



**International Conference Call  
TUPY S/A (TUPY3)  
1Q23 Earnings Results  
May 11<sup>th</sup>, 2023**

**Operator:** Good morning, thank you for standing by. Welcome to the earnings call to discuss the results of the first quarter of 2023 of Tupy.

All participants are connected in listen-only mode and later on a question-and-answer session will be open when instructions for you to participate will be provided. If you need help from an operator during the conference call, just dial star 0. This conference call is being recorded.

We would like to remind you that this event is also being broadcast simultaneously over the internet via webcast and can be accessed at [www.tupy.com.br/ir](http://www.tupy.com.br/ir) where the respective presentation is available. The selection of slides will be controlled by you.

Tupy clarifies that any forward-looking statements made during this conference call about the company's business prospect, projections or operating and financial estimates are mere forecasts based on the management expectations regarding the company's future. These expectations are highly dependent on domestic and international market conditions, the overall economic performance of the country and of the sector, and therefore, are subject to changes.

With us here today our Mr. Fernando Cestari de Rizzo, CEO, Thiago Struminski, CFO, and Rodrigo Périco, Director of Treasury, Finance and Management.

Mr. Fernando Rizzo, you may proceed.

**Fernando de Rizzo:** Thank you and good morning, thank you for attending our conference call.

This quarter includes for the first time the full results of MWM. In this period, net revenue reached 2.8 billion, which is the highest quarterly amount in the company's history. Although it reached a record, it was relatively low because the production of heavy vehicles in Brazil has been affected by the higher cost of vehicles in the Preconve 8 and Euro 6 standards, and together with that there were restrictions on credit and high interest rates that impact the market for used and new vehicles.

This scenario impacted our physical sales volume of structural components, which dropped by 7% year-on-year largely driven by the domestic market, which dropped 16% and also adversely affected MWM.

On the other hand, the resilience of our business model and the continued implementation of our strategies brought benefits that offset partially these



effects. We continue to capture synergies obtained from the acquisitions which together with the several cost reductions initiatives contributed to the 23% growth in gross profit reaching 505 million and margin of 18%, an increase of 70 basis points in the comparison with the previous year.

Adjusted EBITDA reached 350 million, margin of 11.2% affected by the inclusion of MWM's result, which has lower margins than Tupy's. We see important efficiency gains in the composition of this result, however, it was impacted by the following: the worst dilution of fixed costs since we were prepared for higher volumes; the appreciation of the Mexican currency; and the significant increase of freight-related expenses as from the second quarter of 2020, which have already been passed through to prices.

Our acquisition strategy assumes of a central focus on efficiency gains in all lines of our income statement. In the first quarter among the various actions carried out, we made changes in the structure of our operations in Brazil with a one-time impact of 14 million in the quarter. The sum of the positive operating and financial results made the net profit reach 145 million, a growth of 96% in the annual comparison.

Now to present the main indicators for the quarter, I'll give the floor to Thiago, or CFO, and Rodrigo, the company's Treasury and Finance Director.

**Thiago Struminski:** Thank you, Fernando, good morning, everyone.

Revenues grew by 19% over the first quarter of 2022 compared to the same period of the previous year, reaching 2.8 billion. Regarding the distribution of these revenues by geography, 46% originated from USMC, 33% in South and Central America, mainly Brazil, membership 19 in Europe, and the remaining 2% from Asia, Africa and Oceania. 86% of revenues come from the structural components of contract manufacturing business, iron products and value added services, such as machining and component assembly, 7% from energy and decarbonizing including generation sets, engines made in company, marine applications, lighting towers and products and services related to decarbonization, and 7% from the distribution business, which includes revenue from spare parts of the market from MWM and hydraulic products.

Revenues from structural components and manufacturing contracts on the slide were impacted by the drop in commercial vehicle, production in the Brazilian market, reflecting the replacement of engine emission technology, Preconve 8, Euro 6 and the [unintelligible] increase price of trucks sold in the first quarter of 2023, as well as macroeconomic factors, such as high interest rates, credit crunch, and a drop in consumer confidence.

Revenues accounted for 60% of the domestic market and 94% of the export market for this unit, while the share of products with added value in revenues accounted for 37% of the total of this business unit.



On the next slide we present the performance of the energy and decarbonization segments, including generator sets, engine manufactured in company, marine applications, lighting towers, and products and services related to decarbonization. Several product launches were carried out during the quarter and several projects related to decarbonization that are in testing and prospecting phase. Revenues from this segment accounted for 60% of sales in the domestic market and 3% of the total export market.

On slide 8 we present the distribution unit, which covers revenue from spare parts, the aftermarket from MWM, and hydraulic products. Sales in the distribution segment grew by 185% in the domestic market, representing 16% of the Tupy's total domestic market revenues. The export market, on the other hand, showed an increase of 57%, with 3% of Tupy's total sales in the export market. The main impact is the inclusion of revenue from the aftermarket business with emphasis on the launch of new products, line of options in multibrand.

Moving on to the next slide the cost of goods sold increased 18% year-on-year impacted by the start of operations of MWM Brazil. Despite the lower dilution of costs and expenses reflecting the dropping volumes, the gross margin of 18% represented an increase of 70 basis points when compared to the first quarter of 2022, reflecting efficiency gains and synergies between operations.

Reflected in the cost of this quarter we see the following: 22% increase in the raw material costs as a result of the additional of MWM, and on the other hand the inflation of materials, an increase of 29% in the account of maintenance materials and third parties mainly driven by inflation and the appreciation of Mexican peso. Operating expresses posted an increase of 55% when compared to the first quarter of 2022, in addition to the impact of adding expenses to the new operation. The result represents a significant increase in freight prices observed since the second quarter of 2022 in addition to the base date salary negotiation.

Moving on with the presentation, adjusted EBITDA reached 315 million in the first quarter of 23 while margins in relation to the revenue reached 11.2%. The period recorded some important effects, such as the incorporation of full quarter of MWM, which have lower structural margins given its business model change in the engine technology to Euro 6 standard with an impact on volumes and lower dilution or fixed costs, net income reached 145 million with a net margin of 5% due to better operating and financial results in addition to foreign exchange effects from most subsidiaries.

I turn the floor over to Rodrigo, who as of June will take the function of the financial and controllership areas.

**Rodrigo Périgo:** Thank you, Thiago, good morning, everyone.

On the next slide I will comment on the financial results for the period. The increase of financial expenses is mainly due to the increase in gross debt



arising from the issue of debentures in the amount of 1 billion intended to pay for the acquisition of MWM and the increase in the CDI rate, which directly impacts interest on loans in reais. Financial income reached 29 million due to the increase in cash balance in reais and the interest rate that compensates our financial investments. The result with exchange variations was an expense of 12 million mainly due to the effect on the balance sheet line in foreign currency.

On slide 12 have the variations of the main account of the working capital was in the fourth quarter of 22 as basis of comparisons. Accounts receivable had an increase equivalent to 4 days mainly due to the higher volume of sales from MWM, 3 months versus 1 month in the fourth quarter of 2022. Also accounts receivable in foreign currency, which corresponds to 71% of its total, was also impacted by the exchange rate depreciation. This is due to the lower volume in the previous quarter.

In accounts payable we had the reduction of 174 million when compared to the previous quarter. In addition to the exchange effects on accounts payable in foreign currency, which represents 49% of the total, the drop in production and actions to reduce inventories also contributed to the lower level of purchases in the period.

Going to the next slide, net debt of March 31st was 2.2 billion, corresponding to 1.8 times adjusted EBITDA for the last 12 months. Recalling that we're only considering the 4 months of EBITDA of MWM. Obligations in foreign currency accounted for 56% of the total regarding cash, 67% was denominated in local currency. We ended the quarter with a very comfortable cash position of around 1.2 billion.

I now turn the floor over to Fernando who will make his final remarks.

**Fernando de Rizzo:** Thank you, Rodrigo. Moving on to slide 15, in the domestic market we can see a sum of favorable factors that led to the drop in the truck market, the credit crunch combined with interest rates and the higher price of Proconve 8 standard vehicles. In the export market we have robust demand for heavy trucks and non-residential construction, which have not yet been so impacted by increase in interest rate, which even shows prospects of growth.

In the segment of light commercial vehicles and pickups, we see accommodation or stability in relation to the previous years. Despite that, I would like to point out that our great opportunity in 2023 is within Tupy, which I will discuss on the next slide.

I want to highlight the opportunities that we envision in Tupy's current businesses and how we are prepared to capture them in the list on the right of slide 16. On the commercial front, we recently announced contracts for the production of structural components and machining in Mexico, and we are in negotiations with several potential customers who are looking for greater local content in compliance with the new rules of USMC. In our operation, we are



obsessed with safety and efficiency, and 2 years ago we announced adjustments to our organizational structure strengthening, objective actions in factory efficiency, product reallocation, process improvements, and increased attention to the cost of purchasing materials and services.

Throughout the year we also adopt initiatives aimed at reducing working capital, especially in inventories which will contribute to higher cash generation.

On slide 17, I want to talk about the new Tupy that we're building. Over the past 2 years, we have made important acquisitions, we consolidated our position in the West and advanced our customer supply chain by offering value-added services. This allowed us to win new contracts for machines and preassembled components, as well as decarbonization projects which will be much more relevant in Tupy's future.

This growth was accompanied by financial performance with cash generation and low leverage. We carried out 2 issues in the debt market that recorded great demand. In addition, our ratings were raised by the agencies that monitor our credit. The combination of our competencies and initiatives with the research and development with MWM knowledge in biofuels, engines, generator sets, and biotechnology has allowed the progress of new businesses related to decarbonization.

On this line, several initiatives are in the prospecting phase, and some have already been announced, such as the partnership with the agricultural cooperative Primato, which has more than 9.000 members. This is the first phase of the project with high potential for scalability covering just 15 properties, which will transform pig manure into biofertilizers, electricity, and fuel for our trucks. This way, we build the basis for a new Tupy, which advances in the current business value chain, and which is well-positioned to enter segments that may represent a significant part of the company's revenue in the coming years.

On slide 18, we further discuss this front as well as the opportunities for new businesses. These are business areas that depend on in-depth and qualified research and development work, mastery of knowledge and advances in sectors with high growth potential and that present higher multiples. The biogas and biomethane chains will play an increasingly important role in decarbonization, especially in agribusiness through complete solutions covering waste management, energy generation, vehicle conversion and commercialization of byproducts, such as biofertilizers and CO<sub>2</sub>.

These same opportunities are present in the management of urban organic waste, and we will soon announce partnerships in this line of business. The replacement of gas [unintelligible] biomethane in the manufacturing processes will also be an important topic in the coming years given the industry decarbonization agenda, and Tupy will be present in this market, we will play an important role in the development of solutions for clean fuels, such as ethanol and hydrogen.



We recently announced a contract for the production of cylinder heads for internal combustion engine powered by hydrogen, a solution considered zero emission according to the European Union regulation. We have also made headway in researching the appropriate method for recycling lithium-ion batteries with low energy consumption. We tend to launch a demonstration plant in early 2024, which will allow us to advance in the negotiation of commercial opportunities with players in Brazil and abroad.

With the acquisition of MWM, we also enter the engine component distribution segment. This is a sector of whose potential we were already aware, but which we have not yet entered due to the network needed to make this business viable, which has counter cyclical characteristics and growth. The combination with Tupy will make it possible to incorporate blocks, heads, and structural components into this product portfolio. These are all items with very high added value.

Finally, I want to talk about our 2022 sustainability report, which was published on April 27th. This is our third report in compliance with the new GRI standards covering important results and indicators in a more interactive version. We reduced the intensity of greenhouse gas emissions by 17%, and 93% of the product delivered to customers are all recycled origin. In the social aspect, we added more than R\$9.8 billion in the communities where we operate, and we impacted more than 19,000 people through our social activities.

We also launched the sustainability committee linked to the Board of Directors and improved our code of ethics and anti-corruption practices. These results together with our innovation initiatives contributed to upgrade our ESG ratings in MSI, S&P and Sustainalytics. In addition to the search for efficiency and cash generation, sustainability in all its pillars will be central to our agenda in 2023, we will make progress on important topics, such as inclusion and diversity.

I would now like to invite you to access our report and learn more about our practices and new Tupy. I would like to thank everyone for participating and we're now going to open the Q&A session. Thank you all.

### **Question and Answer Session**

**Operator:** Ladies and gentlemen, we are now going to start the Q&A session. To ask a question, please enter 1. To remove your question from the list, just type star 2. This conference call is exclusively for investors and investment professionals.

Our first question comes from Lucas Marchiori, with BTG Bank.

**Lucas Marchiori:** Hello everyone, good morning, thank you very much for the call. There are 2 topics that I would like you to address. You explained very well when you talked about energy and decarbonization, and when we look at the revenue what would be fair to assume in terms of relevance considering the overall business of Tupy so that we can understand what could be the expected



growth? So, could you give us some drivers, some projections what are the subtopics that we could follow so we could understand how the revenue is going to grow down the road for modeling purposes? So, how can we model energy within the context?

And you also talked about the translation of Euro 6. In your perception, we understand the worst has already gone in terms of volume and price impact, and we are to expect a slight recovery. We would like to understand the margin trend. So, these are the 2 questions I had.

**Fernando de Rizzo:** Hi Lucas, good morning, thank you very much for the question. First, in relation to energy and agonizing in sector, we are opening this new way of reporting obviously because we see growth in the 3 pillars we mentioned. I think the design of the new Tupy (Nova Tupy) created conditions for growth in all business areas, so we are going to grow in structural components, manufacturing contracts, as we execute new agreements, we add services and machining services. We have some major projects in place, 650 million of revenue in the future from the new contracts and part in Mexico and part in Brazil, and this business continues to make headway.

As for energy and decarbonization specifically, we have some very important fronts generating growth in addition to vehicle transformation because we see a growing trend in Brazil for those areas, and we see the interest in the use of natural gas and biomethane in an increasing. Biomethane is identical molecule of natural gas, so the systems that we are selling for vehicle transformation engines that would replace trucks for transportation of waste, urban buses, operations with a limited perimeter where we have access to natural gas, as well as our relationship with Comgás, which is providing support with our model, a new model that we can use reducing the operating cost of those companies, so we have the growth potential which is very significant in the segment because it makes sense, we are talking about pensions that would reduce noise of the vehicle, these are engines that emit less carbon and also less particulated residues.

So, this is a very important topic, and we see an enormous growth in this segment in Brazil because it makes sense considering availability of biomethane in Brazil. So, we are discovering new opportunities at all times. The project that we announced that we have with Primato using pig manure has a production of biofertilizer which is quite relevant, organomineral, it has a production of biomethane, clean electricity and this biomethane can be sold to engines and we can use them for the fleet of the farm, and this is something which is produced on the farm and we can also sell the biomethane to companies which are interested in replacing natural gas with biomethane.

So, there's a whole universe of new system, this ecosystem that has is being created considering all these opportunities and this is why we invest in biotechnologies, we have partnerships with Embrapa, partnerships with the University of São Paulo and other state universities. Why? Because we are developing a coherent manner of processing all types of biomass that we are



about to talk about the use of the organic waste produced at the urban level, so solid waste for fertilizer and biomethane and help in the decarbonization of the city.

So, we are talking about different business fronts which are being developed, I usually say that this new Tupy is under construction, we are adding knowledge, we are also including competences that makes sense in the ecosystem and in the next quarters we are going to be announcing new opportunities and new businesses, and this is the reason we have very strong technical team working on those fronts, engineers, biotechnologies making adjustments to engines, making adjustment to generators, working with biodigesters and we're solving a problem which is a structural, manure of animals is a problem to farmers considering that this kind of waste cannot go to the rainfall network, it cannot contaminate the water table.

So, this is a problem that needs to be disposed properly, but it's clean energy to the society, so we see that those products have a high level of scalability in Brazil, and we are developing all the technologies that make up this chain value of those system.

In relation to the market, you asked how we see it. You saw that April was a bad month, truck production dropped by 28% in relation to the previous year, but we believe that the worst part has already gone by and we're going to recover in this movement, but this is not going to be done at a quick pace, this is going to be recovered at a slower space because we also have to consider that we have to have availability of credit because we need the fluidity of the used vehicles for the new vehicle market to strike.

So, we expect a gradual improvement down the road, but we are not going to go back to higher volumes immediately.

**Lucas Marchiori:** Ok, Fernando, thank you.

**Operator:** Our next question comes from Gabriel Rezende, with Itaú.

**Gabriel Rezende:** Hello, good morning, Fernando, Thiago, Rodrigo, thank you very much for the space to ask question. I have 2 questions on my side. If you could make comment on the announcement for the supply of the hydrogen combustion engines. So, if you could provide us with a prospect that was designed in the partnership in relation to volumes and how we can think in terms of timeline. Is there any exclusivity clause? So, is this product going to demand a relevant CapEx from Tupy?

And I would like to understand what the marketing behavior for the quarters would be to come for we were a bit frustrated, especially with the volumes due to the transition to Euro 6. This is something that was already negative since last year, but may be materialized worse than we had imagined, but now that we have a better view for the next months, what were the factors that at first affected Tupy?





What can we see in terms of positive results in the future and how do you see the prospect for the next months, please? Thank you.

**Fernando de Rizzo:** Hello, Gabriel, good morning, thank you for the question. Now beginning with hydrogen, this is what I have to say, the development of product like this we use 3D for the geometrical part, so we make prototypes using 3D printers, and the development is based on the material, what would be the chemical composition of the material, and we start with advantage because we announced more than 2 years ago we announced the project in Austria saying that we're testing this model, we are perfecting the material so that we can use hydrogen for combustion engines.

So, the point is that hydrogen combustion engine is the way out that we see for the industry for zero emission vehicles. There is a rule in Europe saying that there's a percentage that is growing until zero emission, and hydrogen combustion engine was considered a zero-emission vehicle, so it's much more economical than the other ones. What are the other solutions? Battery and hydrogen combustion cell, which is not ready yet, they are not fully developed yet.

But all those other solutions are much more expensive than hydrogen combustion engines, the difference is that those engines are likely to have a conversion rate – I know it's a bit technical, but – 50% of the hydrogen used in the engine can be converted in force, so we estimated that the engine is likely to stand at 50 or 52%, and fuel cell would remain at 55 or 60% in the future, however, it's much more expensive.

The big challenge we have ahead of us is the price of net hydrogen, so price and availability. The product itself is likely to grow and this is going to be our growth avenue because it's going to give autonomy to the vehicle so you can charge larger amounts of hydrogen in the vehicle so that you can maintain the autonomy of the diesel or you can get close to the diesel autonomy, and it has a great advantage it doesn't need to have the pure hydrogen because the fuel cell needs hydrogen absolutely pure because it cannot have any impurities.

Why are we saying this? Because we believe that in certain markets, wherever there is hydrogen available, today it's very expensive, we would need subsidies, so it's going to be the best way to reach this zero-emission target. So, the potential is very high, this is just the first project with one of our clients, we are working with other clients in parallel, but of course, this is an industry trend, all car makers have already announced engines using hydrogen and we are talking about road [unintelligible] use, and for all the other applications, the best applications off-road, for example, other alternatives will also be hydrogen based engines.

We believe that, but however, it will depend on the green hydrogen price that will affect all the other solutions regardless of if it's cell, battery, or engine because all the options are expensive. We believe that this is a business that is



going to get mature in 2030 or 2035, it's a long-term solution, we are likely to see those vehicles on the roads for decades to come.

**Thiago Struminski:** In relation to the margin, we had 2 extraordinary effects in this period, which was a drop of more than 30% of production of trucks in Brazil, and of course, this will impact not only the physical volume of sales of Tupy, but also of MWM, which stood below the historical average, and also, the incorporation of MWM whose margin was lower than traditionally we delivered. So, those 2 effects would partially explain this drop.

And we're going through a very similar moment to what we saw at the end of 2021 when we acquire Teksid, we had an incorporation that we had a lower margins at the beginning and then we rebuilt those margins quarter-on-quarter after the acquisition. So, it's a bit different what we see now because we have a new project being announced at the part of the revenue, but we are promoting a higher return to the shareholders.

**Gabriel Rezende:** OK, thank you, Fernando, thank, Thiago, have a good day.

**Operator:** Thank you. Our next question comes from Marcelo Motta, with JP Morgan.

**Marcelo Motta:** Hello, good morning, everyone. I have a question on my side. Fernando mentioned new Tupy and all the initiatives that the company has been adopting in terms of energy and decarbonization. I'd like to understand how you see the CapEx for the future, we saw some contracts received the awards in terms of assembly and the machining, and this involves Capex, and when we see new sources of revenues, the question is do you see how the contracts are going to play and favor those revenues in and all the changes you're making?

So, I would like to understand how you're going to use the CapEx related to the project. Is the CapEx going to be higher than historical CapEx? So, thank you.

**Thiago Struminski:** Marcelo, we have opportunities in the 3 business pillars. When we look at distribution, this is a case that involves launches of products which is related to manufacturing contract and decarbonization. We have already announced some and they are going to get into the normal cycle of CapEx, and with the for consumption close to depreciation, so we have this obligation of keeping the ROIC. And when we see energy in decarbonization, so we look at the cash generation to finance this and the appetite of for shareholders to approve those projects.

Of course, we are going to make [unintelligible] with our level of leverage, the expectation of return of the projects so that we can move on with those new initiatives.

**Marcelo Motta:** OK, Thiago, thank you.



**Operator:** Thank you. Our next question comes from Vitor Mizusaki, with Bradesco BBI.

**Vitor Mizusaki:** Hello, good morning. Congratulations on the results. I have 2 questions, the first is a follow-up on Marcelo's question related to CapEx. When we look at the results of the first quarter, we see an increase of nearly 70% year-on-year and there is a part where you mention a strategic investment, which is quite in line with what you discussed, but there's another point, what is the sustaining and modernization in a line? What we expect from this line and what can we expect for the next quarters? Is it something more related to Brazil or Mexico?

And second question is an update in relation to the incorporation of MWM. Could you talk about synergy and also everything that can be insourced or internalized in terms of purchases and third parties and what has already been verticalized to Tupy? Thank you.

**Thiago Struminski:** Vitor, in relation to the line that you mentioned, sustainability and modernization of operational capacity, to a greater degree it has to do with the adjustments that we're making with Teksid, we're making actions for the transition of products between plants. When I mention synergy, what I mean is that we have realized some sales contracts, some purchasing contracts, however, industry-related, movements need reallocation between plants, and this is where this amount is being used, it has to do with the adjustments on the plants and the actions will start as of the second-half of this year, so we are going to make movements with products, we are going to launch new products in Betim, and in the last conference call I said that we are transferring many machines equipment that we had in Mauá to Betim, and this is what we're going to continue to do, we're making adjustments to the equipment.

In relation to MWM and synergies, it's focused on the announcement of new projects, so we made a lot of effort to develop business, we took part in 3 trade fairs launching new products on those trade fairs, and this shows the ambition that we had to do new businesses with MWM. So, we're moving at a very good pace, so the question was how this is going to represent in the future.

So, we see a lot of potential for growth, and we are developing all those areas, we have lots of new initiatives that have been implemented in these last few months and we are going to continue for the next quarters.

**Vitor Mizusaki:** Thank you.

**Operator:** Thank you. Our next question comes from Fernanda Urbano, with XP.

**Fernanda Urbano:** Good morning, everyone, thank you very much for answering my questions. My question is about prices in export market. So, considering heavy vehicles, I would like to understand the demand and the



negotiations with the clients, so if it can pass through the prices, a real and actual pass through of prices to market. Thank you.

**Fernando de Rizzo:** Hi, Fernanda, thank you for the question. Yes, it's a market that is still very robust, is very heated, we have a growing share in this market and we're going to continue growing this share as we take products to the operations in Mexico, products that are in the phase of development, some of the products that we announced, such as the revenue of 650 million and it accounts for a higher participation of share in this.

And these were products that were provided by the car makers and some European carmakers that send their products for their plants in Europe they need to make adjustments and the origin of this growth of foundry and machining in the operations in Mexico in the next 3 years. So, this is segment that continues very strong, the age of the fleet has been used, the age of the fleet is not at the ideal point, such as non-residential items.

All those machines have had a very strong demand and we see a growing demand in this sector, and we are organizing ourselves so that we can better meet the needs of those clients.

In terms of cost pass through, yes, we have been able to pass through the prices as we saw the variation quarter-on-quarter and we have improved the quality of our contracts, we have been considering the inflation in Europe and in the United States, and the contract that we executed in the past did not cover for those changes but would cover only the commodities, such as energy and other items.

Yes, and I can say that the contracts are ever better, we're including all the cost structure that we have now. Thank you for the question.

**Operator:** Thank you. Our next question comes from Andressa Varotto, with UBS.

**Andressa Varotto:** Hello, good morning, everyone, thank you very much for taking my question. I would like to make a follow-up in relation to margin. How do you see the dynamics of raw material prices and how are you going to have this cost pass through?

**Thiago Struminski:** What we have observed since 2022 when we do this exercise of comparison, we see that all those materials entered a deflation curve and there was a stabilization in March and a deflation in January and February, and maybe we saw a little increase, and we see that the situation is favorable considering most items, including freight. We see a relevant deflation since second quarter of last year.

Our expectation under the contract to have this cost pass through on a quarterly basis and this is going to be seen in the revenue, it can move up or down, it's a balanced relationship that observes this long-term relationship with the clients.



**Andressa Varotto:** OK, perfect, thank you.

**Operator:** Thank you. our next question comes from webcast platform, which was asked by Giovanni Ardito, with Citibank:

“In relation to the cash generation, could you give more information about the expectations of optimization of the operating generation? In addition to that, do you expect to reverse the decrease in cash throughout the year? Thank you.”

**Fernando de Rizzo:** OK, Giovanni, thank you for the question. In 2023 we have an expectation of higher volumes, we did not expect the drop to be so deep in Brazil, 7% in total volume this is quite a relevant drop, and in domestic market above 16%, it's a lot because you're doing the number of employees, the assets, the size of Tupy, so you have to understand that this is distributed in different equipment and we generated inefficiencies in all the process, and of course, we accumulated working capital in the period, we had higher working capital in the period.

Yes, we're going to improve the cash generation along the year so that we can make adjustments through deduction. We had some stoppages in March, and other stoppages end of April and throughout the year we are going to make the necessary adjustment to convert this working capital into cash for the next 2 quarters.

**Thiago Struminski:** I would like to say that in general the first quarter consumes cash and we're going to recover this along the next quarters as we did last year, this is what we expect. When we see the cash position as a whole, we see different effects, in the MWM contract we have to return part of the amount that we used for the acquisition, so this has to do with the price adjustments, and that would make changes to the cash position.

This is not going to be a cash burn, but as Fernando said, the work is going to be focused on the variations of the working capital so that we can recover the basis for the next quarters.

**Operator:** Excuse me, if you have any questions, please press star 1. Thank you.

Excuse me, we now close Tupy's question and answer session. I would now like to turn the call back to Mr. Fernando Rizzo for his final remarks.

**Fernando de Rizzo:** Thank you, thank you all. We made 2 transformational acquisitions in the past 18 months and in this quarter, they accounted for 35% of the revenue for the company, both companies came based on attractive multiples and lower margins of Tupy pre-acquisition, something between 4 and 7% of the EBITDA. The results we presented today reflect the initial gains that we'll obtain with the integration of the plants we acquired from Teksid.



Since we assumed the control, we are making headway capturing synergies in commercial front and industrial fronts and also purchasing fronts, in line with our business plan that we announced. With the result, we increased margins, but even so I would like to make it clear that we're not happy with the performance and we have improved our organizational structure strengthening different actions of productivity at the plants, relocation of products, process improvements, and a closer attention to costs, the purchase, materials, and services.

And speaking of the future, we are building this new Tupy that we announced on Tupy Day last year comprising 2 major fronts: the first is focused on the traditional businesses capturing synergies, enhancing value addition using the services of assembly and machining that can be accelerated with acquisition of MWM; the second front is the development of a company that is ever more dedicated to low carbon economy, operating in segments with high potential of scalability that comprehended a single project several business opportunities by using organic waste or agribusiness waste.

Some examples of the benefits is the generation of clean energy, biofertilizers biomethane that can be used in trucks, buses, machines, and several industrial processes as a replacement of natural gas. We are also working to increase the relevance of the aftermarket, which is an area that we did not take part in the past and we understand that considering the distribution network of MWM, we understand we can add new products, expand our channels and all the portfolio of offers we're presenting the market with.

I would also like to congratulate the 70 years of existence of MWM, which is an important pillar of our strategy that has contributed with a lot of technology and especially with major talents in the construction of this new Tupy.

And lastly, this is the last earnings conference call of Thiago Struminski, and I would like to work for your hard work on behalf of everyone and after all the dedication you have given to Tupy, he became the CFO in 2016 when we had revenues of 3 billion and he was fundamental in the process of our company, he made lots of operations in the capital market and he has always operated focused on the results and he had this team spirit.

All of us, your colleagues, we wish you the best success and happiness. Have a good day everyone and thank you.

**Operator:** This conference call is now closed. We would like to thank you all for your participation and have a nice day, everyone.