Operator:

Good morning, ladies and gentlemen. Welcome to the earnings conference call of Tupy S/A for the 3Q25.

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

Please be advised that all participants will be in listen-only mode during the presentation, and later we will begin the Q&A session, when further instructions will be given.

This presentation is being recorded and translated simultaneously. Translation is available by clicking on the 'interpretation' button. For those listening to the video conference in English, there is the option to mute original Portuguese audio by clicking on 'mute original audio'.

Before proceeding, I would like to reinforce that forward-looking statements are based on the beliefs and assumptions of Tupy's management and on information currently available to the Company. Such statements may involve risks and uncertainty as they refer to future events and therefore, dependent circumstances that may or may not occur. Investors, analysts, and journalists should consider that events related to the macroeconomic environment, the industry, and other factors may cause results to differ materially from those expressed in such forward-looking statements.

The following executives are present at this conference call: Rafael Lucchesi, CEO, Rodrigo Périco, CFO, Ricardo Fioramonte, Vice-President of Sales, Toni Bueno, Vice-President of Procurement and Logistics; Gueitiro Genso, Vice-President of New Business, Innovation, and IRO; and the Tupy IR team.

I would now like to give the floor to Mr. Lucchesi, who will start the presentation. Mr. Lucchesi, you can continue.

Rafael Lucchesi:

Good morning, everyone, and thank you for attending this conference call.

The climate of uncertainty observed since last year intensified through the 3Q25. In the United States, increased tariffs and trade barriers have heightened inflationary pressures, directly impacting interest rates and purchasing power.

This scenario has reduced the confidence of both businesses and consumers. This context, and the drop in freight prices in the United States, has led transportation companies to postpone fleet renewals and new investments while awaiting more consistent signs of economic recovery.

As a result, OEMs, which are our main customers, are directly impacted by these effects and have been reducing their inventories. The result has been that commercial vehicle production has been lower than the volume of sales.

In Brazil, the combination of high interest rates and the slowdown in agribusiness also negatively impacted sales of heavy and extra-heavy commercial vehicles. In this context, our sales in tons showed a decrease of 15%. To preserve working capital and cash flow, we further reduced the volume produced.

These combined effects impacted the period's EBITDA by approximately R$210 million. Although the scenario is adverse and has resulted from external and circumstantial factors, internally, our actions are focused on adapting operations to this new reality, at the same time that we make structural changes to build a more efficient company, reduced fixed costs, and increased profitability when volumes are recovered.

In this environment, capital allocation discipline has becomes even more essential. Despite the challenges, we have reached the best operational cash generation in history for a 3Q, R$383 million.

New businesses have played an important role in diversifying our revenue, especially in the segments of replacement parts, energy, and decarbonization. These are markets with a high potential of growth and profitability.

In our core business, we expanded the offering of products and services with higher added value. It's also worth highlighting MWM's performance, whose margins have consistently exceeded estimates, reaching 11% in this quarter.

Now, I will hand the floor over to Rodrigo Perico, our CFO, who will present the indicators for the 3Q.

Rodrigo Périco:

Thank you, Rafael, and good morning, everyone. Revenues totaled R$2.4 million in the period, representing a 13% decrease compared to the same period of last year. 48% originated in South and Central America, 35% in North America, 14% in Europe, and the remaining 3% Asia, Africa, and Oceania.

In the segment analysis, 83% of revenue came from structural components and manufacturing contracts segments, which includes cast iron products and high value-added services, such as machining and component assembly. 9% were generated by distribution segment, mainly responsible for the sale of spare parts, and 8% corresponded to the energy and decarbonization segment, with emphasis on generator sets, in-house manufactured engines, and solutions focused on decarbonization.

On the next slide, in the domestic market, revenues from the structural components and manufacturing contract segment were impacted by a drop in sales for commercial vehicles and passenger cars, and the reduction in volume of indirect exports, partially offset by increased sales for off-road applications, which had positive performance in the period.

In the international market, revenues declined due to lower demand for medium and heavy commercial vehicles in the United States, reflecting uncertainties related to tariffs and their effects on inflation and interest rates. These were partially offset by sales performance for light commercial vehicles market and the European market, as well as improvements on the off-road segment, especially in non-residential construction applications.

The highest value-added products reached 45% of this unit's revenue, highlighting the strategic relevance of solutions with greater technical complexity and higher contribution to profitability.

Continuing, we have aftermarket unit. Wholesales accounted for 12% of domestic market revenue, 13% increase in the Brazilian market, reflecting the performance of new product lines, master parts, and optionals, as well as the expansion of channels and operational efficiency gains that impacted productivity.

On the next slide, we show the performance of energy and decarbonization unit. Segment registered a 45% increase in Brazil, driven mainly by strong growth in sales of generator sets and proprietary engines. This unit accounted for 16% of domestic market revenue and 2% of export market revenue.

Next, we have the costs and expenses for the period. The drop in production volumes and exceeding sales levels reflected in the dilution of fixed costs impacted a gross margin, which reached 13% in the period. We also observed inflation in services and labor, which was partially mitigated by cost reduction initiatives, restructuring, and productivity gains. Expenses fell by 9% in the quarter and 4% in the 9M25, reflecting lower sales volumes, reduced infrastructure, and other efficiency gain initiatives.

Next, we highlight at the top the adjusted EBITDA, which totaled R$165 million in the 3Q25, with a margin of 7%. The margin for the traditional business reached 5% in the quarter, reflecting a double-digit drop in sales and production volumes, impacting operational efficiency and resulting in poor dilution of fixed costs and expenses.

The impact of these factors in the quarter was R$210 million. In other words, if we had the same levels as in the 3Q24, EBITDA would have been R$375 million. MWM's operating margins was 11% in the period, an increase of 4 p.p. compared to the 3Q24, driven by the implementation of factory, organization optimization projects and improved product mix.

In the chart below, we highlight the evolution of net income in the 3Q25, mainly influenced by operating income and partially offset by financial results and a lower effective income tax rate, resulting from exchange rate fluctuations on the tax base.

Looking at the financial results for the period, financial expenses increased by 6% compared to the previous year. The effects of the interest rate hike in Brazil, which impacted the provision for interest in local currency, were mitigated by a reduction in indebtedness, with a repayment of R$366 million during the 1H25.

Financial revenues totaled R$38 million, lower than the amount recorded in the same period for the previous year, due to a lower amount of cash in BRL. In the results adjusted for exchange rate variations, we recorded revenue of R$11 million, explained by two factors: positive variations of R$3 million, management initiatives regarding foreign exchange exposure mitigated the effect of BRL appreciation on balance sheet accounts in foreign currency, and positive results of hedge transactions, with revenue of R$8 million. R$8.5 million were mark-to-market gains and expense of R$0.5 million with cash impact.

Then we have the variations of main working capital accounts, using the 2Q25 as a basis for comparison. Accounts receivable at balance decreased by R$276 million in the period, with an impact equivalent to 7 days of sales on the average collection period. The indicator was impacted by the higher concentration of amounts received in the 3Q, a reduction in sales volume, depreciation of BRL against the USD compared to the previous quarter, affecting accounts receivable in foreign currency, which represented 61% of the total.

In the inventory section, there was a reduction of R$62 million, a result of management initiatives, especially regarding work in progress. And in accounts payable, there was a reduction of 2 days, a consequence of the lower volume of purchases and currency appreciation.

Next, operating cash flow reached R$383 million, the best result in the Company's history for a 3Q, representing an increase of 69% compared to the previous year, mainly due to higher cash inflows, lower payments to suppliers, and various working capital management initiatives, including inventory reduction. These internal initiatives ensured that, even with a sharp drop in volume, the Company generated R$212 million in cash after investments and debt payments.

Efficiency in working capital with consequent cash generation and efficient cash capital allocation with positive EVA across all plans are important goals that underpin all actions to adapt the production footprint and produce efficiency gains that we have been sharing with you.

And finally, the net debt at the end of the 3Q25 was R$2.3 billion, stable compared to 3Q24. Leverage corresponds to 2.58x the adjusted EBITDA of the last 12 months, and was impacted by lower accumulated EBITDA. Net debt, in turn, showed a slight reduction compared to recent quarters.

Foreign currency obligations represented 58% of the debt. On the other hand, 50% of the cash balance was denominated in foreign currency. We ended September 2025 with a cash position of R$1.7 billion.

Now, I will hand over to Ricardo, Vice-President of Sales.

Ricardo Fioramonte:

Thank you, Rodrigo, and good morning, everyone. As Rafael and Rodrigo mentioned, the uncertainties about tariffs and their impact on the global economy have affected activity in some sectors that are important to us.

It's important to highlight that the drop in sales we are experiencing this year is concentrated in medium and heavy commercial vehicle segment, while the light commercial vehicle segments, including pickup trucks and off-road equipment, have been performing well.

This is clear when we analyze clients' results. In the United States, we have a combination of negative factors that not only cause the major reversal in expectations for the year, but also continue to put pressure in truck sales. The road freight transport sector is currently experiencing a recession with tight margins due to low freight prices, and they are postponing purchases. As we always highlight, it's a pent-up demand that does not disappear because equipment continues to be used.

In Europe, however, signs are more favorable. Fleet replacement is already showing signs of recovery, which could show the beginning of a recovery.

In Brazil, we are experiencing a 2H25 that's very different from the 1H, as uncertainties and the high cost of financing have begun to affect confidence and willingness to invest, especially in agribusiness, which is a significant buyer for heavy trucks. However, fundamentals remain favorable, and a possible reduction in interest rates could trigger a recovery.

As I mentioned, all the other markets in which we operate have been showing positive performance. For example, in Brazil, the pickup truck segment, to which we have significant exposure, is growing at rates higher than the overall market of vehicles.

In the United States, we are benefiting from the reintroduction of engines that were withdrawn from the market in 2023. In the machinery segment, the market has shown positive numbers, driven mainly by the non-residential construction segment and demand for larger motors used in solutions for data centers, for example.

On the next slide, I want to detail the current situation of the medium and heavy commercial vehicle market in North America. Production of automakers has fallen more than sales, an effect caused by transportation companies postponing purchases and high inventories. This scenario of production adjustments and inventory adjustment is expected to extend into part of 2026. For Tupy, however, the recovery tends to occur before public data shows a rebound, since our products are used in the initial stages of the production chains.

Moving on to the next slide, I want to talk about the impact of the tariffs on our business. Since November 1st, the vast majority of our products have been subject to a 25% tariff instead of 50%, which were enforced until then, which puts us on a more competitive level compared to other countries. Parts produced in Mexico are currently exempt as a result of U.S.-MCA agreement.

The mitigation agencies such as transferring inventories to the United States, changing logistics routes, and transfer of part of the production to Mexico will allow us to prevent impacts in 2025. The reduction of tariffs to 25% makes us more optimistic in terms of mitigating impacts on the long run.

It's important to highlight our presence on three continents that's a significant competitive advantage. We have built a unique arrangement in the industry that allows us to allocate products across different plants. This represents a risk mitigation control and at the same time allows us to offer products that help our customers meet regional content requirements.

This differentiation has allowed us to acquire new contracts, which, as we have announced, will generate additional annualized revenues of R$1.4 billion when they reach maturity. Some of these contracts will enter production in early 2025 and are products with a higher percentage of added value, such as machining and subassembly services, which will contribute to enrich the mix of products with a positive impact on margins.

Now I will give the floor to Toni, our Vice-President of Procurement.

Toni Bueno:

Thank you, Ricardo, and good morning, everyone. On the next slide, I want to give an update on the operational efficiency projects we announced in the 2Q. We made acquisitions in the traditional business that generated several benefits in the areas of sales, procurement, and logistics, but also brought idle capacity.

It's important to clarify that the reduction in capacity is not a response to current factors. We are currently experiencing a downturn in the market cycle, but we do not see any changes in the fundamentals of the sectors in which we operate.

Our synergy plan already took into account the adjustment of production capacity and inventory levels. This process started in Mexico in 2024 and will be fully implemented by December 2026. This reorganization will result in a reduction of 25% in capacity compared to the post-acquisition scenario of Aveiro and Betim plants. It's a significant number, but it's in line with our integration synergy plan.

The effects of these actions will begin to be felt next year, with an annual impact of R$100 million in 2026 and R$180 million per year starting in 2027, resulting mainly from reduction in fixed costs.

In other words, these are gains that are independent of our recovery volumes. The new capacity will allow us to meet current customer demand, taking into account the increasing volumes in 2026 and future growth through the acquisition of new contracts.

It's a complex project involving three plants and comprising 100,000 hours of design and execution. In the 3Q, efforts were directed towards making the plants more flexible, with development of tooling and processes necessary for product transfer, as well as customer approval.

On the next slide, I will discuss our other operational efficiency initiatives. We aim to achieve a ROIC above the cost of capital in each of the geographies we operate, even in a challenging volume scenario.

To achieve this, we are implementing an aggressive efficiency and cost reduction plan, with initiatives focused on automation, maintenance, workforce productivity, and quality. This plan is additional to what I mentioned previously and should positively impact our margins by up to 2 p.p. when they reach full maturity in the end of 2026.

Regarding capital allocation, we reduced inventory by R$62 million in the quarter and will have additional gains of R$200 million by December this year, resulting from production planning actions and actions with the supply chain.

Now, I will give the floor to Gueitiro, our Vice-President of New Businesses and Innovation.

Gueitiro Genso:

Thank you, Toni, and good morning, everyone. Today, I will comment on the performance of our subsidiary, MWM. This quarter, the EBITDA margin reached 11%, an increase of four p.p. compared to the previous year.

Continuous improvement of operational processes, negotiations with suppliers, and revision of commercial policies have contributed to this performance, which is even higher than projected in our business plan. MWM's revenue remains stable year on year, impacted by the manufacturing contracts business, which is directly related to the performance of the truck market in Brazil.

On the next slide, I want to address the aftermarket and energy and decarbonization businesses, which together accounted for 28% of domestic market revenues and 15% of total revenues. These are segments with low correlation to the Company's core business, and which will have an even greater relevance in the future.

In the replacement parts segment, sales increased by 6% in the quarter and 13% in the 9M25, with particular emphasis on the master parts and optional accessories lines, which advanced more by 40% and already account for 20% of revenue.

The expansion of the portfolio and inclusion of new distribution channels contributed to the 3Q25 having the best historical sales performance for this business unit. This is a countercyclical segment that benefits from scenarios of declining sales of trucks and machinery.

We are also very pleased to announce that the month of October saw the highest monthly revenue in our history. We are growing, without sacrificing high margins that characterize this business. We also completed the reorganization of the parts distribution center, increasing productivity by 38%, with positive effects on revenue and profitability.

In the energy and decarbonization unit, sales of generator sets, a segment in which were leaders in Brazil, grew by 36%. Sales of MWM's proprietary engines, used mainly by small OEMs, also showed strong growth.

In recent months, we have seen a significant increase in demand for these solutions in various sectors, such as agribusiness, urban passenger transport, and waste collection.

We announced a commercial and technological partnership with Yuchai, one of the motor's world's largest engine manufacturers. The agreement includes opportunities such as development of biomethane and ethanol engines, as well as distribution of spare parts and expansion of product portfolio, with emphasis on large-scale applications such as workboats and generators for data centers.

We also started operating bioplants located in Ouro Verde do Oeste, near Toledo, Paraná, with a current capacity of 1,440 m³ per day of biomethane and 20 tons of fertilizer per day. This 2H will be dedicated to validating and adjusting manufacturing process and sales models.

In parallel, the Company is proceeding with the licensing construction plan for bioplants in Divinopolis, Minas Gerais, and Seara, Santa Catarina, which will increase the total combined capacity to more than 300 tons of fertilizer per day and 11,400 m³ of biomethane.

I thank you all for your attention. We will now start the Q&A session.

Fernanda Urbano, XP:

Good morning. Thank you for the question. We have two questions here. First, I would like to start exploring the North America dynamics. You mentioned higher pressure on prices and normalization of inventory levels by OEMs, and we see a challenging dynamic in heavy-duty vehicles. Do you see any signal of improvement for the 4Q, at least a stabilization of this situation? And I would like to understand how you see the dynamics per category, heavy-duty vehicles, off-road vehicles. What's the base scenario and the recovery timeline?

And the second question is a follow-up about capacity usage. In the last conference call, you mentioned that you were using 65% of decrease in capacity, and the ideal level would be 62%. So could you give us some light on the current level? Thank you.

Ricardo Fioramonte:

Good morning, Fernanda. About your first question, there's little visibility right now regarding the resumption of sales of commercial vehicles in the United States. The sentiment is that we are at the bottom, at a very low period, and sales are expected to resume in the beginning of 2026.

An important factor to pay attention to is orders that will come next week and until the end of the year. Talking to our customers, we have been to the United States, and I have seen our clients there recently, Section 232 now applies to truck sector and its chain. Although it may seem strange because it has tariffs of 45%, it brings more predictability.

Because since April, constant changes in tariffs and political policies, commercial policies in a volatile way, caused buyers to wait because they did not know what they would pay for a truck. The delivery time is 6 months for trucks, and given the high variation of tariffs and the impact on their costs, the OEMs did not know how to price trucks. So that had an impact of postponement. Let's wait and see what will happen by clients. So it's possible then that Section 232 will provide greater visibility and bring buyers to the market again.

In off-road, we see good results, even surprising for this year, mainly due to the massive investments in data center constructions, which have two positive impacts on us: generates demand for construction machinery, as well as generators, large diesel engines where we provide parts to.

And what we have heard by talking to customers in the United States is that major players in this industry have very robust chains, with backlog records in some cases. So that is something that will continue to sustain our sales and our economy for sure during 2026.

Toni Bueno:

Fernanda, good morning. About your question about capacity, 65% to 80%, first, it's important to highlight that this movement starts from a static volume scenario. So that's basically the reduction that will happen until the end of 2026, and that happens at some levels, some steps. So we talked about the reduction of production lines. They do not happen at the same time. There will be some drops, steps during the year.

As for the process, we are excited about the progress of this project. We need the support of our clients to make that happen. We had good responses, and we are actually doing better than scheduled. And we have the support from customers to make that happen. And now this is happening with a structured way, testing motors and engines, validation of products, and so on.

We have an internal challenge to anticipate this movement as much as possible. There is a lot of pressure on results. So our goal is to advance this reduction as fast as possible. So considering current volumes, we will reach the end of the year with the 80% occupancy.

Kiepher Kennedy, Citi:

Thank you for taking my question. Congratulations on the result. First, a follow-up on Fernando's question regarding the plants. You mentioned that part of that reduction was being done with the acquisition of Teksid, and I imagine that an additional amount came from the downturn in the market. So regarding this 25% that the Company mentioned, how much was already expected? How much was it in addition?

And my second point, when I speak 25%, it seems high to me in principle. I know that several actions were made internally, but I would like to understand, when volumes are resumed, how hard or easy it would be to reconnect these capacity, to resume the capacity. I know it's not part of the plans of the Company. Maybe this is a structural reduction regardless of the size of the market. That's the first question.

The second question is about MWM. We see excellent results. Our 11% margin proves the good work done by the Company. So I would like to understand, what do you see for a structural profitability of that business, considering that you are increasing the portfolio of products for new markets, on larger machines for data centers? What is the roadmap for growth, and what are the possibilities for MWM?

Toni Bueno:

Thank you for the question. It's important to remember that we purchased a lot of idle capacity in the acquisition plan, and our plan already thought about this reduction based on our plans. So our plan is based on the reduction of lines with the higher cash cost, and also lines that do not support products with higher technology embedded.

As I mentioned briefly in the last call, we went from 10 production lines to between 7 and 8 production lines, and that already includes future contracts. So they include either in technology or volume, future products and new competitors in which we are participating.

So this is not a restriction. On the contrary, we want to reduce bottlenecks for production growth and volumes in case of changes in the market volume. If the market oscillates, we are ready to respond quickly.

Talking about Mexico, this plan was foreseen in the past, and Mexico became even more important in the current economic scenario. We reinforced execution of Mexico in several points and adapted the projects during execution. So we aligned the new market conditions, and now we are executing it in a disciplined way to make it as fast as possible.

Gueitiro Genso:

I will answer your second question about MWM. Let's talk about the idea behind the acquisition of MWM and the strategy of Tupy. MWM has three business units. The first is manufacturing contracts. That fits the Tupy strategy better because that's the services unit that has the same OEMs as clients that Tupy delivers its products. But this unit is also affected by the seasonality of the market, when the market is demanding less products.

On the other hand, there are two business units that I mentioned in the call, but I would like to reinforce. The anticyclical one, which is aftermarket, that has a very well-defined strategy. Every month, we have been able to attain higher volumes with record sales, and the strategy is to use what was being made for parts for MWM engines, but our master parts line was meant to meet the needs of engines.

Only 1/3 of engines in Brazil are made by MWM, though there are 2/3 of engines that are not. So we are using the synergy, the distribution channels, and MWM's strength as a brand is growing. So this is growing at a much higher speed than the MWM engine unit.

And the third business unit is energy and decarbonization, which is new. There are several businesses under it. Some are more mature, such as generators, and others are under development, such as maritime motors and services. And it's also growing.

And to wrap up, this recent partnership with Yuchai will allow us to enter segments in which we did not have the engines, or the motors to enter, such as data centers or other sectors that were limited in terms of engine capacity.

So MWM is great because this composition of the Company in one part is regarding B2B to OEMs, and the other units are B2C. So as the Company grows, it will build this blanket that will allow us to go through seasonality periods with a good performance.

Gabriel Rezende, Itaú BBA:

Thank you for the question. I have two questions. First, in line with your comment of working capital, I would like to understand if there is an additional leap in terms of positive working capital for the 4Q25. You said there was a work in progress inventory. Should we expect any positive notes on that?

And also, you mentioned the improvement in the allocation of production lines and optimization of plants. I would like to better understand how that relates to the tariffs dynamics between the United States and Brazil. How does the Company see a possibility to lower its exposure to U.S.-Brazil tariffs? And would it make sense for us to expect a higher volume due to the reduction of tariffs when compared to the previous quarter?

Rodrigo Périco:

Good morning. Thank you for the question. Yes, all this process we have been talking about here, when we see a drop in sales volume, naturally, it's more difficult to us to decrease costs in production, and we have inventory for that. So, we make that tradeoff. There will be effects on our liquidity that affect the bottom line.

As a working capital metric, yes, we could expect up to R$200 million additional in inventory.

Toni Bueno:

About tariffs, the connection between tariffs and our manufacturing footprint is the following. First, a basic concept of this footprint is flexibility. When we mention flexibility, we are talking about providing sourcing in two or more plants for our customers. That allows us to respond to different dynamics, different from expected, either in tariffs or in needs from customers, and that gives us a lot more resilience to our supply chain, favoring our customers.

So, it's not only a dynamic that's related to tariffs. Tariffs can benefit from this footprint, but in general, it's greater than that because it provides a more flexible way of operating for our customers.

Talking about inventories, the reduction of inventory levels in this quarter only, since last quarter, we started producing less than sales volume to adapt the sales level smoothly, without compromising availability of products to customers. Now, we provided vacation to our employees in several plants, and that's what's supporting the significant reduction in inventory levels.

Gabriel Rezende:

Thank you for your answers. Just a quick follow-up. Should this provide an extra burden on profitability in the 4Q?

Ricardo Fioramonte:

No, we should not expect any different impact other than the impact already pointed out in the results of the 3Q. It's important to highlight that there's no such an impact because through mitigation measures, changing inventory, sending inventory to the United States before tariffs became effective, moving part of the production to Mexico, which happened already, or even changing logistic routes and making agreements with customers, we have solved that issue.

It's important to highlight that right now, tariffs pose a risk, but only an opportunity because that adds strength to the movement of regionalization of chains, and our geographic positioning allows us to profit, to benefit from that movement.

Andressa Varotto, UBS:

Good morning, everyone. Thank you for taking my question. We have two questions. First, I would like you to talk about new contracts. You said that there's a backlog and the Company is announcing new contracts that would become operational in the 2H25 and next year. So, I would like to recap on that.

And also, if you could give some more color on the partnership with Yuchai. What do you expect from that partnership? Can you give us some incremental revenue figures regarding that?

And also, about margins. We see the Company operating at margins below the historical levels. Do you have any projection as to what the Company's margin could be after restructuring, considering a more stable volume scenario, and a scenario in which volumes are resumed? Thank you.

Ricardo Fioramonte:

About new contracts, 80% of these new contracts are related to new generations of engines that are being launched in the market to our customers to meet reduction of emissions requirements. And these new generation of motors are located in the United States and North America, regarding USMCA. And our positioning gives us an advantage to win these contracts.

So, these are new generation of engines that are being launched, giving the emissions legislation, and that will start to be marketed this year. It was not very visible this year because of the current situation of the market. We will see a greater impact as of next year.

Gueitiro Genso:

I will answer your question about Yuchai. Yes, in 2026, we will start to see the result of this partnership in the sales and EBITDA in the decarbonization unit results, but not only in that unit, because this partnership has an effect in the aftermarket business as well.

Yuchai is already operating in Brazil with engines for pickup trucks, with Yuchai customers from China that are coming to Brazil to offer products. So, our network of spare parts distribution in Brazil will be the partnership for these aftermarket. So, there is a gain there.

And secondly, Yuchai has a wide portfolio of products and engines, it will allow us to escalate in industries that we are already working, evolving to other machines. For example, we are developing ethanol-fueled engines for tractors in agribusiness, in the ethanol producers, sugar producers, because this is a good engine. And with this portfolio of products, we will be able to have, in this ethanol segment, providing parts to other machines and engines.

Biofuels is a strength in Brazil, of Brazil, biomethane. We see fleets of trucks, waste collection trucks, and buses as well, are being fueled and complementary with biomethane. So, we will see that in 2026, with revenue coming from this partnership.

Rodrigo Périco:

Thank you for the question. We have seen lower margins. You all know that our business is highly affected by the volume of sales and exchange rate, but the decrease in costs beyond a structure that's necessary, that affects the EBITDA significantly.

And as Toni mentioned, all the efforts are concentrated on this reduction of structure that, at the end of the day, will help us to reduce costs. But in addition to that, there are other projects, especially when we talk about revising models, structures, processes in key areas such as manufacturing, quality, engineering, and also sales, new contracts in more favorable terms.

So, there are many actions that are being taken, and that depend a lot more on the Company than on the market. And as I mentioned, there are variables that are beyond our control. But let's think that a ramp-up in margin is quite sustainable for the year 2026.

Andressa Varotto:

Perfect. Thank you. If you allow me to ask a follow-up question, you, as mentioned, the USMCA, and next year negotiations are expected to renew this agreement. Do you have any update or expectation regarding that? Is that being monitored as a trigger for the truck and heavy-duty vehicles market?

Ricardo Fioramonte:

Andressa, there's nothing now that would allow us to make some comments. In addition to the expectation that we do not expect a lot of change in the agreement since what was built since the implementation of NAFTA 30 years ago.

Toni Bueno:

What's interesting is that USMCA was created in the first Trump administration. So, there is a sense of uniformity with the geopolitical vision of the current administration.

Gabriel Frazão, Bank of America:

Thank you for the question. I would like to ask a follow-up about cash generation and leverage. Could you share with us some additional initiatives that you may implement in the future if the markets remain to prevent the Company leverage levels from being close to covenants? And when do you expect it to reach the peak, and what would be that level?

Rodrigo Périco:

I think it's worth mentioning that when we talk about leverage of the Company, the Company’s debt is very high quality. We have long-term maturity dates. You have seen a pickup in that rate, but this is not something that has a negative effect on the Company's liquidity.

Ahead of us, there are some seasonality in the quarters. The 1Q and 4Q are always lower in results given the characteristics of the industry. We are optimizing working capital, operational costs, reducing working shifts, we gave vacation to all employees to prevent any unexpected downtimes.

And we are affected by sales volumes, exchange rate, and cost reduction. These two are factors that are out of our control, as I mentioned, and we act by optimizing working capital, monetizing the inventory that was created during this capacity reduction process, which provides a good improvement for the Company. And this improvement process, all this turnaround in terms of improvements in structure, is also a gain. We save a lot of cash with that.

So these are the actions we are taking. Again, that's not a liquidity issue, but the fact that we are having lower and lower EBITDAs in the quarters, according to the denominator and the metrics in which the denominator are of the past months. We will continue to reduce working capital and inventory levels during 2026.

Nicolas Fabiancic, Barclays:

Good afternoon. I am sorry for the question, I guess some parts of it have been covered. For us, it's good to see that in the challenging context, Tupy was able to generate cash with a gross debt with a good liquidity. But I would like to ask a follow-up about the leverage level and how do you see the bond for 2031 that's quite stressed, below US$80, more than 8% yield in USD. Could you make any comments on these aspects and leverage, and if there's any tender buyback operations?

I would also like to clarify, regarding covenants, what are the maintenance covenants? Is there a need to ask for a waiver? With which banks? If needed, what contracts would you need a waiver? Thank you.

Rodrigo Périco:

This is Rodrigo speaking, Nicolas. A bit of what I answered to Gabriel, we have capped our leverage at controlled levels, as reported in the 3Q. Several actions ahead of us, especially regarding working capital, reducing inventory levels and other strategic actions, mainly reduced to reduction of capacity. All that causes us to have an improvement in EBITDA in the future.

As for our debt, it's very well negotiated at a very attractive cost. We are keeping a close eye to what's going on in the offshore market. Our share was very low, but that does not reflect the credit status of the Company.

Nicolas Fabiancic:

Thank you. And about covenants and waivers?

Rodrigo Périco:

For now, the Company is always talking to investors, with shares and debts. We are showing the uncertainty scenario impact on volume. All that puts pressure on our leverage, and we are keeping track of it. What matters is that the net debt of the Company remains stable.

Operator:

Thank you. The Q&A session has ended. I would now like to turn the floor over to Mr. Lucchesi for his final remarks.

Rafael Lucchesi:

Thank you all for participating and for your questions. As we have said during this conference call, the commercial vehicle segment has been affected by structural factors. However, the fundamentals of this industry remain solid.

A pent-up demand is being created, and we believe that it will be resumed during the year of 2026. The non-residential construction market is doing fine, and we see an improvement in indicators of light commercial vehicles in Europe.

We have a lot of value to capture with in-house initiatives, with flexibilization and operational efficiency that will contribute with significant gains in 2026 and will take place regardless of resumption of volumes.

I am confident that the actions we are taking today will strengthen the Company that we are building. And for that, we count on the commitment and dedication of our entire team.

Thank you all very much, and see you on the next quarter conference call.

Operator:

The conference call of Tupy has ended. We thank you all for attending, and have an excellent day.