavy-duty vehicles. This recovery should benefit Tupy, which has won contracts and will have a higher share of this segment in the next years.

With off-road vehicles, they have been affected by inventory adjustments in the supply chain and by commodity prices and other areas that correlate to interest rates such as construction. Nonresidential construction has also shown signs of stability. Just like with heavy-duty vehicles, investments in infrastructure and lower interest rates should boost sales.

For the domestic market, after a weak year, we are seeing projections for a rebound. According to Anfavea, there's a forecast of a 32% growth in heavy-duty production, which is expressive, but still lower than 2022 and 2021, which shows that we still have a lot of growth opportunities.

Off-road applications in Brazil have been mainly affected by agricultural performance. Climate factors and international commodity prices impacted farmer incomes, which have led to a nonrenewal of their fleet. There's an expectation of an 8% growth in 2024 and 2025 and its harvest, and that should contribute towards our sales.

Finally, the next slide shows an update of our new businesses. Our main business is connected to car manufacturers. And they are sensitive, especially in the off-road sector, but we are diversifying into adjacent industries. We are working with segments that have different business characteristics with recurring revenues, different market cycles, and even anti-cyclical markets, which are less exposed to the local market. There are several initiatives that

will play an essential role in diversifying and expanding revenues and our profitability, which will gradually gain a higher share. They have a different ROIC.

We have advanced significantly in aftermarket. It had 16% revenue growth in vehicle transformation, which includes replacing diesel engines with ethanol and biomethane engines. We are at the end stage of testing with many companies in the sugarcane industry to replace some of their equipment with engines that use fuel produced regionally, and we expect to see a favorable trend there starting in 2025 with bioplants. We started operating this one with Primato in the state of Paraná. This project will contribute to validate and improve our business model. And there is a high scalability potential for this.

What I can say here is that we are very happy with how this has been evolving, and we are starting to speak to major animal protein companies.

In generators, MWM is a leader in Brazil. In the year-to-date, we had 15% revenue growth despite having more restricted credit. Volumes are concentrated in Brazil, especially in data centers, health care and retail.

In the maritime industry, which includes engines and energy onboard systems, we have finalized great contracts with work boats connected to agribusiness and offshore platforms. We also sold, for the first time, an onboard generation system to an offshore platform, and this represents 15% of our volume.

In projects with a lower TLR, we also announced a battery recycling plant in IPT in the University of Sao Paulo. And since we are generating new hybrid engine platforms, we understand that this will be an opportunity to apply our ultralight iron technology to replace aluminum structural components with the same weight at a lower cost and lower CO2 emissions.

The current moment in our industry with weaker volumes have allowed us to have significant internal movements, reviewing our structures and assets which will provide efficiency gains for the next years. Even in this scenario, we have maintained our investments in new businesses with a lot of scalability potential, but without letting go of our traditional business opportunities.

Once again, thank you for your attention. And now we will begin the questions-and-answer session. Thank you.

André Ferreira, Bradesco BBI:

Good morning. Thank you for taking my questions. I have a couple of points. First, I would like to understand your efficiency gains a bit better. You mentioned there was a positive impact of R\$40 million, but if you can tell us exactly where these gains are coming from, if this is just a part of your Teksid synergies or if there's anything related to MWM. And also, how much of it is coming from your production reorganization?

My second question is on your battery recycling program. If you can give us some color on what you expect in terms of revenue generation. I know that you are starting. I know that this is still an ongoing process, but I would just like to understand what your long-term vision is. Thank you.

Fernando Cestari de Rizzo:

André, good morning. Thank you for your question. It has been a while since we have been talking about how we are redesigning how Tupy works with acquisitions. We will essentially allocate products to where it's cheaper to produce.

So imagine this. We have plants and products in them that are based on the companies we acquired. But the best map for us is to concentrate similar products in the same plant where you have a lower cash cost. So this is an ongoing movement. We have started capturing some value represented by that R\$40 million, and that starts generating efficiency in equipment use. And in parallel to that, we also reduce duplicate activities, and we are gradually creating service centers in the Company.

So this is an overall movement, and this number excludes the foreign exchange, so we do not have any foreign exchange effects to this value, and the Company's fixed cost is being reduced, and this is reflected in accounts that originate in the plant and also in higher production efficiency, by concentrating production.

So we are gaining on productivity, on labor use. We are gaining productivity in equipment. We are gaining energy efficiency. But, and we have been saying this for a while, this is something that is ongoing, we still have many idle plants in the Company.

And this is an essential message for you. We needed to concentrate because we did not expect this drop in volume earlier this year. The market in general, if you look at what our clients had been saying, none of them had been expecting this reduction, but it happened. And we found ourselves with a bigger structure prepared to absorb a higher volume, but this volume didn't come. And our option was not to operate, but rather to generate cash for the Company. So we adjusted our operation.

And this adjustment is not always economic if you do it very short term. It needs to be a planned action, because you have associated services, you have to buy services, energy. For example, we have some energy reserves that we are not using. So all of it affects us. But despite all of these things, we have been able to protect and generate this R\$40 million benefit this quarter, which will remain, which will continue from now on.

About our battery plant, our vision is this, essentially. Electric vehicles are an important trend, but their full cycle is inefficient from the CO₂ emission perspective, because you are generating a lot of CO₂ in mining the components for the batteries. They are made with aluminum, and that generates a lot of CO₂.

When you have enough volume, you can recover these minerals in a cleaner way and using less energy than we use in mining. But this process needs to be economic. It needs to run on a number of different batteries with different chemical compositions, because each manufacturer is selecting a type of battery, and we can recover, especially lithium, cobalt and nickel, which are the most valuable minerals there. So this project is advancing. We have filed for 3 patents. This is important. We are now starting a pilot plant with smaller volumes. But right now, we can have potential clients and understand exactly where this can be taken.

We believe that on the long term, these batteries will need to be treated. There are already some regulations in Europe and in the U.S. that after 2028 or 2030, a percentage of new batteries, or the minerals used in new batteries will need to have recycled materials. And of course, this encourages a competition for technologies that will allow us to recover these minerals by using less energy.

So this is our plan. We have been going well. Our recovery rates are very high, 92% to 95% of the main minerals, with low energy consumption, which makes the process more economic

and, of course, with a higher yield. Out of 100 units, you need to recover a high percentage of that to put into a new battery.

Fernanda Urbano:

Good morning. Thank you for taking our questions. We have 2 on our side. First, I would like to ask you about the more traditional segment, heavy-duty vehicles and international markets. You have talked about reduced volumes with your clients this year and better perspectives for North America next year after the elections. So what do you expect for this recovery in terms of a timeline? Should we expect a recovery in the 1H25? Or should it take place more gradually for North America?

Secondly, I would like to understand your vision for Europe. I know that this represents a smaller share of your business, but we hear other companies talking about difficult perspectives for heavy-duty vehicles. So that's my first question.

And the second question is, if you can tell us a little bit more about battery recycling and the other initiatives you have been investing in such as bioplants. If you can make this a little bit more tangible, what is the Company's long-term strategy? I am trying to understand which of these initiatives have the biggest long-term potential. So which initiatives you believe will be most significant on a 5-year horizon? Thank you.

Fernando Cestari de Rizzo:

Fernanda, thank you for your questions. These are very broad questions. So let's start by talking about the market. Regarding the market, what has happened is that there is excess capacity for trucks in our industry. And this excess capacity has reduced the price of shipping. It has also reduced fleet occupation rates. And at the current moment, we have a very young fleet. It is fully renewed, we can say.

So since transportation companies are having less revenue, as I mentioned, 60% on average, and since interest rates have been less favorable, they stopped renewing their fleets. They backed down.

So this is the current scenario, and we are adjusting to it. The effect on Tupy is not necessarily connected to this, because we are in long chains. Our business model in Tupy is to produce in Brazil and Mexico and export to other regions. And this means that we have higher inventory levels across the system.

In some businesses such as off-road vehicles, we have bigger inventories throughout the chain. And when sales drop at the end, this volume that was appropriate in number of days, is multiplied. And it creates a bullwhip effect, so in the beginning of the chain, there is an interruption in purchases. And this is what has been affecting us right now. So we are seeing a drop in the Company that's even higher in some specific industries than what we see in the market. Rebounds are also very fast when they do happen.

So our belief is this: the changes that we have seen and, of course, with early signs for the new administration, show that when we compare to our prior history, we had a very similar year in 2016 because of a reduction in volumes. And then in 2017 and 2018, our revenue went up by 40% from 2016 to 2018. This was gradual. So 14% in 2017 and 30% in 2018, because there were new policies that reduced taxes, that reduced acquisition costs, there was deregulation, and that created incentives for this entire volume. So we do believe that there will be a change to the system, but for now, we are keeping track of it.

Of course, we are looking at the data, as you know, you also analyze these things. And we are seeing some factors that do show that there's no need for it right now. But with a new administration, we should see different volumes. So we are monitoring this. We are not acting on it yet. And we are preserving the Company's cash. We are not producing in advance. We have been very cautious because of our cash generation policy, and that ends up penalizing our margins. And I can tell you a bit about that later.

But first let me answer your other question. What do we see today? The hydrogen project, the battery project, and the ultralight iron project should start having results soon. They have a lower TLR right now. So we believe that we will start seeing results within 3 or 4 years. But there are other projects that are close to being ready. So with bioplants, we are investing in them. We have had great CAPEX in 2024 in bioplants. We started with the Primato plant. And we have been cautious because this industry has had some challenges recently.

As a reminder, our bioplant project collects waste. So you generate revenue by collecting waste, you generate revenue by selling biomethane and fertilizers. There's also CO2 and other potential such as electric power.

But let's focus on biomethane and fertilizers, which are the main revenue lines. These projects can stand without requiring subsidies according to our model. We have been talking about decarbonization and our challenges to foster the organo-mineral fertilizer market.

We have been pleased with how this is advancing, and we have been talking about what is the best model through which to sell these goods. As soon as that's ready, we hope to give you this information very soon, as we have clear information on how this will be modeled, but I can assure you that there is a lot of interest in it. The model we developed is very solid structurally. Technically, it's very well made, and we hope to bring news soon about this industry.

As a reminder, we announced a project with JBS, and of course, we are talking to the other players in the protein industry to find the model that will give us stability. We are not a fertilizer company. So we have been very careful about creating a high-quality product. So the same model that Tupy uses with good engineers and good technical people designing it, we are trying to do something similar. High-quality, outstanding product. But of course, we have to understand the distribution chain, how it's going to work and how we can create a model that is safer for our shareholders to trust us, so that we can continue growing.

Personally, what I have been seeing is that there's a lot of potential in this business. As soon as the model is clear, it will scale up very quickly.

Another point that's very important and advanced is our ethanol and biomethane engines, vehicle transformation. This is a project that has been under development for a number of years. We have been talking to agricultural companies and transportation companies to replace their engines for ethanol and biomethane engines in tractors, trucks, and we see a lot of potential for this next year.

In the maritime industry as well, we have been studying how to do this. We are focusing on the work boat industry rather than leisure vessels. This is a strong industry in the Brazilian north. So we have tugboats, we have transportation ships in the Amazon River and in other river basins, the barges in Santos, in São Sebastião. There are piloting boats that are using our engines.

We are adjusting this to Brazil to make it more economic. And the good news is that this market basically uses imported goods. So we are going to invade this market. We have a lot of

potential. We have a strong brand, a distribution network, and this should advance significantly.

Another highlight is our replacement business, which is already mature. It has a revenue of about R\$500 million a year or thereabouts, and this is a business that we believe can grow significantly. We have the second biggest parts distribution network in Brazil. And we are focused on truck replacement parts, but also agricultural engines and construction engines.

Brazil is a very big country, and this network was built over 70 years, and we are exploring this now with products for other brands of engines. So we have been growing by double-digit rates, because we are including new products in this portfolio, and we believe that this growth will continue for the next years and quarters, because it's an industry that we really believe has a lot to grow still.

Our business is still relatively small, and our distribution network is very mature, not only with stores, but also with service quality that's being provided to our representatives, our distributors.

So these are the main industries where we see growth. And I forgot to talk about generators. Generators are also mature. They have been growing. There's also a discussion there on machines being imported. We have to understand this industry carefully, because we are very competitive, we have very good products, and this network also services it very well.

So these are things that we are learning. Even the team from MWM, which is very well trained, very able, they have been making great work, but they are connected to a manufacturing company. So they had restrictions in their activity. We are all very engaged, and we have been advancing in this industry.

MWM has had great growth within Tupy, double-digit growth rates, and we believe that this will continue because even with our proposal to assemble third-party engines and everything else, these are very technically sound solutions. And you can check with the market. Our brand and our products are high quality, and that's how we are going to be able to expand our business.

Gabriel Rezende, Itaú:

Good morning. Thank you for taking my question. I have an additional follow-up to what you mentioned about volumes. I would just like to understand if you are seeing any effects from China here. I know that you are mostly looking at the U.S. and Europe, but since China is exporting deflation, are end products being impacted by Chinese products? We have been seeing this with piledrivers like vehicles in Latin America. So I would like to understand if some of your reduced volume can also be explained by that.

Fernando Cestari de Rizzo:

Yes, Gabriel, you are correct, and thank you for reminding me about that. So first, looking at the American market, we supply American companies, which should benefit from this. So yes, Chinese products have been invading the market, construction equipment, agricultural machinery, small trucks, generators, and all of this has been affecting our clients' business. You know who they are, you can imagine what's happening.

This is also happening to the domestic market. We are looking at that and trying to understand it, because without a doubt, this is true, and this seems to be unfair competition. We are still checking, but that is potentially true.

So I mentioned this during my opening statements, because it's true that we should see our clients gaining market share. Our product is in Brazil, and if Brazil starts taking some protection measures, this should also happen. This is something that we have been defending. And we should grow along with our clients in the U.S., in North America, and potentially in Europe as well.

Gabriel Frazão, Bank of America:

Good morning. Thank you for giving me a question. I have a question about the heavy-duty vehicle market in the U.S. Do you believe that this younger fleet and lower shipping prices will reduce your prebuy for 2025, or at least postpone it for the 2H of the year?

Fernando Cestari de Rizzo:

Gabriel, thank you for your question. So just referring back to Gabriel Rezende's question, I would like to add something. As soon as these policies have been announced, as soon as there was a change in administration, we saw that share prices for our clients went up by 8% to 12%, because they were seen as the winners in this process and everything that should come as a consequence of the new policies. So this is not connected to Tupy. No one connected this to our business, but we are directly connected to this trend. So this refers to the new products that these clients are going to make.

To answer Gabriel's question about fleet age, of course, we are listening to our clients, and that's how we get prepared for this new movement. This movement in 2027 will have a high cost. So replacements will have a high cost. The American economy is growing, and we have to keep something in mind. Trucks are being used. The fleet is being used right now. It's having wear. And these companies are very organized when it comes to maintenance, when to replace their fleet, and when to get ready for the next cycle, considering that vehicles will be more expensive.

They have also learned that discounts in buying new vehicles in the last year are smaller, so the actual cost of a vehicle is higher. So it's very likely, and this is what we have been hearing from OEMs, that they have clear indications that this cycle will start in the second half of 2025, and will continue throughout 2026.

But of course, this full calculation is important, but we have to look at the economy that will be growing. Machine use rate is still high, and this all, of course, will affect the entire process. So we are getting prepared for the 2H25 for the markets to recover.

Kiepher Kennedy, Citibank:

I have a couple of questions. First, continuing Fernanda's question, you mentioned that you would give us more details about your margin impacts, considering that you are focusing on generating cash and the traditional market, the international market for heavy-duty vehicles. If you can tell us a little bit more about your margins.

And my second question is, in Brazil, considering predictions for agribusiness in 2025, if you are seeing any demand from farmers that may point towards an improved situation in this segment. Thank you.

Fernando Cestari de Rizzo:

Kiepher, about margins, what I wanted to say is this. Our operation is very big. It involves a lot of energy, a lot of people, there are many assets. So whenever you have a major change to the volumes, whether it is up or down, when it's down, it's hard to hold your operation. You

end up using working capital, you generate inventories, which improves margins, because costs are being diluted in your inventory, but you have lower cash generation for the Company overall. So we have been very assertive in focusing cash generation despite their effects on margins.

Another point that I would like to highlight is this. We have had restructuring costs of R\$11 million this quarter. We spent it to develop new businesses. Everything I mentioned now that do not generate revenue yet, especially bioplants that have a high cost, it's a big team developing this, and they are doing extraordinary work, but when we look at a quarter's snapshot, it's simply an expense. And this costed us R\$20 million this quarter. And we also had logistics challenges that led to an expense of R\$10 million above what we had scheduled because of this variation.

Some prices are outdated because we had high inflation rates after the covid pandemic in Mexico. Now there's been a change to foreign exchange, and there's still something that we have to make up for. But if we consider only these 3 things I mentioned, our margins would be very close to 14%, which is an actual margin when you look at the Company's historical basis. We didn't have new expenses, new investments, operational costs so concentrated in the past. So I am asking you to look at the quarter's margins carefully, understanding these effects.

This has been the Company's decision to use R\$20 million to develop new businesses because we believe that the Tupy model, well, Tupy is too big and its business is 100% connected to car manufacturers.

So that's why we work with long-term contracts. We do not have a lot of space to change. We have a lot of obligations in these contracts. And when the market is affected, we absorb a lot of these issues. And that's what creates situations like the one we are in right now.

What we are designing for the future of the Company is to diversify our revenue into anti-cyclical industries. So that's why we are allocating capital to this even if it impacts the Company's margins. If I had a 13.5% or 14% margin, we would see much more positive headlines. And I believe they should be more positive because we are investing our capital to something that's transforming the Company. And I hope that over 2025, you will see a lot of news about the businesses that we are making in these new industries, which demonstrate our long-term investments for the Company to make it stronger and more resilient, of course, and also to make use of the opportunities that we are seeing right now.

So your question is very important because these decisions are very important. We have to learn in the Company to be more agile when we see these new trends. How do you reduce costs? How do you adapt faster? This has been an ongoing exercise because, of course, right now, we are a combination of 3 major companies. We have cultural issues to adapt to.

The Company grew a lot recently. I would really like to thank my team for their dedication and for doing what they have been doing, because even despite such a difficult moment in the market right now, we have a lot of employees, we have 19,000 employees in the Company, but we have been able to adapt. The Company will be restructured. We are not going to let go of the decisions that are important for the long term to favor a single quarter.

We are going to continue to make decisions on new businesses and on restructuring the Company's business overall. And this is due to the acquisition, to the products that we are moving and, of course, by shutting off some assets. We have overlapping assets, so we will need to shut off some of the less efficient ones. So this is what we are doing every day when we come to work.

Kiepher Kennedy

Thank you for answering my first question. I have a second question about agribusiness in 2025, if you can tell us a little bit more about that.

Fernando Cestari de Rizzo:

We do believe that the harvest will be 8% to 10% higher next year. So agribusiness should grow. We haven't been receiving any orders for products for farming equipment right now, but the Company is moving in the direction of agribusiness with our bioplants, with motor pumps, with generators. We are all looking at the agribusiness industry. We are talking about biomethane, ethanol engines. This market will use fuels that they can produce themselves.

So our sales for agribusiness will grow significantly next year. And it's not going to be just a traditional business. It will be these new specific products that is being demanded by agribusiness that are not available in Brazil.

I am sorry for taking some of your time, but we have to reflect on this. We have been drilling for oil offshore, we are refining oil onshore, and we are using a lot of diesel to take 1 liter of diesel to the Brazilian Midwest or to the Amazon River Basin.

It does not make sense. We have to produce our fuels there, whether it's biodiesel, ethanol or biomethane. We have biomass and it's going to waste. And it can be productive. We have been running tests. We have been investing a lot in developing engines. This can be done in a better way than by using diesel.

So that's why we are focusing a lot of the Company's efforts in bringing solutions for Brazilian agribusiness, which are not available yet. They use machinery from international companies that bring their engine solutions from other countries to Brazil, and we want to give our clients an option to replace their engines and their equipment with equipment that use fuels that can be produced here.

So we believe that the sugarcane industry stands to win from this, the protein industry. Vinasse is being wasted and it can produce biomethane. Ethanol can be used and you can use it very efficiently in comparison to diesel. You can produce biodiesel from soybeans. You can have biodiesel fueled ships. So we are going to gain on selling equipment, and also in the parts and services industry to supply these clients.

Operator:

So I think we can close our call. This concludes the questions-and-answer session. We will now give the floor to Mr. Fernando for his closing remarks.

Fernando Cestari de Rizzo:

Thank you for your attention once again, everyone. I would just like to mention that the Company produced these results in an environment with low volumes and with excessive assets and duplicate actions in the Company.

Many of the expenses that we have been accumulated are making this company a lot more efficient. We are using a lot of money moving products within the Company in order to make the Company run with fewer assets with better volumes, because volumes will bounce back, they are cyclical.

And when I look at the long-term margins, we see the same ones that we are seeing this year. We believe that we will go back to the traditional margins that we had by 2018 or 2019, before the acquisitions, which is about 14% to 15%. So that's the first thing I would like to mention in closing.

But above all, I want to highlight how much our discipline has made a difference in executing our strategy and has helped us to overcome smaller volumes, logistical challenges and others. So this drive remains unchanged in building the projects that we envision for the Company.

We are going to reach the efficiencies we want, and our efforts will become more intensive in 2025. Although we have a poor scenario for now, we believe that we have a lot of potential for this to change with the new business perspectives that have appeared recently.

So all of these cost reduction initiatives have permanent effects, and as soon as demand bounces back, we are going to see even better consequences to our gross margins, and we will be able to expand it, as we have been able to do it this quarter. Our cash generation in the last 12 months, as I said, was the highest in our history. Even when we compare to 2023, which had already been a record, we basically doubled the amount we reached in the 9M, a 97% increase.

So this all goes to show how disciplined we are in controlling costs and how fast we are in making decisions in challenging scenarios, and in how we allocate our capital. The same rigor will be the basis for our future growth. Our new businesses have been developed based on a lot of research.

This is our history. This is what Tupy and MWM does. We do not do anything if it's not a technically well-developed solution. So our traditional business is exclusively anchored on OEMs, and our new business initiatives are seeking recurring revenue lines in anticyclical markets where we have more freedom to set our prices.

So the results so far have been very motivating. We have seen initial results from bioplants, the maritime industry, and the application of biofuel engines in transportation and agribusiness companies in Brazil. So we remain firm in our intention to offer higher added value products and services to diversify our revenue sources and to enable the Company for a multi-fuel future.

Thank you very much, and have a good day.

Operator:

This concludes the Company's conference call. Thank you for listening, and have a good day.

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