**Operator:**

Good morning, ladies and gentlemen. Welcome to the conference call of Tupy for the earnings of 4Q23.

This conference is being recorded, and the replay may be accessed at our website, ri.tupy.com.br. It is also available for download.

All the participants will be in the listen-only mode, and next we will begin the Q&A session, when further instructions will be supplied. The presentation is being recorded and translated. Translation is available. Please click on the interpretation button. You can hear the conference call in English, and you can also mute the original audio.

Before proceeding, I would like to reinforce that the declarations are based on beliefs and assumptions of the Company's management and information available to the Company. They may involve risks and uncertainties bearing in mind that they refer to future events, depending on circumstances that may or may not occur. Investors, analysts and journalists should bear in mind that events related to macroeconomic environment, the segment and other factors may cause the results to be different from those declared. We have with us Mr. Fernando Cestari de Rizzo, CEO; Mr. Rodrigo Périco, Financial Director; and the IR team of Tupy.

Now we will pass the floor to Mr. Fernando.

**Fernando Cestari de Rizzo:**

Thank you, and good morning. I thank you for participating in our conference call. In 2023, we continued building the new Tupy with highlight to new businesses and execution of the improvement plan and improvement of synergies. The Company grew 2.5x in the last 5 years. This project involves many steps that have not been totally concluded.

In the traditional business, which will continue to be the great cash generator in the next few years, we made important acquisitions to bring efficiency to the sector, which has had surplus capacity in the last decades. Naturally, this strategy brings a larger asset base, which initially do not operate totally with surplus capacity.

Current margins do not reflect the conclusion of the plan. The flexibility in production is already mature and allows the reallocation for production lines with less cost of cash. This initiative has the objective to adapt to the fluctuations in demand. We renegotiated in 2023 conditions with suppliers and clients. And we made many actions to combine foundries with a reduction in expenses and fixed costs, but we still have a lot to do.

We will continue in 2024 to improve the efficiency of all the operations with better purchasing and building a company that is leaner. Also with companies acquired, we have a lot of overlapping areas. There are great opportunities to reduce costs and improve the processes in progress. This will result in better margins during the year. This also will help with an efficient capital allocation, giving priority to more efficient plants, which will allow more value to those allocated.

We have also made relevant expenses to develop new business. Although they are important for revenue in the future, right now, they do not contribute a lot to results. These expenses in 2023 were in excess of R$60 million. This shows the strategy for the next few years. We will become more efficient and we will be adding more value to the traditional products, diversifying in segments with high potential of growth such as production, end use of biofuels, new bioplants, vehicle transformation and also replacement of components for engines. We have a clear strategy and a disciplined strategy for these new businesses that have a great potential for growth.

Concerning this year, we are operating in a very challenging environment, with an expressive drop in the Brazilian market and also adjustments in other markets due to interest rates and also economic activity that is lower in Europe and China.

The drop in physical volume of sales was 7% in comparison with 2022, and a reduction of approximately R$700 million. This indicator does not include MWM. The revenue also had an impact due to the stronger local currency, BRL, and this currency represents 67% of the revenue. And also, we had the Mexican Peso becoming stronger, 12%. It represents 20% of the total cost of the Company.

It's important to highlight that we are negotiating to really avoid many costs. All these factors affected the margins and EBITDA of the year with a negative impact on EBITDA worth R$600 million in comparison with 2022.

The gains with synergies and other initiatives, and also the exchange rate, allowed us to reach an EBITDA superior to R$1.8 billion. In other words, we were able to anticipate our plans to capture synergies until 2026, even operating with inefficiency in many spaces.

Net revenue reached R$11.4 billion, growth of 12% in relation to 2022. 13% of the total revenue and 30% of the domestic market came from the new segments, Energy, Decarbonization and Replacement. Adjusted EBITDA in the period was R$1.3 billion, similar to 2022. Net margin reached R$517 million, net margin of 5%.

On the next slide, I will highlight the operational cash generation results and working capital. In relation to 2022, we reduced production by 9%, while sales dropped 7% with a lower dilution of fixed costs and unfavorable impact on margins. On the other hand, the strategy contributed to have a better working capital management with 11% reduction in inventory.

The operational cash generation in the period reached R$829 million in 2023, the best in the Company's history, representing a growth of 106% in relation to the previous year. This indicator becomes even more relevant since it was reached in a scenario when we were affected by unfavorable volumes and exchange rate.

Now to talk about the main indicators in 4Q, I would like to pass the floor to Rodrigo.

**Rodrigo Périco:**

Thank you, Fernando. Good morning. When revenue grew, reaching R$2.6 billion, concerning distribution of this revenue by geography, we see that 44% is in the U.S. and Canada, 18% in Europe and the remaining 3% in Asia, Africa and Oceania.

When we look at the division of revenue by segment, 86% comes from business in structural and manufacturer contracts. These are cast iron and high value-added services such as machining and assembly. 7% of the revenue comes from Energy and Decarbonization which includes generators, engines, naval or marine engines and services related to decarbonization, 7% from Distribution. Also MWM has aftermarket replacement parts.

On the next slide, the revenue from structural components had an impact due to the drop in production in the Brazilian market also included substitution of engines with higher prices and macroeconomic factors such as high interest rates and reduction in inventories on the part of our clients. The revenue from the export market, also clients more cautious apart from exchange rate effects and products with higher added value represented 40% of this unit.

On the next slide, we see the performance of Energy and Decarbonization due to the acquisition of MWM, engines that we manufacture, marine engines and products and services related to decarbonization. We see here R$113 million in Brazil, representing 15% and 2% of sales.

On the next slide, we have Distribution, which includes replacement parts, aftermarket. Sales in this segment in Brazil, which correspond to 17% of the sales in the domestic market had this growth of 67% with the inclusion of the results of MWM. Sales abroad, 1%.

Going on to the next slide, the cost of products sold increased 2% in the annual comparison, impacted by the entry of operation of MWM and also Mexican Peso becoming stronger, and operational expenses had a drop of 3% in relation to 4Q22. Here, this reduction reflects in synergies and gains in efficiency during the year.

Continuing, adjusted EBITDA reached R$250 million in 4Q. Now the margin reached 9.5% in comparison with 9.7% in 4Q last year. We continue to capture synergies from acquisitions and better performance.

For example, negotiations of the contracts with clients and suppliers had a relevant impact such as, for example, Mexican Peso becoming stronger in relation to our currency, labor inflation and a drop in volumes, where we had also a reduction in production, impacting the margins. At the bottom of the slide, we see here. We had the highest net profit in 2023.

On the next slide, we have the financial results of the period, an increase in financial expenses is due to debentures worth R$1 billion and higher CDI, which had an impact on interest and loans in reais. Now the financial revenue of the period reached R$30 million due to the capture of debentures, which resulted in a higher performance in 4Q22. The result with exchange rate variation gave us an expense of R$20 million with variations in foreign currency and hedge operations.

On the next slide, here are the variations in the many working capital accounts. And we will use 3Q23 to compare. In accounts receivable, a drop of R$388 million, impacting the average time to receive, to collect the money, especially due to seasonality and also exchange rate influences. And this all represented 74% of the total.

In comparison with 4Q last year, inventory dropped by 11% due to initiatives in Brazil and Mexico. In accounts payable, a drop of R$22 million, same 53 days in relation to 3Q. The lower volume of production compared with the previous quarter contributed for a drop in the volume of purchases. This is due to exchange rate variation in foreign currency.

Finally, debts at the end of December 2023, R$2.2 billion in debt, corresponding to 1.7x adjusted EBITDA in 2023. The obligations of our payments in foreign currency represented 62% of the total. Cash, 51% was in local currency. We closed 2023 with a cash position that is very comfortable, R$1.6 billion.

Now I would like to pass the floor to Fernando for his final comments.

**Fernando Cestari de Rizzo:**

Thank you, Rodrigo. In the next slides, I would like to show some initiatives and our vision for 2024 for every segment, beginning with structural components and manufacturing contracts.

In the domestic market, after low production in trucks, trucks should grow next year. Public works, private partnerships in Caminho da Escola should also help our clients to have better sales. Machinery and equipment, apart from solid structures in agro, we see a drop in commodity prices.

The export market should have normal sales with accommodation in heavy trucks in the U.S. and especially in Europe. Off-road segment should have a good performance in mining and infrastructure, with lower demand in agrobusiness and residential construction. Some signs show possible improvements due to things announced in some segments for 2Q.

ECG consultancy company has increased its projections for trucks in relation to previous numbers. Freight and usage of the U.S. fleet have also shown improvements. Looking forward, our clients are signaling a strong recovery in 2025 due to many programs for infrastructure and the pre-buy of trucks in the U.S. market, anticipating the changes in emissions. This recovery, especially in the sale of Class A truck should benefit a lot in our company, which has relevant contracts and will increase its participation in this segment as of next year.

The combination of our competencies with Tupy and MWM and the capacity to offer complete solutions, forecasting and also machining and assembly has brought new opportunities. There is a greater interest on the part of OEMs to internalize production and we have contracts that will bring us R$650 million, in effect after 2025. And I already mentioned that this will be due to Class 8 engines in the U.S.

On the next slide, we hope to have significant growth in replacement in the next few years. MWM has a distribution network, more than 1,000 distribution points. We have also expanded all types of marine engines and also engines for agro, marine, construction material and industrial engines.

We are working with proposals for subsystems of engines and complete solutions with more value-added, high demand and that have little offer in the U.S. market and also higher margins compared with our traditional business and quick return on investment. This segment has received a lot of our attention and also priority and allocation of capital. We are positioning ourselves as a reference in components for diesel engines in Brazil, and we will have expressive growth rates in the next quarters.

On the next slide, I will talk about the opportunities in Energy and Decarbonization because of the acquisition of MWM. MWM is a leader in generator sets in Brazil for backup and also many applications such as residential buildings and commercial buildings, hospitals, data centers and rural properties of many sizes.

During its 70 years, MWM has developed solutions for agrobusiness in Brazil initially through diesel engines. The portfolio was expanded with the offer of biogas generators and biomethane also. And now we have complete and customized turnkey solutions for generation with biofuels, also fertilizers, and this is important to increase productivity and 85% of fertilizers today are imported.

Since 2021, the Company has operated Bioplants and has a team of professionals dedicated to agronomy, biotechnology, soil nutrition apart from many technical partnerships with companies, universities such as Unesp, and other research institutes such as Embrapa. This has brought an important competitive edge with a proposal that has attracted the attention of great players in agrobusiness and has brought new businesses.

The projects announced recently, such as Primato and Rancho da Lua, show that we are on the right track. Long-term contracts, 15 years and margins that are superior to the traditional business of the Company. Due to its characteristics, the animal protein sector represents many opportunities of scalability and growth. For example, Primato, they have 65,000 pigs of a total of 23 million animals of in Brazil. In the medium term, we intend to have a participation of 10% in this market in pigs, contributing to an increase in revenue and profitability.

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

**André Mazini, Citibank:**

Good morning. Thank you. Two questions, the first on distribution of energy, decarbonization. You said that it represented 30% of domestic sales. Could you give us more color on which business lines are included? Production of biomethane, energy and agro, which has to do with Primato? And how do you see the size of this division at the end of 2024, 2025, 2026? We would like to know how large it can become. There is potential, but there are doubts concerning when they will be relevant for the Company. 13% is already relevant.

The second question, geopolitics in the U.S., North America. We saw that Mr. Trump said that if he is elected, he would put 100% tax on importation for OEM products, Chinese products made in Mexico, Chinese trucks made in Mexico. We know that the Chinese are very strong in electric vehicles. Please talk about the effects. If Trump is elected, talk about the effects, 100% tax on Chinese vehicles made in Mexico.

**Fernando Cestari de Rizzo:**

André, good morning. Thank you for the questions. First, on the sector of Energy, Decarbonization and Distribution, this question is important. These are areas that we see more growth of the Company in these areas. In terms of revenue, we should even grow even more.

Beginning with Energy and Decarbonization, this is represented today by our leadership in Brazil of the sale of generator sets for electricity. We are leaders in the Brazilian market in terms of machines engines sold, this sector should grow a lot, should grow a lot due to instabilities we have seen in the supply of electricity.

They should grow a lot due to the construction of data centers and also places where we use renewable energy. They need backup because they are intermittent. So we see a lot of growth for this product.

And this revenue is linked to generator sets today, product that we launched last year, irrigation pumps with engines. This is very important for us. MWM has a strong tradition in Brazilian agrobusiness. It supplied diesel engines for most of the brands of tractors sold in Brazil since the '70s and '80s. This market migrated. These engines are being manufactured by the tractor companies and they import also many tractors. We are looking at this.

Now going back to agro, we see opportunities. Why? Because as we develop generator sets, and we saw strong demand for generator sets to work with biomethane and biogas, which can be produced in farms. We developed these engines to adapt to these fuels. And today, we are working with new fuels such as ethanol for agricultural applications. But based on the engine with biomethane, we are supplying services to the Brazilian agrobusiness.

First, generators with biomethane, second, vehicle transformation. A large mill that produces ethanol in Sao Paulo in the last harvest that lasted 8, 9 months until February this year, they were able to save 600,000 liters of diesel because we transformed all their engine pumps, irrigation machinery and trucks and buses that began to use our engines with biomethane. Biomethane produced by the farms themselves.

And based on this business, all these areas that I mentioned will continue to grow. But the greatest growth we expect are based on Bioplants as we announced 3 weeks ago, Bioplants. We launched 3 important projects. We announced 3 important projects. And the highlight is not the projects. They are small projects, but we are looking at the ability for example, Primato Phase 1 and 2, 65,000 animals, pigs. In Brazil, for example, we slaughter 50 million per year.

So, a project of 65,000 and the total number of animals is much higher. And we have a solution to treat the waste from pigs and convert this into biofertilizer, biomethane, which can be used as fuel substituting gas and wood, or producing electricity in our generators.

These projects, we believe, are relatively small until now, but have a great potential, great scalability in Brazil. I said in the beginning that we can get to 10% of this market, which would be managing the waste of 2.3 million pigs. This would create a business potentially very large in comparison to the size of the Company.

And with the demand of this market, which exports protein, it's not only pigs. This solution works with cattle and also chickens, any type of animal that is confined, so you can manage the waste correctly.

So where do we see growth? We see in generators, in pumps, pump sets with engines, also transformational vehicles, vehicles operating in agro, where you have production of fuels and especially Bioplants, because managing the waste is the second largest responsible for emissions of greenhouse effect gases.

So this is a solution. This can be seen in our website. You can read about this. But from the waste, we will produce biofertilizers, biomethane, electricity and green carbon dioxide. So you can use all the waste, and for small farmers, the daily withdrawal of waste will give them space so they can expand their production.

So a very interesting solution. It was very well tested in the last 3 years, in the projects where we manage the waste, we are not the owners. We only manage the waste and we have the machines that produce electricity. We supply electricity to these farms, and we manage some of their assets.

We already have the economics ready, the performance, and now we want to take this to the farms that do not manage their waste. So we take to them a full solution, we receive the waste, and we generate revenue with these 4 products that I mentioned.

Now, geopolitics. What affects us are the rules of USMCA. They are linked to the production of pickup trucks, passenger vehicles and trucks and not machines, off-road machines I do not need to produce in the U.S.

So we are launching many products now. We are making important investments in 2023, 2024, that are consuming CAPEX to prepare these production lines, we are adapting the foundries and machining lines and assembly lines that will be launched in 2025 for clients, for engines Class 8 when the market should come back with great strength in the U.S.

On the other hand, in construction machinery, we have the liberty to produce these products in the most economical way for the Company. This is part of this moment. Since we are the consolidator of this industry, we are adjusting these capacities. We are adapting the new plants, what we acquired with the acquisition of Teksid to have product movement with more liquidity and to move these products to the plants that have the lowest cost.

So right now, we are in a difficult situation, but we have many production lines operating. Many of them have surplus capacity. This is affecting our margin, which affects our fixed cost and affects our CAPEX to sustain these units. And when we move production around, we can work with less assets, preserving the Company's revenue. This brings an opportunity.

That is why I have said a lot. I said in the beginning of the call, it's important that you see Tupy in a transition that we began. And the project was that of being a consolidating company acquiring operations in the last 10 years, operations in Mexico, Teksid, MWM, and we continue to have duplicity in some parts of the Company.

We are working on this, and we continue working, and we have done this in the last few years, moving system to work with more efficiency. That's why the margins we are showing apart from being a market with a drop in volumes, unfavorable exchange rate. We had a sudden appraisal of the Mexican Peso and BRL.

So we believe that the Company will gradually capture more and more synergies in the next quarters.

**Fernanda Urbano, XP:**

Good morning. A follow-up of perspectives for structural components and manufacturing contracts in export markets. Looking at off-road, we saw a weaker performance. Can you give us more color? How do you see demand in the beginning of this year, the first 3 months of this year, especially in North America? And considering drivers as construction and agrobusiness. What are your expectations for 2024 for each category of vehicles, heavy and off-road, especially in North America?

**Fernando Cestari de Rizzo:**

Fernanda, good morning. Thank you for the question. So this is happening. At the end of the year, in our last call, we said that the price of freight to the U.S. had dropped a lot. And there was a lot of surplus capacity in the fleet. So we saw that the market would suffer a drop in the U.S., and also due to the interest rates, we were seeing a drop also in residential construction.

And the residential construction has an effect on trucks and also construction machinery, small and large machines to open. So as the economy grows, young people move to new houses. And this strengthens the real estate market. There was a drop in all these sectors and clients also begin to adjust their inventory when this happens.

So you begin to work with higher inventories and suddenly you see an even larger drop for us until the system adjusts itself and then recovery in the future. I said in the beginning of the call, that ICT, a very specialized consulting company in trucks in the U.S., they had announced a stronger drop this year, and now they have better numbers. We still have a drop, but not as great as before with a smaller impact.

So in the past, they were talking about 15, 20. Now they are talking about 10%, a little less, maybe 8%, medium trucks, even less, and we will see the effect of this at the end of the year.

So we are adjusting inventories. The good news is that we are seeing clients have said this to us. As of 2025, especially in new products that we are launching, working in the development and that will generate revenue at the end of this year, but especially in 2025. These new products, we have an expectation of a strong demand next year. The expectation of the industry is that 2025 and 2026, the demand will be very strong and they will be working at full capacity.

All OEMs are seeing roughly this that there is an accommodation trucks are getting older, but they see economic growth in the U.S. and greater demand for more machinery, and they expect to see it come back in 2025, 2026.

Another point that is very sensitive is electricity, the use of electricity. You have seen the news, especially passenger cars, electric passenger cars. But in trucks, companies are delaying. Europe transferred some goals of the production of new vehicles from 2025 to 2030, because some technologies are not ready, some products are not available. So using electric vehicles has a high cost.

So due to the product, the technology, new engines are being launched in 2027, there will be a change in emissions in Europe too, and this should create a positive market in 2025, 2026 and part of 2027.

On the other hand, you also have infrastructure in the U.S. The substitution of old bridges, old roads, old railways, a renovation of the U.S. road system especially on the East Coast of the U.S., where the system is very obsolete and degraded. They are renewing.

So the infrastructure bill was voted, and also the IRA with effects in many industries, distribution of energy, data centers. The demand for electricity will grow a lot in the U.S. the infrastructure for distribution and access. All of this will suffer renovation in construction and demand will come back very strong in the next few years.

Data centers are something I would like to call your attention. Data centers need to have 3 sources of energy. Normally, 2 different sources of electricity, and they need a backup source of electricity in the operation.

These data centers, the new data centers, due to artificial intelligence, AI, they have great needs to process information, and they need backup energy. This backup energy comes from large generator sets. I am talking about 50 liters, 70 liter engines. We are suppliers of U.S. companies that manufacture these engines, and they have told us that in the future, the demand for this product will grow a lot.

They can be diesel, but they can also be gas-powered biomethane, gas oil, but the need for engines, machines, generator sets due to the growth of data centers will be relevant and will affect us in the supply of structural components and also generators.

We are developing in MWM, new generators, and at least in the Brazilian market, we have a great potential for generator sets. This is what we see going back, to be organizing itself. We bought volumes, we acquired companies, but these products have to be redistributed. We have some surplus capacity, and we believe this will be positive to execute our plans and to have a more lean and organized company to benefit the gains of all of this.

**André Ferreira, Bradesco BBI:**

Good morning. I have 2 questions. The first, please comment on the Primato project, how are the conversations with potential clients in this segment? And the margin profile and ROIC of this Primato project with pigs?

And the second question, the progress of ultralight engine blocks sales outside Brazil. And when OEMs invest again, what are the prospects? When would you sell these ultralight engine blocks?

**Fernando Cestari de Rizzo:**

André, thank you for the question. Primato pigs. This project, we are making progress in the second phase. We will have the inauguration of the first phase, probably in June. And in parallel, most of this investment will also be used in the second. 30,000 animals, the waste, and in the second step, another 35,000.

This project has a profile. The margins are better than in our traditional business, we can tell you this. Higher margins, 15-year contracts, and they have a much better payback than our traditional business.

Tupy is very capital-intensive. When we talk about expanding foundries, we need capacity testing, clients test, they spend 6 months testing, and then we begin the projects. The projects are of good VPL but long-term payback.

With Primato, we are changing this. In Replacement and Energy, we are giving priority to CAPEX in these regions, the effort we made in cash generation, which hurts the Company's margins. So we are working on this. We have many opportunities to grow now. We want to allocate our capital for this growth to decrease our dependence on traditional clients.

Normally, Tupy was 100% OEM. We did not have Replacement. So now we are growing in Replacement, we want to diversify. And we believe that we have a greater participation in OEMs than other sectors. We are highly dependent on OEMs.

We are discussing with all the large producers of pigs and also poultry in Brazil. These projects also need to have the support from consumer companies. These are small producers in the case of pigs that receive the pigs, they own land. They have the infrastructure to take care of the animals and collect the waste, but they receive the piglets and rations and after 130 days, they deliver the pigs to the producer.

So now the waste management, there is a high percentage of waste. This is a problem. We have a solution for this, and they no longer need the lakes that they had with these wastes in the past. So this is the logic once again. I can't talk about the clients but we expect a lot of scalability in these projects. These projects have financing lines that are very favorable that will improve the return rate.

All the projects that we made until now, and they add additional risks because it's a new business for the Company. There is risk, and we have approved because they have better returns and many opportunities for improvement. We will understand more of this as we work with them.

There is a lot of financing, and we will also have carbon credits because we are supplying a fuel that substitutes diesel and where we are removing methane from the atmosphere by dealing with the waste.

And methane. Methane is 25x worse than CO2. We will remove this and process the methane. When I put this in a truck or a generator, I stopped buying diesel for this operation, and I use this fuel. It's a complete full circle, and we believe it has a great potential for growth, especially with the characteristics of the Brazilian economy because we export beef and pork.

Concerning ultralight iron, it's a very important project. It was awaiting. Today, we see more clearly than last year, the route that Brazil will follow. And the Brazilian routes will be hybrid engines with ethanol. Our product is perfect for this for ethanol. It's cheaper than the competitor that uses aluminum engines, carbon footprint is lower than our competitor with aluminum. And of course, it brings some other characteristics; less noise, more durability, which benefit us, and our cost is much lower than aluminum because aluminum is pure electricity.

Also, we will substitute many aluminum components. We have nothing to announce. As soon as we do, we will announce, but we are talking to OEMs that dominate the Brazilian market to convert the current aluminum products, or to develop new engines to be used in Brazil.

You should understand that industry is in a very important time. There was a perspective that in some markets, there would be a quick conversion to electricity. This will no longer happen. These projects are being delayed, and I believe a lot, personally, that biofuels have an enormous potential to grow here and abroad.

As this happens, we are well positioned with our technologies to sell to this market. Today, we are talking to 3 OEMs that are leaders in Brazil. We are discussing prototypes for current engines to show the potential. This is what we are doing.

**Andressa Varotto, UBS:**

Good morning. Thank you. Two quick questions. First, off-road market, where we saw a drop in the quarter. I would like to understand the main drivers for 2024 in the domestic market and also export market.

And also, margins for 2024. How do you see this? Thank you.

**Fernando Cestari de Rizzo:**

Andressa, good morning. Thank you for the questions. First, off-road, I would like to alert you that when we showed on our table the variants in off-road, there is also an impact on MWM, because MWM offers many engines for small manufacturers of agricultural machines, small agricultural machines who are pulverizing herbicides smaller machines, not tractors. We have many manufacturers of small machines in Brazil for agriculture using our engines.

Well, having said this, we have a great variation. This market had an important drop in Brazil. And when we compare with 1 month of last year, we see a strong variance. Engines for blocks heads that we supply in Brazil and outside had an important drop in sales.

So what we are seeing for this year is that with the price of agricultural commodities, we should see a low volume, but for heavy machines, we see a favorable market. We still have especially in Mexico, an interesting volume of larger products.

Concerning the margins of this year, it's early because we have to understand the work we have to do. This year, we are doing work inside the Company. We have too many pieces of equipment in operation. We have to turn off some assets. We will reduce our fixed cost. We will diminish the structure that is on for production.

We are also working to decrease inventory. We believe we have high inventory, R$100 million to R$150 million in excess inventory that we can convert to cash this year, and we will do this even if we have an impact on margin.

We are working on the cash flow, to strengthen our cash flow. In the reports, this cannot be seen, but we are working very hard, in a courageous way, and we have to strengthen the cash flow of the Company.

And we want to give dividends to the shareholders, and we have many projects with quick payback in Energy and in replacement parts. We have a lot to grow in replacement parts, subsystems for engines in the Brazilian truck construction material, engines.

So being objective, we have an internal agenda. You have to see that in the result in 2023, even with a drop in the market, we were able to improve prices with our clients and reduce costs with suppliers.

Most of the exchange rate effect and inflation was not passed on to the contracts. We are working with the clients to increase prices, and also in purchasing to reduce this effect and prepare the Company for the next period, because we can operate this Company.

We mentioned an article that we should have reached historical margins last year if we had the exchange rate closer to last year, despite inflation. We are not happy. The exchange rate is not helping us. We will continue to increase prices with fair prices and a good service, but evidently, working with less assets, more efficiency, which is the journey that we announced when we made the acquisitions.

We said this would be a journey of 4 years to go back to traditional margins of the Company, and we trust a lot in this. If you look at what we lost last year due to the exchange rate and volumes, and we have assets that are larger than necessary, you will see where we can get by decreasing the assets.

This is what we are working on, and this project that began 10 years ago with acquisitions in Mexico, Teksid and MWM, now the Company is poised to be a leader.

**Gabriel Tinem, Santander:**

Good morning. Congratulations for the results. I have 2 questions. The first, I would like to understand your positioning concerning renewal in the U.S. and expansion in the portfolio and productivity.

Another point, please explain distribution in aftermarket. What is the situation of this for you and the future?

**Fernando Cestari de Rizzo:**

Gabriel, thank you. Did you say a change in engines?

**Gabriel Tinem:**

Technology.

**Fernando Cestari de Rizzo:**

Engines have made great progress in terms of consumption. The consumption of new engines with new technologies, they are 8% to 10% more economical in fuel consumption. People are changing the machines, the engines because fuel consumption is much lower.

In 2027, there is another change in emissions coming. That's why we say that in 2025, 2026 and part of 2027, we will see a very strong market. So, when you see economic growth, there is a great need for more equipment in the future. We can offer you more information if you need. So it's not an exchange of engines. We have new programs with components made in the U.S.

USMCA, by 2027, they determined a systematic growth of local content in the U.S. concerning engines. Here, we are talking about engines and blocks, engine blocks enhance our critical components, blocks and heads are 2 of the 5 core components. That's why we made investments last year that are in progress, and we will be launching this next year.

So our share in the U.S. market will grow a lot with the launching of these future projects. So there is where we have a great opportunity. And this we have been announcing for a long time. Today, we are spending money with tests. We are building a new plant for machining and foundry for a client. This client used to bring from Europe and now they will manufacture in the U.S.

When we talked about productivity, today we are operating with many plants and surplus capacity. So you might ask, why did not you do this before? We needed to do what? We needed to make adjustments in the plants. Last year, we said we are investing a lot in the plant in Minas Gerais, using equipment that we had in Sao Paulo, and we transferred to Minas Gerais equipment available and to reduce CAPEX, we transferred equipment to create the conditions in the state of Minas Gerais to manufacture our products.

It's a very favorable location for foundries because they have local raw material. Our raw materials, our alloys. Also, exchange variation makes some locations less economical and we need capacity to move production quickly from one place to another and work with more efficiency in our plants. Thus, we optimize the fixed cost of the Company. We reduced CAPEX, the maintenance of the machines. We record this as investments, some expenses we have because they will last for 5, 10 years, hydraulic components.

So we reduced this to concentrate production in some plants. This is to remind you, our industry suffered a lot in the last 20, 30 years because of the penetration of aluminum in passenger cars, and there was a lot of offer for passenger cars.

And now, the industry for trucks and agricultural machines have grown a lot and will continue to grow in the next few years, be it with diesel, or alternatives in fuels, and even hydrogen.

Pay attention to hydrogen in combustion engines. This will be used for zero emission vehicles, hydrogen. So we are working on this. We are adjusting. We bought surplus capacity in Mexico and surplus capacity in Teksid. And now we are working to adjust all of this and decrease this high cost.

Concerning replacement parts, there is a fleet of MWM engines in Brazil that we sold and for which we sell parts, 1,000 stores, we are only behind Bosch, but it was always focused on components for MWM engines. What we did since the acquisition, we said, “let's expand this 2 components for other engines and let's use this services to sell these components”.

Since we have testing and engineering to approve components, we buy components in Brazil and from abroad, we test them in our labs and we sell these components for other brands with MWM quality seal. And this has brought a growth of 10% a year in this sector as we introduce new components for other engines, and the potential is very great, because not everything we test, we approve.

Some parts are not approved. We approve a fraction of what we test because we know engines. We have labs. But the product we sell has quality and people trust in them, and we continue growing. And we want to make progress and we want to do replacement in Tupy. Tupy never had replacement when we think of hands and remanufactured engines. This is interesting for us because we have the assets, the engineering, distribution network for these products.

And we want to explore this part. We have not explored this potential with the MWM brand to grow in these markets. So it's a segment where we see a lot of growth. All the tests we made to introduce new components, we have been successful, and we will continue making progress. This includes expenses. We have expenses for new business. We hired more engineers, more people in purchasing. We have offices helping us around the world to find components. And with this, we continue to grow in this sector.

This sector has to be stronger and to be much stronger than it is today. And with items with more added value, too, it's called short block. You sell an engine block with pistons, with rods and flywheel. So Brazil has a practice different from the U.S. and Europe. The truck stops and goes to have its engine redone. It stops almost 5 weeks, they redo the engine. This does not make sense to stop machinery and trucks.

What makes sense is to have an engine ready. You switch engines in 1 day, and the truck continues to work for its owner. And the old engine is improved, redone and then you sell it again. This is what we want to do in this space in engines, and this for agricultural machines, trucks, construction material because this can be done in all these sectors where we are growing and selling new solutions.

**Giovanni Filho, JPMorgan:**

Good morning. The products for data centers that you mentioned, how much does this represent in terms of revenue?

**Fernando Cestari de Rizzo:**

Giovanni, I will not be able to give you a good answer. What I can tell you is that these products are classified as Off-road or Energy and Decarbonization. I will tell you why. Tupy is a traditional supplier for manufacturers of large engines. These are larger than heavy trucks. So we supply to companies in Europe, Asia, the U.S. that manufacture large engines 30- to 90-liter engines, very large engines, especially for electricity generation, gensets and the demand from these clients for biomethane, biogas or applications in data centers.

These large data centers, Microsoft, Amazon, Google, they need very large engines and sometimes dozens or hundreds of these generator sets. So we believe that these structural components for large size engines will have a great potential of growth. So we are preparing lines, adapting foundries for this.

On the other hand, we are also being affected by this in Energy and Decarbonization because we manufacture generators, our generators are not this size, we work with engines until 26 liters, 26-liter engines, 7- to 26-liter engines in MWM. They can be used in smaller data centers and especially because renewable energies are intermittent, this generates a demand for backup energy with gensets, generator sets.

So we are looking at this. We are studying how we can work with this. Curiously, these machines that work in data centers need a battery associated to them because the engine takes time to generate electricity, 25 to 40 seconds. These 25 to 40 seconds, they cannot stop the data center.

So you need batteries and ready energy, if there is a drop, batteries are used and they feed the system until generator sets begin to supply electricity. So this is in line with battery recycling activities that we have. So this can generate a lot of value for us. It's a promising market, and we have teams working on this.

**Operator:**

The Q&A session is concluded. Now we would like to pass the floor to Mr. Fernando for his final comments.

**Fernando Cestari de Rizzo:**

Thank you very much for your attention. I would like to highlight some points. We made relevant acquisitions in the last few years. We increased the size of the Company. Today, we are 2.5x larger than we were 5 years ago. It's not a simple task due to the employees in the different countries where we operate.

Today, we are the largest players in this market. These acquisitions have made us consolidators in this market, and we have the obligation to use efficiently our capacity. All of this takes some time. It takes time.

And we are going through this now because this brings us temporary inefficiency and extra costs that are incompatible with the revenue we generate, and thus the current period is when we are working on these points with lower volumes and also exchange rate problems. We are working to build the new Tupy and to optimize our structure, better allocation of products in locations where they can be produced at a lower cost with the results beginning in the second semester.

Also, we would like you to see the results from another angle. We made a lot of progress, the synergies and initiatives to reduce costs have compensated an impact of more than R$600 million in our EBITDA, especially from exchange rate variations and the Mexican Peso appraisal.

The Company is better, but we are not satisfied with all of this. The result of the year also we had inflation that we are still working to recover in price increases from previous years. We believe this will be recovered through renegotiation of contracts, higher volumes in Brazil. This will help lines that produced for domestic clients also suffered the drop and also MWM that is focused on the domestic market.

For 2025, our clients see a strong recovery in heavy vehicles in the U.S. Another point is that the Company has preserved its liquidity, making efficient use of the resources but we have many opportunities still to adjust working capital in inventories and purchase volumes, which will be captured with synergies and new purchasing strategies and reduction of the CAPEX we use to sustain all of this. We refinanced debt that we are maturing with better costs and terms and we are making the Company cleaner to support these changes in the market.

Finally, we are making progress with Bioplants, we believe they will scale quickly. And we are also working intensely to grow in replacement parts, new products with more value-added products in engines for trucks, machines, in the industrial sector in South America. So thank you very much. We wish you a good day. Thank you for participating.

**Operator:**

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