International Conference Call
TUPY S/A (TUPY3)
1Q21 Earnings Results
April 29th, 2021

Operator: Good morning and thank you for waiting. We would like to welcome you to the conference call for the earnings for Q1 2020 for Tupy.

All the participants are connected only in the listen-mode only and soon we will have the Q&A session when further instructions will be supplied. If you need the help of an operator, please dial* 0. This conference call is being recorded.

The company would like to remind you that this event is being transmitted simultaneously via the Internet: www.tupy.com.br/RI where you will find the presentation. The selection of the slides will be controlled by the participants.

Tupy clarifies that any declarations made during the conference call concerning business perspectives, financial perspectives, concerning of the company's business are forecast based on the company's assumptions. These expectations are highly dependent on market conditions, both domestic and international, and the economic performance of the country. They are subject to change.

Together with us we have Mr. Fernando Cestari de Rizzo, CEO, and Thiago Struminski, CFO.

Mr. Fernando you have the floor.

Fernando de Rizzo: Thank you and good morning. I thank you all for participating in our conference call. I would also like to thank our more than 14,000 employees for the performance during Q1 and the effort due to the pandemic.

Beginning with slide number 2, we highlight that Q1 continued with the growth trend, recovery trend that we saw in past June, as we can see on the graph on the left. We surpassed the volume sold in Q1 2020 by 15% with growth in all the segments and geographies, this due to the solid sectors and diversity, the recovery of the economies, and the investment cycles in important segments. We will give you more details during the conference call.

Net revenue of the company reached R$1.5 billion realize, a growth of 41% in comparison with Q120 and the highest net revenue in the company's history.

Now going on to slide number 3 with some highlights of the performance of our operations, once again we had a very strong quarter when we had the highest operational profit and EBITDA of the company in a first quarter. in March especially, we had the absolute highest EBITDA in the history of the company, so during time we have increased our operational efficiency, we developed greater flexibility between plants, and we implemented new initiatives in purchasing and logistics, this helped to mitigate the effects, many effects that had an impact on our costs in Q121. For example, a strong increase in the price of raw materials, both in the annual comparison and also in relation to the previous quarter with some prices already readjusted according to contract clauses.

Apart from cost, the scarcity of materials caused loss of efficiency, we have to evaluate new alternatives in our mix of raw materials every single day. We also noticed stoppages or shutdowns due to climate problems in the US, which affected the supply of electricity and natural gas in the North of Mexico where we have plants.

The effects of the pandemic, although we are living with this scenario for more than a year, the impact on people's health in the regions where we are present was greater in this quarter, apart from increasing absenteeism due to the safety protocols adopted, this impacts our operation; we have to reallocate people in key processes and also we have to increase overtime.

The increase in absenteeism, especially the increase in demand since November, for example, we hired more than 2,000 you employees. Although it's good news since it shows the increase in demand, there is a learning curve that has to be overcome and this promotes some inefficiencies.

If we excluded all these adverse effects, EBITDA would surpass 250 million, reaching a margin that will be higher than 16%.

On slide 4 I would like to mention once again that we issued debt abroad in February, the demand for this shows the trust of the capital markets and also the robust situation of our company reducing our expenses by US$6 million per year.

Now to talk about the main indicators, I invite Mr. Thiago Struminski, our CFO.

Thiago Struminski: Thank you, Fernando. Good morning.

Slide number 5, please. The volumes continue with gradual recovery since June last year. We'd like to highlight applications for commercial and off-road vehicles, the mix transportation, infrastructure, agriculture 25%, totally or partially machined versus 25% in Q120, while 25% produce CGI versus 23% in Q120.

On slide 6 the revenue had an increase of 41% and the revenue per kilogram grew 23% when we compare with Q4 2020, the revenue went up 22%, 66% in NAFTA, 18% South and Central America, especially Brazil, 12% in Europe and the remaining 4% Asia, Africa, Oceania.

In terms of application, 90% commercial and off-road vehicles, 6% passenger cars, and 4% hydraulic products.

On slide 7 we see in the domestic market a strong recovery in the domestic market for commercial vehicles, machinery and off-road with an impact of the exchange rate on indirect exports.

Here on slide 8, we see the revenue in the export market. We see growth in all the applications. In applications for passenger cars, also light, medium, and heavy vehicles, we see the positive result and recovery in these markets, also replenishment of inventory in our clients, and also the exchange rate.

Machinery and off-road vehicles we also noticed in Q1 a global recovery for the market in these applications, especially the growth in agriculture, infrastructure, and also the impact of the exchange rates, the devaluation of our Brazilian currency.

On slide 9, we see here the performance of hydraulics, responsible for 4%, the growth in revenue of 50 and 52% in domestic and external markets respectively, a better mix of products also in Brazil. In exports, apart from the exchange rate devaluation, we also see an unmet demand of clients in Europe and the US.

Slide number 10, we see the cost, and operational cost had an increase of 45% with a margin of 15.5%, an increase of 78% in costs with raw material due to inflation that we saw in this period, also devaluation of the Brazilian currency, especially with the inputs in the Mexican plants, and also an indirect effect of these materials consumed in Brazil. This high increase in costs, especially the price of scrap, show these effects were mitigated by our initiatives that we implemented during the quarters, such as: Renegotiation with vendors, optimization of the use of materials, reduction of waste, and renegotiation of contracts with suppliers, 17% higher costs with labor, especially due to the increase in headcount, more overtime for higher products produced, and the increase of absenteeism, especially due to the safety protocols we adopted during the pandemic, and also wage increases and the exchange rate, reduction of 6% in maintenance and third-party materials.

Apart from the impact of inflation, we had a reduction in services by third parties and renegotiation of contracts, an increase of 28% in expenses with electricity due to the increase in the volume produced, and also the tariffs with the annual comparison, and also the exchange rate since in Mexico electricity is paid in US dollars. Also, we had a shutdown in Mexico 2 weeks due to lack of electricity and gas with an impact on the lines and also lower dilution of fixed costs totaling R$18 million.

Operational expenses had an increase of 19% year-over-year due to the growth in sales and also greater usage of freight, also more flexibility in production, and renegotiation of wages and also exchange rates.

On slide 11, adjusted EBITDA reached 199 million, an increase of 21% in comparison with Q1 2020 and a margin of 12.9%. EBITDA calculated according to the stock market was 173 million, margin of 11.2%, absolute values are the highest in the company's history for a first quarter.

At the bottom, you will see that we had a net loss in Q1 R$15 million, especially due non-recurrent financial expenses. In the next slides I will explain these effects that had an impact not only on the results, but also the EBITDA.

On slide 12, a little about the increase in the price of materials, like scrap. We notice this effect since September last year and it became stronger in Q1 this year. With the recovery of the global economy, there has been more demand for raw materials, at the same time, as the supply chains are still recovering from shutdowns due to COVID-19, this really causes a problem between offer and demand. Above all, we see a recovery in our segments, an increase in the price of commodities is the result of better economic activity having impact on capital goods, off-road and commercial vehicles that represent 90% of our revenue.

In Brazil, this effect is stronger due to the devaluation of the Brazilian currency and also greater demand for Brazilian steel, an impact on the price of scrap, which went up 34% in comparison with 2020 and 76% in a year.

We developed many actions to guarantee the supply of steel and mitigate the increase in prices developing new vendors, initiatives to optimize the use of materials in production and others.

It’s important to highlight that our contracts have clauses that allow us to pass on the new prices of materials, but this takes time, it takes 3 months. Since in the previous quarters the increases in costs happened in Q121, during this year we will increase prices, but our prices now are outdated.

Slide number 13, in spite of record numbers, the EBITDA of Q1 was affected by non-recurring effects. I would like to highlight the shutdown the stoppage of lines in Mexico for 2 weeks in February due to lack of electricity and natural gas due to a snowstorm in Texas, the effect was 23 million. We mentioned here the 18 million in labor, energy, and lower dilution of fixed costs, so our contracts foresee that we increase prices, but our prices have not yet been recovered, so the difference is 33 million.

When we exclude these nonrecurring effects, these temporary effects, the EBITDA would be higher than 250 million, and this would allow us to have a margin of 16%, an effect of 320 basis points. We also felt the impact of the increase in absenteeism, especially in Brazil due to health problems of employees during the pandemic.

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On slide 14, I talk about the impact of the repurchase of bonds. We issued bonds and we bought back bonds, especially the financial results in the next few years. In order to have a longer time and reduce the cost, in February we made an issuance abroad, we saw great interest for our issuance, they demanded 10 times the book. These resources worth US$375 million were used to buy back bonds of 2024 with a cost of 6.625 a year. In comparison, a recent issuance now for 10 years is paying 4.5% interest, then this gives a savings of US$6 million.

These purchases also have some expenses that are one-off, the premium for the repurchase, and this gives us financial expenses with cash effect of R$58 million, the impact in net profit after taxes is 38 million. In other words, we would go from a loss of 15 million to a profit of 23 million without this buyback.

On slide 15, we have the main accounts of working capital using Q420 as a basis for comparison, an increase of 18 days in Accounts Receivable due to seasonality and greater volume of sales in March 2021 versus December 2020, also higher receivables had an impact due to the exchange rate devaluation because 86% is in foreign currency, a reduction of 9 days in inventory, the company had the strategy to increase flexibility between plants and during the pandemic we increased the level of inventory to mitigate any risks related to lack of products for clients since we are very important in the supply chain of our clients, and this situation will become normal during 2021. This line also suffers from the exchange rate effect and they correspond to 5% of the total.

In Accounts Payable, we had an increase of 10 days in Accounts Payable due to greater production and greater purchases and also the higher prices of inputs, and this represented until the end of March 52% of Accounts Payable.

On the next slide, we made investments 32 million, a drop of 16% in relation to last year, representing 2% of the revenue in Q121. Considering the last 12 months, Capex represented 2.8% of the revenue in the period. these investments are related to new programs and machining projects, and also initiatives linked to safety and environment.

Slide 17 shows our operational cash flow. We continue with strong cash generation with a nonrecurring effect of 58 million in the financial results explained previously. We generated R$9 million in the period. I'd like to highlight that seasonally the Q1 consumes more cash due to the greater working capital variance.

On slide 18, we show the net debt of 907 million corresponding to 1.4 times adjusted EBITDA in the last 12 months, total of obligations in foreign currency represents 94%, the greatest part is linked to the bond with a single amortization in February 2031, interest rates of 4.5% paid every 6 months.

In relation to cash, 40% is in local currency, we are in a very comfortable position in spite of the amortization of loans worth 195 million, we have the 1.4 times

EBITDA in the last 12 months, we had a negative EBITDA, this should improve when COVID improves.

Now I'd like to pass the floor to Fernando, he will talk about our markets.

Fernando de Rizzo: Thank you, Thiago. Slide 19, please, we will talk about the recovery of the US economy and its effects around the world.

The US has led the global efforts for vaccination, 40% of Americans have already received the first dose of the vaccine and 28% of the citizens have received all the vaccines. The recovery of the economy together with a package to stimulate consumption makes projections for growth of the US GDP for 2021 to be constantly seen as higher and higher. This impacts also international trade with an increase in demand for raw materials and imported products with a strong effect in the clients, where our clients have exposure, like transportation of cargo, construction of homes, infrastructure, and agribusiness, amongst others.

Additionally, there are programs aimed exclusively at infrastructure, which are being discussed in the Congress in the USA and could leverage even more our demand, the demand for our products.

In the next slide, the positioning of Tupy in strong segments fundamental for the recovery after the pandemic. Our revenue comes mainly from countries with dynamic and strong economies, which are benefiting from low interest rates, stimulus to credit and government help programs.

On slide 20, we have some points that reinforce the recovery of demand. In the US, the freight activity is already stronger than before the pandemic and projections show consecutive positive reviews, which should bring a new cycle of replenishment of trucks, medium and heavy trucks this year. Our inventory levels are very low, also the recovery in generation of employment in the US has been positive, in March the US generated 916,000 jobs, previous indicators like housing starts also show that we should need more light and medium commercial vehicles and also construction machinery.

The high prices of commodities should result in high demands since they are an important lever for the off-road equipment market.

In relation to the Brazilian market, the production of trucks had a growth of 34% in Q1 2021 in comparison with the same period in 2020. Apart from this, agriculture continues strong, demand in transportation for cargo and investments in machinery and equipment.

In the next slides I will talk about 2 important initiatives announced that show good signs for our business; sustainability and innovation. Going on to slide 20, last week we launched our Sustainability Report including, apart from indicators, our practices in relation to the environment, social, and governance with a highlight for our role in fighting the pandemic. We also showed how sustainability is truly part of our business since the circular economy, recycling of wastes, and also the company's role in decreasing the carbon footprint and also reinforcing the need of our products being part of machinery and equipment that contribute for a better standard of life and a longer life.

The report also showed many points about our company, a process that involved many analyses of documents, policy studies and also hearings with the population with 735 answers, with many stakeholders including our leadership and the administration council, thus, we saw the important topics that will guide us in our journey.

I would like to mention that many of those who are hearing this conference helped in this, they participated in interviews and also sent us back questionnaires. Thank you for your contribution.

On slide 22, we will talk about innovation. Since its foundation, Tupy always had a strong commitment with scientific research working with universities in Brazil and abroad for 50 years now. This relationship contributed for Tupy to become a world reference in the development of structural components of high complexity. We want to make more and more progress in this chain developing new alloys and offering value-added services, such as machining and assembly of components.

During the years, we've developed a great knowledge in important fields, such as metallurgical engineering and materials, chemical processes, circular economy, and recycling, and within our strategic planning, we have been studying for some time new areas of applications for our technologies where we can add our expertise and generate competitive edges, especially in decreasing the carbon footprint of our clients.

To expand this movement and to make stronger our leadership in industry in our segments, we are strengthening innovation creating 2 new areas in the company: Tupy Tech and to Tupy Up. Tupy Tech aims at research and development that is disruptive designing the future of solutions to be offered by the company and especially those that will enable us to continue with our technological leadership in the segments where we are present and in the search for new businesses.

Now Tupy Up has the focus of digital transformation and open innovation. The name “up” comes from the clear intention of elevating the bar in many senses: results, growth, competences, and capacities, and reinforcement that innovation can bring. Although they are in specific structures, we'd like to say that many initiatives were already being used by the company, the most recent is the partnership signed with the University of São Paulo for an applied research process in the recycling of batteries. The program will take 2 years and will be conducted by our recycling lab and also the treatment of waste from the

Polytechnic school of USP and will count with 15 researchers and investment of R$4 million.

The study has synergies with the segments where we are present and will have the objective of using the process of hydrometallurgy, which has the highest rate of recovery and issues the least amount of CO_2 in comparison with our traditional things.

Now talking about 2021, we have a very promising year with growing demand and an increase in the services with high value-added services. In the pandemic, the higher costs due to the pandemic are challenges that we will continue in the next quarter. For this, we will continue investing in the increase of our operational efficiency and the capture of new opportunities.

We will also have the challenge of integrating the Teksid to purchase, recently received the approval from the authorities for the acquisition of the casting, iron casting of Teksid. The process is not over, we're waiting for approvals from the US and Mexico. It is an asset that is very strategic, it is the company's largest plant and has the greatest opportunities of synergies.

Now talking once again about innovation, soon we will have more news showing the expansion of our presence in the ecosystem contributing with entrepreneurship.

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

Question-and-Answer Session

Operator: We would like to begin our Q&A session. Please, to ask question dial *1. To remove dial *2. This conference call is for analysts and investors.

Our first question comes from Gabriel Rezende, Itaú.

Gabriel Rezende: Good morning, Fernando, Thiago. Thank you for the presentation, congratulations for the result. Two short questions and a follow-up about Teksid. Can you give us an update of the conversations in the US, the timing for the approval in the US? We'd like to know.

And the second point in relation to margins, Tupy had a third quarter that was very strong last year and some nonrecurring expenses, so how do you expect to see the evolution of this during the year? What is your opinion about margins in the next quarters?

Fernando de Rizzo: Thank you, Gabriel, good morning, thank you for the question. I will begin answering about Teksid and Thiago can answer about margins.

The process in Brazil is over, we got the approval for Teksid, and from the US we expect an answer until July and authorities have told us and they are concluding their analysis, they should give us an answer in June-July, and Mexico later after that. So, we expect June-July to have the full approval for the purchase of Teksid.

Thiago Struminski: Concerning margins, in fact, we had a much higher margin when we began to suffer a strong pressure in the cost of material, especially metals, so in Q4 we had this effect, so we had 14.6 the margin and then it became stronger in the beginning of the year. So, we have this mismatch, which should continue. When we began, we expected different things, so this problem should decrease, so margin should go up so this mismatch will drop, and the volumes are strong. This is what we expect for the next quarters.

Gabriel Rezende: Thank you. So, just to confirm Teksid: the decision from the US should be in June-July and Mexico 30 days after the US?

Fernando de Rizzo: Yes, this is what we expect, this is how the process works. The analysis is in progress in Mexico, but we know from previous cases that it should happen this way.

You asked about the process, Gabriel, they look at the subsegments in the market, every subsegment has a specific characteristic, for example, heavy trucks, pickup trucks, light trucks, machinery, so there's this universe, imports, so it's a regulatory process. In the US, we have the new NAFTA which places some restrictions in some sectors, so this analysis is more complex because of these points. This is what is happening.

Gabriel Rezende: Thank you.

Operator: Our next question comes from Catherine Kisler, Bank of Brazil.

Catherine Kiselar: Thank you for the question. My question has to do without the automotive industry. We saw some problems in supply. How do you see this segment and the recovery of inventories?

Fernando de Rizzo: Thank you, Catherine. I believe that we have a small role in passenger vehicles. Passenger vehicles I can see they're going through important transitions due to the technology and the sale process or the usage of vehicles by new generations. Our participation is very small in passenger vehicles, we have some structural components that we supply to passenger vehicles. In the case of the markets where we are present, light commercial vehicles, pickup trucks in Brazil and abroad, medium size trucks, and heavy trucks, we see a very favorable market because all these governments stimulus packages they are offering many opportunities, the sales of our clients in all the sectors are very strong, sales are very strong in our clients, they are having difficulty in producing the vehicles due to semiconductors.

We're suffering a lot due to the scarcity of raw materials and the price is a reaction to the scarcity because we suffer for not only with the lack, but also due to the variety available. So, we are not being able to have a more efficient mixture in our ovens, in our furnaces, but I know that semiconductors are a problem. In the vehicles you have dozens of semiconductors, in the doors, in also raising the windows, in the engines, yes, there are semiconductors.

So, what we have seen, some of our clients that have integrated lines have preferred semiconductors to be used in truck plants because the system is the same, you can sell a heavy truck with the same semiconductor and the profit margin is higher in trucks, so they have preferred to use semiconductors in trucks. But they have suffered too.

If you noticed in the last 5-6 weeks, some pickup trucks in the US had to stop and this has an effect on industry, inventory is low and I believe that demand will not drop, there's a lot of liquidity, low interest rates for investments or buying vehicles and that's why we see a strong market not only this year, but the next few years too.

All these plans, the plans that are being discussed for infrastructure they have important impacts for construction equipment, trucks and all the accessories systems. For example, if you are selling more homes, so, for example, more efficient house appliances, so the whole economy is really better, and we participate with our products in many of these areas.

Catherine Kiselar: In terms of these packages, how do you expect to capture the resulting growth? So, will you invest more in some regions?

Fernando de Rizzo: OK, excellent question. We are studying that, the investments, we have a strong demand right now for our products but without these new packages of stimulus from the governments.

So, what we're doing; we have a lot of capacity available, we always told you this, some of our assets we have not invested in them in the last few years because they are dormant, it's an economic decision, so we concentrated on the assets that give us more cash and some equipment we have shut down. This can change because the cost of the investment for Tupy to activate this capacity and make it more efficient is relatively low in relation to other investments in industry. So, naturally, as demand increases, as clients demand more products, we have conditions to react and we're getting ready.

For the time being, we're not investing because one of the advantages of our industry is that we don't have to invest, we can discuss the orders and we have the time to expand our activities with contracts already signed.

So, we have observed this, the winners in this process will be our clients, our clients will be the winners, the large manufacturers of trucks in the US, machinery manufacturers, and the same in South America. In Latin America, with the lack of infrastructure because of the pandemic, so we are paying a lot of attention to this, Tupy has surplus capacity, Teksid is also helping us the acquisition, the plant in Brazil has a lot of surplus capacity and Brazil is very competitive in our industry.

You know us well, you notice that every time we have a drop in volume, we sell in Brazil… every time we have a drop, we begin to use more Brazilian plants because Brazilian plants are more competitive, so we are ready with high-quality, with an excellent team.

So, there's a positive outlook and this is very similar to what we saw in 2010-2011 when construction was very high around the world with packages of incentives and I said this in some conferences in the past: the restructuring of the market, the incentive packages from governments, the need to generate jobs, and the renovation of infrastructure should be very favorable for our company.

Now you asked about the automotive sector. It's good to separate capital goods from others, motivations are different. Tupy is concentrated in capital goods.

Catherine Kiselar: Thank you. A third question, concerning the shutdown of lines in Mexico, do you see any effects in the next quarters?

Thiago Struminski: No, no effects. We made clear in the financial report the impact was 18 million and 5 million of lost sales. That's the total effect, it will not continue in the next quarters.

Catherine Kiselar: Thank you.

Thiago Struminski: Thank you.

Operator: Our next question comes from Pedro Santana, Bradesco.

Pedro Santana: Good morning, thank you. My first question involves the purchase of Teksid. How do you see the effect of the restrictions placed by the authorities?

My second question, if we remove the shut down in Mexico and the increases in raw materials, we would have 16% margin. Do you believe 16% is a sustainable margin in the future?

Fernando de Rizzo: OK, let's begin with the purchase of Teksid. First of all, it's positive, our objective it is a company, for example, in Joinville we export 70% of the production, the plant in Joinville. Brazil is very competitive structurally, also in the inputs, and we have an engineering team that is very good and prepared in Brazil capable of giving us good results.

Teksid also has a lot of capacity, but we should remember that the are… they always operated with most of the sales to the Fiat plants (today it's called Stellantis), but in the past you had Keizi, New Holland, all these companies are associated to the Fiat Group, so the authority said of the sales in Brazil, excluding everything that is exported, everything that is part of global contracts and everything that is sold to the headquarters, to Fiat or CNH, have no restrictions, and a fraction of the rest, yes, that goes to the market.

So, it's a fraction of the domestic market that is affected and the result is very positive. So, it's a small effect and the important thing in this transaction is to see how we can cooperate in the global market, we are strong in Brazil, but the export market is also very important with competitive production and this we have done it in all our history. The result is favorable.

Thiago Struminski: Concerning margin, we highlight that it costs us 23 million the shut down in Mexico and 5 million in raw materials. So, this is the margin with the price of these raw materials right now. So, we have very high prices. When raw materials are very expensive, we have a lot of EBITDA, but the margin is diluted. When the price of raw material goes down, then our profit goes up. So, we can develop high margins like this one, but this is for this quarter.

Pedro Santana: Thank you.

Operator: Our next question comes from Marcelo Motta, JP Morgan.

Marcelo Motta: Good morning. Two quick questions. if you can comment about Capex, there's also Teksid, you mentioned end of July it should be approved, in demand you mentioned investments in the US, but if we look beginning of April, Q2 is also strong, so how do you see volumes during this quarter and the next

Fernando de Rizzo: Marcelo, I'd like to begin with Capex. For many years we have been consuming a Capex that is lower than depreciation to have an adequate situation. Gradually, the trend is to get closer to depreciation. We believe the purchase of Teksid brings us a good set of assets, we can use them well, so we choose very well the investment projects in the company, especially those that will give us new programs machining and also send regeneration.

We follow depreciation and sometimes we're below to understand the potential of Teksid.

Now concerning volumes, Marcelo, we see we have a booming market, a very strong market, it continues to be very strong. We don't see any change, we may have problems because of semiconductors, so OEMs will have to choose where they will use the available semiconductors. Our inventory is also low, our working capital shows this, we have low inventory, so we have maintained production full, I said in the beginning we hired in the last 4-5 months more than 2.000 new employees, 2.000 new employees, and in this case what do we see? We are hiring, this group is new, they are being trained, there's a learning curve in terms of safety, manufacturing processes, so this is very relevant this growth in the number of employees, we should get to 2,400 new jobs in the company because of our portfolio and the demand from our clients in the next few months. So, we have a portfolio for the next 3 to 6 months.

We look at other market indicators, the US economy, for example, the global economy, the expectations in terms of the GDP have grown every time there is a review, we showed this in the presentation, and this gives us trust to grow.

So, we were not sufficiently efficient due to the cost of raw materials that we were not able yet to pass on to our clients and we are reactivating some equipment that was dormant and growing, so the perspective, the scenario, long-term scenario is very favorable. Now we have to see how we will work during this year, how the price increases in raw materials will behave because if the price of raw materials drops, we recover the margins.

Operator: Reminding you to ask questions, please dial* 1.

We would like to conclude our Q&A session. I would like to pass the floor to Mr. Fernando for his final comments.

Fernando de Rizzo: Thank you. I'd like to thank the participants, the questions, and the trust in the company.

So, we're very happy with the new scenario of the global economy, especially what we see in the US. There is a strong world demand for steel with constant price increases and this has caused also great demand for iron, scrap, and the price of these materials doubled in relation to 2019. Also, with the devaluation of the Brazilian currency, there was a strong increase in the export of these materials, scrap generation has suffered interruptions due to intermittent work at OEMs and stoppages and also shutdowns, we believe things are getting normal and raw materials with stable prices or maybe even a small drop to be confirmed.

We're operating during a pandemic, so we have to be very careful with our employees and this in a certain way is not the best, most efficient way of working. We are strong now in Q1-Q2 and we see this continuing. We created more than 2,000 new jobs, 2,000 new positions that demand training and adjustments, we’re beginning new shifts, assets that were being used intermittently are now being used at full speed and 10 months of inflation in metals.

We're in a transition phase that should help us to capture important demands from the stimulus packages from governments in the US and Europe, and the combination of efficiency with our commercial strategy delivers value and the conclusion of the purchase of Teksid in a favorable period will bring us great benefits.

We continue to build a more resilient company with projects that will add value to our main products, we continue investing in machining this year, we believe that knowledge generates transformation; that is why our technological solutions are and will continue to be dedicated to promoting a better and longer life. This is the objective of Tupy.

Now with Tupy Tech and Tupy Up, apart from creating new business opportunities adjacent to our power houses, like the recycling of batteries that we announced, we will do this in a collaborative way, in an inoperative way and aimed at sustainable development of the company and society.

Thank you very much for your attention and we wish you a good day.

Operator: The conference call of Tupy is concluded. We thank you for your participation, we wish you a good day.