International Conference Call
TUPY S/A (TUPY3)
1Q22 Earnings Results
May 13th, 2022

Operator: Good morning, thank you very much for waiting. Welcome to the conference call for the presentation of earnings for Q1 2022 for Tupy.

The participants are connected in the listen-mode only, later on we will have a Q&A session when further instructions will be supplied. If necessary, please contact an operator during the conference dialing *0. This conference call is being recorded.

The company would like to remind you that this event is also being transmitted simultaneously via internet and webcast and you can access at www.tupy.com.br/ri, where you will find the presentation. The slide selection will be controlled by the participants.

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

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

Mr. Fernando you may proceed.

Fernando de Rizzo: Thank you, good morning. I would like to thank you for your presence in our conference call.

We will begin on slide number 3, a summary of the quarter. We had record numbers in net revenue, we expanded margins and we continue to increase the return on invested capital due to many management actions that will be detailed during the presentation. The physical sales volume reached 171,000 tons, an expressive growth because of the combination of Betim and Aveiro, new acquisitions, but low if we look at the potential demand of the market. Bottlenecks in many inputs, especially semiconductors, and difficulties with freight have made our clients have difficulty in producing sufficient quantities.

Net revenue reached R$2.4 billion, the highest quarterly revenue in the history of the company. the strong growth shows the strength of our business model and our capacity to increase prices. We also reached the highest adjusted EBITDA, which reached R$314 million, an expressive result when we look at the increase in the price of raw materials, freight, unfavorable exchange rate, and some stops at clients. These effects were mitigated by the intensification since Q421 with a series of initiatives to reduce cost and expenses, reorganization, and increasing the operational efficiency, which contributed to increase the margins, both in relation to Q121 and also the previous quarter.

The addition of the new plants in Betim and Aveiro have allowed the capture of synergies in many fronts, which also bring opportunities and the other operations of the company. Many of these actions are happening before we expected, this better performance impacted the net result with a net profit of 74 million in the period versus a loss of 15 million in Q121.

On slide 4, I'd like to illustrate these effects with some indicators. Comparing the first quarter with the same in 2018 pre-COVID, excluding the results of operations in Aveiro and Betim, which were acquired in October 2021, our physical volume had a drop of 14% due to bottlenecks in the supply chain of clients. In the same period, we observed an increase of 97% in adjusted EBITDA with the same comparison basis with the growth of 130% in the EBITDA per kilogram on the same base excluding the operations in Betim and Aveiro.

On slide 5 we show that focus on adequate allocation of capital and optimization projects and flexibilization of production processes contributed for the increase in the return on capital invested, which reached levels that are higher than before the pandemic, even including new operations that still have results that are lower than their potential, we have reached indices higher than Q321, which did not include these plants. The value generation is a central pillar for the strategy of Tupy and a determining factor in the capital allocation process with the payment of dividends, buyback of shares, investments in new products, and services or M&As.

We closed the quarter with a comfortable leverage, which allows us to continue in new avenues of growth even considering the debts from the acquisition of the new plants. In this way, we approved yesterday a program to buy back shares showing the trust that the company has in its potential to appraise the shares, especially due to the results expected and the execution of a strategic growth plan, both horizontal and vertical.

Now to present the main indicators in the quarter I invite Mr. Thiago Struminski, our CFO.

Thiago Struminski: Thank you, Fernando. Good morning to all.

Even with restrictions in production chains, as mentioned by Fernando, volumes grew 2% in comparison with Q121 considering the volume of the plants in Aveiro and Betim 42,000 tons, the growth was 34%, and on the mix in the volume of transportation, infrastructure and agriculture excluding the plants were 23% were totally or partially machined.

On slide number 8, the revenues increased by 24% in compressor with Q121, excluding the operations in Betim and Aveiro, it represented 445 million. Also, in relation to the new operations, we have 52% going to USMCA, 26% in South America, Central America, especially Brazil, and the 3 remaining percent Asia, Africa, Oceania, and 19% to Europe. In terms of application, 83% went to commercial vehicles and off-road, 13% to passenger cars, 4% to hydraulic products.

On slide 9 we see domestic market with transportation, infrastructure, agriculture especially due to agribusiness and indirect exports. The impact… we have greater participation in Betim.

On slide 10 we show the revenue from the export market, strong growth in applications for commercial vehicles, medium, and heavy, especially due to investments in infrastructure and agro business, and in spite of the demands, light commercial vehicles continue to be affected by restrictions in production chains, and also there was the scarcity of semiconductors, and this was mitigated by adding the operations in Betim and Aveiro.

On the next slide we see the performance of the sales in hydraulics, 4% of the revenue, growth of revenue of 35 and 28% in the domestic and external markets respectively showed the gradual improvement of industrial activity apart from the effort to increase prices.

Slide 12, cost of products sold increased 50% in an annual comparison impacted by inflation in inputs, especially scrap, in spite of the negative effects, we have a gross margin of 17%, 2 percentage points higher in relation to Q121 and increase of 54% in the cost of raw materials, 51% in maintenance and third party materials due especially to the price increases in materials in the annual comparison and also as a result of the volume produced, 48% more in labor, especially due to the employees in the new operations, overtime, and negotiation for wage increases.

The operational expenses had an increase of 52%, the result is due to higher volumes and more expenses with freight and also wage increases and also expenses from new operations. Excluding freight, the variance was 14% even after including the new units due to new actions to gain efficiency and reduce costs.

Slide 13, adjusted EBITDA reached 314 million, a margin of 13% higher than Q421, and also higher than Q121. Excluding the new operations to have the same comparison, the margin was 15%. The margin of the operations in Betim and Aveiro reached 5% versus 2% in Q421 when they were affected by nonrecurring factors due to the decision for acquisition, which decreased the sales in that quarter. On the lower part of the slide, we see the net profit in Q122, 74 million, and the net margin of 3%.

On slide 14 we see the financial result. In February 2021, we issued senior notes reducing the cost of the debt in dollars from 6.6 to 4.5% the cost of the loans and apart from financial expenses, especially in Q121, the comparison is affected by the early liquidation in the past, and also, we had exchange rate variations with an expense of 70 million.

On slide 15 we have the main working capital accounts using Q4 as a comparison, an increase of 7 days in accounts receivable due to more sales in March 2022 in comparison with December 2021, and also including the new plants, reduction of 13 days in the cost of products sold, apart from exchange variation on the inventory in foreign currency, we see a drop due to the many actions with the objective of adjusting these inventories to the stops at clients due to lack of semiconductors. We also had a reduction of 8 days in accounts payable, especially due to the increase in production and the increase in the volume of purchases of raw materials.

On the next slide 16, we made investments of 54 million, an increase of 69% in comparison with Q121, but representing only 2.3% of the revenues in the period. The investments are related to new programs and machining projects, apart from initiatives for safety and environments.

On slide 17 we see the operational cash flow of Tupy, we see here 244 million, especially due to operational activities, the result is due to the increase in accounts receivable due to the higher sales volume in March, which will have a positive effect in the next quarters and payment of suppliers and inventories in Europe that were not contemplated when we acquire Teksid.

Slide 18, here we showed net debt here, 1.4 billion, 1.4 times adjusted EBITDA in the last 12 months, in foreign currency we have 77% of the total, especially linked to the bond with a single amortization in February 2031 and 4.5% in annual interest. In relation to cash, here we see that 52% is in local currency. In the first quarter we have a comfortable cash position 953 million.

Now Fernando will talk about recent initiatives.

Fernando de Rizzo: Thank you, Thiago. On slide 20 I'd like to highlight the importance of recent movements. With the acquisition of the plants of Teksid in Betim and Aveiro, this allowed us to have more flexibility in operations, capture synergies, and increase the efficiency in many fronts, apart from contributing to obtain new contracts. These are operations that are similar to ours located in countries with competitive costs, abundant energy, and for which we have an integration plan in progress with good results.

With the acquisition of MWM Brazil, subject to the authorities' approval, we're offering new value proposal to the industry prepared for the challenges of the new decades. In this new company, MWM has the necessary independence to offer its services to all the clients that manufacture engines and Tupy acquires the necessary know-how to make progress in the supply chain of its clients now and in the future.

On slide 21 I'd like to talk about the contract manufacturing model of MWM. For the assembly of third-party products, it is a service that supplements our activities of casting and pre-machining, and due to its technical complexity, we would not be able to grow organically. With this model we will offer machining services, assembly of subcomponents in engines, and engineering services, thus, we collaborate even more with our clients, and we will allow them to allocate resources in other challenges and opportunities. The new company will benefit from important trends, such as outsourcing, nationalization of engines, add diversification of products for new fuels and emission standards.

On the next slide, we show that this transaction marks the entrance of Tupy in important sectors, each one with its own points. The cost of development in these businesses, approval, testing are high, but once they are absorbed, there is a high return on the capital invested and high perspectives of growth in Brazil. Today the company supplies for aftermarket more than 24,000 components for diesel engines, gas engines, biogas engines, and generators, and also naval engines. All of these are consolidated in an efficient operation and supply distributors with 600 points of sale in Brazil and also technical assistance network with more than 300 accredited workshops who are trained in the country.

Another at jacent business in MWM is also the naval system for leisure and work with their own products and representing some international partners offering complete solutions for ships and also energy generation on boats and with technical assistance in the country. But the most important front is energy in decarbonization, these are initiatives with many synergies with our work and also Tupy Tech, our disruptive R&D startup. MWM also works in decarbonization and energy, especially for agro business in Brazil with a platform manufacturing generators with biogas in hydrogen and the conversion of truck engines, tractor engines to natural gas and biodiesel.

The use of biogas and biomethane for electricity production and use in fleets of trucks, buses, and tractors is the main route for the decarbonization of the export industry in Brazil using ethanol with good solutions that don't depend on government subsidies. The production close to the consumption makes sense, especially in a scenario of a decarbonized agro that requires energy safety. We're talking about residues that are considered as negative due to the emission of methane, this will become raw material for the production of biogas and will supply energy in rural areas.

Farms are far from distribution networks and many times connected to long transmission lines that are subject to problems. Problem solved with the generation of local energy with quality. There are many opportunities due to the abundance of biomass, if we consider the production of electricity in 2021, there is a potential that is higher than 2.5 in Itaipu hydroelectric power plants distributed in rural properties and also in the treatment of urban wastes.

But the most important front is that of decarbonization that we will cover on slide 23. Initiatives with a lot of synergies with our knowledge of materials and partnerships announced by Tupy tech, our R&D unit. MWM works in new business, especially directed to agribusiness, having as a platform the manufacturer of generators with biogas hydrogen and the conversion of truck engines to biomethane natural gas and biodiesel. The use of biogas for production of electricity and the use in fleets of trucks, buses, and tractors is the main route for the decarbonization of agribusiness exporting food to the world with feasible solutions that don't depend on government subsidies. And also, the production near to the place of consumption makes sense, especially in agro that requires energy safety.

We're talking about wastes that until then we're considered a negative externality due to methane, now they will become raw materials to make biogas and supply energy to the field. We'd like to remind you that farms are in locations distant from distribution that works in times connected to long transmission lines subject to problems. This can be solved with local generation of quality electricity. There are many opportunities due to the abundance of biomass.

If we consider the production in 2021, a potential of 2.5 Itaipus hydroelectric power plants in rural properties and also in the treatment of urban wastes.

On slide 24 I'd like to talk about our sustainability report that we aired on April 22. This is the second report of GRI including important indicators, such as emissions and scope three of greenhouse effect gases, and water resources. We made important progress with a reduction of 9% in greenhouse effect gases versus 2019, we increased our activities in research and development, we invested in training with 460,000 hours of training and transformation of more than 500,000 tons of scrap in products that have high-added value.

Finally, I'd like to highlight that although in the short-term we have managed a lot of volatility in relation to exchange rate, materials, and volumes, we continue executing our strategy that we believe is correct for our future without compromising the present and always with a lot of discipline. We acquire 2 companies with competitive multiples, with great potential of diversification and growth, and also, we have a plan to capture the synergies that we will have in Betim and Aveiro.

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

Question and Answer Session

Operator: Ladies and gentlemen, we will begin now that Q&A session. To ask a question please dial *1. To remove your question from the queue, please dial *2.

Our first question comes from Vitor Mizusaki, Bradesco BBI.

Vitor Mizusaki: Good morning, congratulations for the result. I have 2 questions, the first concerning machining, you mentioned that with the consolidation of Teksid, my first question what can we expect from Teksid? Are you in contact with the clients to offer these new services? When do you believe that margin of Teksid can increase? We saw an improvement in Q1, but considering this upside of machining, what can we expect in terms of margin from Teksid?

Second question concerning Teksid, we're seeing a speed that is higher than expected in the integration, can you share with us targets for margin for this year at Teksid?

Fernando de Rizzo: Good morning, Vitor, thank you for the question. Yes, this process works in the following way: every product that we manufacture and Teksid manufacturers are machined, now we want outsourcing projects from clients, and also in MWM we see a principal in industry, some OEMs have mentioned this that they're having difficulty in allocating capital because they have many fronts, so they have challenges in decarbonization for OEMs, connectivity, challenges in autonomous vehicles, and even different business models. So, in this sense, some OEMs have said that they don't want to invest in this business since it's mature and they can find suppliers to offer this service and it's here whether it be Tupy or Teksid that the project with MWM we wish to accelerate this movement.

We have a great capacity, so the idea is this one, a company that manufacturers the final products, MWM does this under contract for many OEMs, so we reinforced our team and we're discussing an acceleration. As we have projects, we will announce these projects, but there are many discussions in progress, many clients interested in this, and the logic is in the following: we believe that we will be able to have similar products under the same roof and thus generate efficiency for the whole chain.

So, we believe that new projects should come up, so the new projects will come from outsourcing of OEMs, and these are the opportunities we have. so, we have a positive vision in this sense of the growth of this segment.

Thiago Struminski: Just supplementing concerning margins, we gave a reference for 3-4 years to have the same margins as Teksid, but the way we have to look at machining is not in an independent way because it won't be necessarily done there, we can machine a product that is cast in Betim or in Aveiro, but the machining process can be done in Joinville, in Mexico, in any other place we have. So, we invite investors to look less at the margin of Teksid and to look at a combined margin. It will take some time.

Fernando de Rizzo: And Thiago, I would like to supplement. Vitor, it is important to understand that within this space of Tupy, a piece of this improvement also has origin in the purchase of Teksid so we can generate these efficiencies and all the process. This makes sense because as time goes by, we're exchanging products between plants, we're joining raw materials and bringing uniform and with this we have gains in efficiency for purchase, we're reallocating products by similarity, by alloys, and thus generating efficiency on both sides.

So, it won't make sense to have this segregation Teksid Tupy, the interesting thing is the combined margin of the company because Teksid will be a part of the system, and we want to show that we trust in this movement and the improvements we are making in the company.

Vitor Mizusaki: Thank you.

Operator: Our next question comes from Fernanda Recchia, BTG Pactual.

Fernanda Recchia: Thank you, congratulations for the results. Three points, the first the increase in the price of raw materials and will we have more raw material increases in the second semester? And also, volume as you showed, volumes at Teksid are below the period before the pandemic, what is your vision for the year to reach the levels before the pandemic? Thank you.

Fernando de Rizzo: Good morning, Fernanda, thank you for the question. Well, in terms of volumes, we're seeing the following: there is demand, what do we do? We make components for capital goods, these capital goods today our clients are not being able to produce everything they could sell and at the end store, fleet owners, construction companies, producers use machines for longer than they would like and thus they have more maintenance costs, so their equipment is no longer efficient, and since they have better margins, they intend to change their equipment to become more efficient, but they're not being able to because there is not enough equipment for sale.

On the other hand, the equipment is being used intensely, machines are being used, freight in the US, so they continue, there is a boom in freight in the US, this shows the strength of the sector and the need to change the equipment, this means that demand exists, there is demand and machines will be sold and this is valid for pickup trucks, pickup truck products or equipment also for small businesses, farmers in the US who need to change their equipment, and leisure equipment, and this movement that's why we understand that there is a strong demand, inventories are low, the backlog in our clients is very high, in some cases they have 12 months-backlog to deliver trucks.

This guarantees that we will have a stable demand in the future, this is what we see, but we will suffer with volatility due to lack of semiconductors, the effects in China, Shanghai, it's difficult for us to quantify, but there is demand, that's why we expanded the company, because there was greater demand last year and now we reduced the company to operate in the current situation. We have the capacity to capture new demands if they come up.

In terms of materials, also we're seeing a volatility, for example, Ukraine and Russia are responsible for most of the iron exports and the events in the Ukraine caused a restriction in the price of iron and the price went up with also an effect on scrap. This happened in the first quarter and second quarter. We're increasing prices, but we see a lot of fluctuation in this market. In terms of price of materials, we see nonferrous materials with a lot of fluctuation, volatility, copper dropped a little, but it's very difficult to make forecasts as you know and we did not increase totally the prices, we’re doing this gradually increasing prices.

I's important to say the margin we have in organic Tupy is important, when you have materials indicator at such a high level as in the Q1, you have a margin of 15%, the effect of materials diluted this margin, so it destroyed the margin. With the increase, we increase prices with surcharges, so our margin drops, and we have been able to improve efficiency to generate the final result that we have.

So, this is important in terms of margin. It's important to see that the value that we're generating by quarter, like last year in relation to what we did in 2017-18, is much better, we're talking about the same capital base. We did not invest apart from depreciation, so with same capital base we're being able to generate more value in the company.

Fernanda Recchia: Thank you, congratulations for the results.

Operator: Our next question comes from Andressa Varato, UBS.

Andressa Varato: Hello, good morning, Fernando and Thiago. A follow-up question in terms of margins, you have many moving parts, I'd like to understand how you see this, the gains in efficiency, synergy with Teksid operational leverage with higher volumes and also high cost of raw materials, high inflation. Please talk about the margin in the next quarters. Thank you.

Fernando de Rizzo: In fact, we have a lot of volatility in terms of exchange rate, price of materials, volumes and stops, so it's a little difficult to foresee in the short-term what the margin will be. For us it's important that we're going in the direction of our objective to equalize the margin of Teksid and increase margin. We believe it's adequate in the medium and long-term independent of what happens due to volatility in the short-term.

Of course, we're trying to mitigate these effects, but yes there is a risk in the short-term because of what is happening in the world.

Andressa Varato: Thank you.

Operator: Our next question comes from Renata Cabral, Citibank.

Renata Cabral: Good morning, I have two. Volumes for this year, normally the heavy vehicles we have now different standards in Europe, so you also mentioned that there is backlog in OEMs. Do you believe that clients can cancel purchases and the next year would have less pre-buying?

Now concerning the scarcity of raw material, especially scrap, last year this had an impact on the quality of scrap available in the market, inferior quality. Is this normal now, or is it normalizing the quality of the scrap available?

Fernando de Rizzo: Renata, thank you for the question. First, it's important to mention the change in legislation happens here, so from 22 to 23 Brazil will adopt euro 6 engines, it's a more expensive engine and this motivates this pre-purchase. The fact is there is a lack of product, there might be signs, maybe the fleet, owners that are more organized, but there's also the effect of interest rates affecting this decision, so it's difficult to quantify, industry has limits, they are limited, we have seen stops, production stops at some clients, the clients are choosing where they will allocate the semiconductors they have in the world, they don't have semiconductors for all their needs, so they're allocating them to some plants. Sometimes the operation in Brazil stops to favor an operation abroad.

It's difficult for us to identify these signs today, the trend is that if there was availability, we know that the current the new engines will cost 10-15% more euro 6 engines, but this is a rule that affects our sales in Brazil for products in Brazil. When you look at the sales of Tupy in Brazil, most of the sales in the domestic market are indirect exports, we have in Brazil the assembly of engines for export almost all our clients in Brazil buy our products and we record them as domestic sales, but they are exported, most of this volume is exported indirectly. There may be an effect, but we believe that in total we won't see a great variance even if there is pre-buy and a small drop in Brazil in the next year.

Concerning scrap, yes, the quality effects are better, the quality is better in scrap because the international freight restrictions affected the exports of scrap from Brazil too, and this helped our operation, but all these effects in the steel industry, for example the permission to import scrap, should affect the market in Brazil. But reminding you this effect is in the medium term and the contamination problem generates additional cost. We're not having additional cost due to contamination, we're very efficient in this period. Thank you.

Operator: Our next question comes from Lucas Lage, XP Investments.

Lucas Lage: Good morning, congratulations for the results. A follow-up question concerning Teksid. The strategy of the company concerning the distribution, the allocation of production among the plants, are you reallocating the products between the plants, Mexico, Betim, Joinville? And the 5% margin for Teksid is due to nonrecurring effects during integration? And the synergies when the plants will be integrated.

Now second point, ROIC. If there is pressure on ROIC due to price increases in raw materials, do you intend to reallocate the production? These two questions.

Fernando de Rizzo: Thank you for the question, I will answer the first part. Concerning the reallocation of products, this happens due to the type of equipment we have and access to specific raw materials that we have in each region. So, what are we doing at Tupy? We're using the synergies with Teksid, gradual reallocation of products according to the vocation of each plant, products with a certain alloy we will produce in one place, also products with different dimensions in other regions, we began this process, but it's still a small fraction, it takes time to have approval, get approval for the products, so we have a lot working with tooling being adapted, things being done, samples being sent to clients so we can make the changes.

So, this is important, it generates value for the company, and we expect to capture these synergies in the next 3-4 quarters. Others we believe we capture before.

In terms of margins, Teksid in this quarter operations in Betim and Aveiro they show a combination of 3 months of sales, in Q4 we didn't have these 3 months of sales. We see some synergies being captured, we always look at margin as a whole because we obtain some benefits in Joinville and Mexico, synergies in Joinville and Mexico too, that's why the trend is to look at the margin as a whole and not only Teksid.

Now concerning ROIC, our expectation some demobilization of working capital from now on, some lowering of… we made an effort to replenish the inventories of Teksid and so in the last months we had a lot of consumption of capital and now we will have the opposite effect, so our objective from now on is to increase ROIC and not only due to ramp up, but also mobilization of working capital. Capex is under discipline, we will have to buy a little for the synergies, but we're very close to depreciation.

Lucas Lage: Thank you.

Operator: Our next question comes from Werner Roger, Trígono Capital.

Werner Roger: Good morning, Fernando, we're very happy with the results. I'd like to talk about technology, could you comment on the competitiveness of cast iron in relation to aluminum in light vehicles? Can you win market in this segment? And also, the launch of Land Rover with a hybrid diesel vehicle, can we have hybrid vehicles with gas, natural gas so hybrids use different types of fuels, if we look at the next 3 to 5 years, migration to hybrid vehicles and fuel depending on the region?

Fernando de Rizzo: Werner, thank you for the question. You raised an excellent point, Tupy last week we presented in a symposium in Vienna a patent that we filed for a new product which is a special alloy with special higher resistance, and we made a simulation of an engine that today is made in aluminum using the same design, architecture, we made it with iron with very thin walls together with special plastics. What we wanted this was done in a company in England where McLaren engines are assembled and we should with tests, with the engine working that we could have the same product, with the same weight of the aluminum block and even lighter than aluminum. The aluminum block is always larger than an iron block.

So, what is the message? This makes sense, we have a competitive proposal for this, this would be Tupy going back to passenger cars substituting aluminum. The only reason aluminum is used is because it has a lower weight, so in the life of the vehicle with less weight you have less consumption of fuel. It's one of the ways to reduce the weight of the vehicles.

So, we have a product that reduces the total weight, it can be used by hybrid engines, today we use ethanol, the hybrid makes sense because it uses energies that the vehicle is dissipating and today vehicles that are not hybrid, they waste this energy. So, in this combination of efficiencies, we can get to the same performance of aluminum block engines with a lower cost for the OEM, but the great benefit we're bringing is the carbon footprint, the product in aluminum requires much more energy, 35% of the aluminum in the world is recycled, requiring a lot of energy, the rest is new aluminum, so our product uses much less energy, 5 to 7 times less energy because it's not aluminum from the origin of the material to get to the final product, bauxite to be reduced needs a lot of electricity.

So, the logic is the following: we have a proposal, the same performance as aluminum with lower carbon footprints. We believe that new projects may be born. This called the attention of clients, these are things that we're discussing with clients to convert products to iron, but it doesn't stop there, when we have a proposal that is lighter, other applications also make sense in aluminum, if we can have a process to reduce weight. So, other applications where we use more expensive materials, like aluminum, the difference between aluminum and iron has increased in the last few years and the carbon footprint being worse, we believe there's a new opportunity.

So, it may be a new area of growth, our team of engineers is studying this and we're visiting clients to discuss possibilities. We believe the great potential is in countries that will use biofuels because then you combine very benefits, many benefits. Biofuels will require new projects and they can be born with this material.

Now concerning natural gas, natural gas will be an important fuel in many parts of the world, especially in countries where you have natural gas and where you have a strong agribusiness and cattle raising. So, we will see a lot of applications with gas in urban buses, trucks that may receive biomethane generated in landfills and in sewer treatment plants, especially biomethane will be generated in farms that produce protein, farms that produce ethanol close to sugar and alcohol mills, ethanol mills, this is raw material to produce biogas and methane. This combination will bring us new opportunities and that's why we have Tupy Tech, they identified these opportunities, we know there are biofuels that are efficient, like ethanol or biogas, biomethane, and we have to be prepared with products for the challenges of our clients.

So, we have great expectations in this sector and also when I talk about MWM for the usage of engines with biomethane for tractors and trucks that work in farms, urban buses much better than any other electric buses because a truck this engine pays for itself in one year and electric buses apart from being very expensive they are very difficult to sell after they are used, and this effects the price of the bus tickets.

So, our strategic decisions our important, technology is very important for the decisions we make, we're trying to understand the technologies that make sense for society, the environment so we can have sustainability.

Werner Roger: Thank you, Fernando.

Fernando de Rizzo: Thank you. Yes, like the recycling of batteries, another pillar that we're following, and clients are interested in this. It's important, hydrogen is an important fuel in the future, hydrogen will be used in combustion engines for many applications where you cannot operate in a different way.

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

Once again, for questions please dial *1.

We'd like to close the Q&A session for Tupy. I'd like to pass the floor to Mr. Fernando for his final comments.

Fernando de Rizzo: Thank you, Priscilla. I'd like to thank the participants. Q1 which considers 3 months of revenue from Teksid, and we already have some synergies, although sales are low, our revenue shows the dimension of this new company that we're building. In the short-term, we will continue living with volatility concerning exchange rate, price of materials, and volumes, but the message is we have discipline to execute our strategy that we believe is correct for our future without compromising the present. So, thus, we will continue to make the necessary expenses to capture synergies that are planned in all the company improving efficiency in the machines, adoption of new processes, and consolidation of activities and services.

In organic Tupy, where the CPV went 50% up, we reach an EBITDA of 15%, this is an important margin with the prices of raw materials that dilute the margins because we take time to increase prices. This EBITDA corresponded to R$292 million, it is important because it has a high ROIC for this type of asset. We have been very rigorous in the company in the last few years in allocating capital and investing below our depreciation levels, the effort now is to take this performance to the operations in Portugal, the plan is going well and we're ahead of what was planned.

We will maintain this financial discipline allocating capital to generate value with new projects, buying back shares, or paying dividends, and this has also affected the ROIC of the company that has improved. We believe that the main cycle of acquisitions was concluded, and we reached our strategic architecture that we had planned, we acquired 2 companies that are strategic with competitive multiples, a great potential of diversification, and I'd like to reinforce a growth that we see in the future in the current business offering new services and going into new segments where MWM is specialized.

All the actions that we have announced are the result of the strategy and constant transformation that we're stimulating inside the company, the technological capital, and the talent of Teksid and MWM intensify our practice to invest in people, in their unlimited capacity to transform knowledge, technology and partnerships into value.

Soon we will have Tupy Day, and we will discuss this vision with more details. Thank you and we will meet again in the next quarter.

Operator: The conference call of Tupy is concluded. We thank you for participating and we wish you a good day.