**International Conference Call**

**TUPY S/A (TUPY3)**

**3Q22 Earnings Results**

**November 8th, 2022**

**Operator:** Good morning and thank you for waiting for our conference call for Tupy for Q3 2022.

All participants are connected only in the silent mode. We will have a Q&A session when further instructions will be given. If you need the help of an operator, please dial\* 0.

This conference call is being recorded. I would like to remind you that this event is also being transmitted simultaneously via internet and can be accessed at [www.tupy.com.br/ri](http://www.tupy.com.br/ri) where you will find the slide presentation. The selection of the slides will be controlled by the participants.

Tupy clarifies that any declarations made during this conference call concerning the business perspectives or operational goals concerning the company's business are forecasts 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, and are subject to change.

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

Mr. Fernando, please, you may proceed.

**Fernando Rizzo:** Thank you. Good morning, I'd like to thank you all for participating in our conference call.

I will begin with a summary of the quarter where we had progress and a strong result due to the dedication of our more than 19,000 employees. Even in a diverse scenario with bottlenecks in production and high costs, we had the highest revenue and profit of the company.

Net revenue reached 2.7 billion, the growth shows the strength of our business model and the capacity to pass on costs. Now we integrated the operations of Aveiro and Betim after a year with 9.6 billion in these last 12 months. The physical sales volume in the quarter reached 177,000 tons, although it's a very high amount, this performance is still low because of client stops due to lack of parts, such as semiconductors. Adjusted EBITDA reached 358 million with a margin of 13.3%, similar to the one we had in the first semester. This performance is due to our progress in cost reduction, gains in efficiencies, operational efficiencies, and synergies although we had many stops that favored cash. Net profit reached R$192 million with a net margin of 7.1%, the strong operational cash generation contributed for us to decrease leverage, which represented 1.3 times adjusted EBITDA in the last 12 months.

Now in the capital markets, in September we issued debentures worth 1 billion with an interest rate of CDI +1.5% per annum. The resources will be used to pay for the acquisition of MWM.

On slide five we show the result of actions to reduce our cash conversion cycle. As we mentioned in the last conference call, we adjusted the purchase volume and we had plant stops which helped to reduce inventory, but we continue to suffer from sudden stops at clients. With this, we reduced our inventory by R$117 million, 7% below the previous semester, which corresponds to 21 days in inventory. These actions contribute for a strong operational cash generation, R$230 million in the quarter versus a consumption of 254 million in the first half of the year.

Now to talk about the main indicators in the quarter, I'd like to pass the floor to Thiago Struminski, our CFO.

**Thiago Struminski:** Good morning.

The volumes had a growth of 34%, especially due to the new operations in comparison with the previous quarter and in the same base the growth was 1%. The mix between transportation, infrastructure, agriculture was 19%, in partially machined products with the same percentage in CGI. And the comparison versus Q321 is affected by the new volumes in Betim and Aveiro, which their contracts currently don't contemplate these products and services.

On slide 8, the revenues had an increase of 7% in comparison with Q2 22 and 47% versus Q3 2021. We noticed also an increase of 9% in the revenue per kilogram when you compare this with the previous year, and in relation to the distribution of revenue per geography, 50% USMCA, 29% South America and Central America, mainly Brazil, 17% Europe, and the remaining 4% Asia, Africa, and Oceania. In terms of application, 85% off-road, commercial vehicles, 11% passenger cars, 4% hydraulic products.

On slide nine we notice the good performance of the domestic market in comparison with the previous period in practically all the applications, apart from the participation of the plant of Betim, where the results also had a boost from the performance of commercial vehicles, machines and off-road vehicles and agrobusiness.

On slide ten we see the effect of the applications outside Brazil. We had a strong growth in heavy vehicles, medium-sized vehicles, off-road with new investments in infrastructure. In spite of the demand and increase in production, passenger cars and commercial vehicles continue to be affected by restrictions in production chains, an effect mitigated by the volumes of operations in Betim and Aveiro and ramp-up of some products.

Next slide we show the performance of hydraulics, which correspond to 4% of the revenue and a growth of revenue of 5 and 6% in the domestic and foreign markets. This shows the gradual improvement of industrial activity, especially in the US, and also higher prices.

Going on to slide 12, the cost of product sold went up 45% in comparison with last year due to inflation in inputs and also the operations in Betim and Aveiro. Gross margin of 20% represented an increase of 100 basis points, reflecting the gains and efficiency in synergy. We had some stops during the quarter to reduce inventory with a positive effect on working capital and operational cash generation. These stops brought drop in the volumes produced and thus a lower dilution, a smaller dilution of costs.

We had an increase of 44% in the cost of raw materials and maintenance, and materials of third parties due to the higher volumes and increase of 46% in the cost of labor due to overtime and salary increases. Operational expenses (excluding freight) had an increase of 43% in relation to Q3 21, the result had an impact due to higher volumes and also wage increases, and expenses with freight went up 188%, apart from the growth in volumes, this was affected by an increase in the prices of freight in all modals.

Slide 13, adjusted EBITDA 358 million, highest value in the company's history, the margin in relation to the net revenue was 13.3%, this shows the combination, the success of the combination of Betim and Aveiro, the stops to reduce inventory had as a consequence lower volumes and less dilution of fixed costs having an impact on the margin in the period. The benefit we had was cash. The EBITDA according to the SEC was 300 million with a margin of 11.2% due to write-off of tax benefits, Reintegra worth 53 million.

Based on the current legislation and an expert report from auditors, the company recognized these credits in 2019 concerning the period 2015-2018, and during 2020 due to unfavorable decisions from the Supreme Court, we understood that this asset would become contingent, and we wrote it off. Excluding this effect, which is not recurrent, the margin would have been 13.1%.

At the bottom of the slide, we see a high increase in net profit, 192 million, net margin 7%, net profit had an impact due to better operational results, the end of depreciation of intangible assets, especially in Mexico due to acquisitions made in 2012, and the tax benefits of the payment of interest in our own capital.

On slide 14 we talk about financial results in the period. An increase of financial expenses, especially due to the interest rates in comparison with last year, higher gross debt because of the purchase of the operations in Aveiro and Betim and the issuing of debentures, especially to pay the acquisition of MWM.

Financial revenues reached 23 million due to the increase in cash balance in reais and interest rates for our financial investments, the result with the exchange rate variation was a revenue of 20 million, especially due to our balance in foreign currency.

On slide 15, the variance in the main working capital lines, bearing in mind Q2 22, 19 days in accounts receivable due to amounts recognized in previous quarters, and also delays in billing clients due to the implementation of a new ERP in Mexico, reduction of inventory by 21 days, this reduction is due to stops of production, and also a reduction of 22 days in accounts payable due to liquidations linked to ERP in Mexico and a lower purchase of materials aiming at decreasing inventory.

On slide 16, investments of 106 million in Q3 22, an increase of 71% in comparison with Q3 2021, representing 3.9% of the revenue of the period. These investments are related to new programs, gains in operational efficiency, information systems, and initiatives for safety and environment and include important projects in the Betim plant, which will increase operation efficiency and a greater flexibility of the operation according to our business plan. Priority for projects with greater potential of return has been fundamental in our strategy to increase return on invested capital.

On the next slide, 17, we show the net debt, 1.5 billion, 1.3x adjusted EBITDA in the last 12 months. Our obligations in foreign currency representing 58% are related to a bond that matures in 2031 with 4.5% interest every year paid every 6 months. In relation to cash, 76% was in local currency. In September we issued debentures worth 1 billion, especially for the acquisition of MWM, the cost of the debt is the CDI index was 1.5% a year, payment of interest every 6 months and amortization in 2 installments in 2026-2027, and we finished 2022 with a comfortable cash position of 2 billion.

Fernando now will make the final comments.

**Fernando Rizzo:** On slide 19 I'll talk about our vision for the main markets.

Our clients that already reported results have shown maintenance or growth in sales in the next quarters. Their order portfolios are robust, especially in commercial vehicles and also in agriculture and construction. In the US, the demand for non-residential construction continues high and should be stimulated in the next years with infrastructure packages. The residential segment should suffer an impact of inflation and higher interest rates.

We see a strong demand for commercial vehicles, the utilization rate of the fleet is high, and the fleet is old with high maintenance costs. This scenario is the result of lack of new vehicles due to bottlenecks in supply chains and this makes us conclude that there is a pent-up demand. In Brazil, in January 2023 there will be a change in the emissions for engines according to PROCONVE 8, equivalent to Euro 6. Different from Euro 5, we don't see expressive amounts of pre-purchase, but the price increase should impact sales in the beginning of the year. The performance of agro business should help the demand for machines and equipment. In Europe there is a pent-up demand in commercial vehicles also due to disruptions in the supply chain. The scenario for off-road is positive for applications linked to agrobusiness with a reduction in investments in infrastructure and we hope also a weak scenario in passenger cars.

In a nutshell, our clients continue to be affected by interruptions in the supply chains, but the expectation of a lower impact is here for 2023.

On slide 20 we will talk about some trends and opportunities for Tupy and how this applies to the new company. We are in important sectors for society, essential, with solid demand for food, energy, transportation, and infrastructure, and there are many programs for incentives that will be implemented in the next few years around the world. We have pent-up demand in import markets due to bottlenecks in the last few years with a high rate of utilization of the fleet and an older fleet. These factors also generate business opportunities, we produce in countries with competitive edges in energy, materials, and labor, which expands our leadership in the industry.

USMC (free trade agreement between Canada, US, and Mexico) will demand an increase in local content for our clients and this favors our operations in Mexico and will certainly contribute to obtain new contracts. We see also many opportunities in Europe. As a result of the elements above, we already have an important pipeline of new contracts, and we continue discussing new opportunities.

Here I'd like to stress the execution of our strategy to add value with machining and assembly services that have high return even considering the necessary investments.

I'd like to share the status of the recent acquisitions. We continue improving the efficiency of the operations in Betim and Aveiro and capturing the synergies foreseen. During 2022 we made investments, we transferred equipment, allocated products, and altered processes which will generate a lot of value as of next year. Flexibility is an important characteristic in our business, this brings protection in times of fluctuation in demand and helps our competitiveness. we're adopting the necessary actions to include the plants in Betim and Aveiro in this system made-up of the units located in Joinville and the 2 in Mexico. Thus, we can allocate our production in a more efficient way bearing in mind the needs of our clients apart from costs and specialization of each plant.

I'd like to stress that we still have a lot of synergies to be captured in all the company’s plants.

Concerning MWM, we announced 10 days ago the approval by the authorities. We hope to close the deal in Q4, we're planning a rapid integration and for this we count on the current management team which will continue in the company. These are very talented people, entrepreneurs and with vast technical knowledge that have made important moves, such as the search for new businesses in segments related to decarbonization. Also, we will maintain the MWM brand, which is recognized in all the sectors. The assets and knowledge on machining at MWM will be important for us to gain new contracts, for us also to work with more complex products and also assembly due to also many movements by our clients.

With the acquisition, MMW becomes an independent player without any control from OEMs, thus, they will be able to supply to all the potential clients in the industry. New Tupy will be made-up of new segments, these are sectors with high growth and diversify our business, such as generator groups where MWM has a significant position in their Brazilian market in spite of being in this market for a short time, after market which is anticyclic with great opportunities for growth for Tupy. We still have also naval propulsion, ship propulsion with great possibilities in Brazil and also activities related to decarbonization of Brazilian agrobusiness with energy generation from biogas and biomethane.

On slide 21 we see the size of the company we're building. Just as an exercise and not as a guidance, if we analyze the result of these first 9 months of the year and if we add the indicators MWM, as we announced in the signing, we're talking about a company with the billing close to R$12.8 billion and an EBITDA of 1.5 billion. These are conservative numbers which don't take into consideration new businesses nor the evolution of synergies between our plants, which will be captured as of next year.

On slide 22, we would like to share some important points concerning the environment, social issues, and governance. Since 2020, we adopted a more intense communication and the first step was our report for sustainability using the GRI standard with the presentation of indicators of 2018, 19 and 20. In the next edition, we showed more than 50 indicators, among them emissions in Scope 3. This transparency is the search for best practices, and this contributed for upgrades in the main ratings and global ESG ratings.

Recently, Morningstar Sustainalytics updated its grade for Tupy from medium-risk to low-risk. Our sustainability strategy is important for our business strategy for developing new products and services that will contribute for a feasible decarbonization. This is the new Tupy, always based on R&D, a company that will be more and more relevant in the low-carbon economy, in mobility solutions or energy generation, a company that is diversified, exposed to markets with high-growth potential and with a single positioning in industry, but above all, Tupy is made-up of a combination of many talents, apart from the many employees that have a long history, 20, 30 even 40 years in the company, there are people that are joining the company and bringing even more knowledge, capacity, and diversity. That is why we want to receive our colleagues from MWM, we're anxious to receive them, a very good team and they have a fundamental team in exploring new avenues of growth for Tupy.

We're all very happy with the future of the company, with the synergies to be gained by also the sectors where we work and the opportunities in USMCA, and also new businesses that we see in the future.

I thank you once again for participating in our conference call. Now we will begin the Q&A session. Thank you.

**Question and Answer Session**

**Operator:** Ladies and gentlemen, we would like to begin the Q&A session. To ask a question, please dial\* 1. To remove your question from the queue, dial\* 2. This conference call is exclusive for investors and investment professionals.

Our first question comes from André Ferreira, Bradesco BBI.

**André Ferreira:** Congratulations for the results. I have 2 questions, the first you mentioned the accounts, could you talk about Teksid next year? And the second question I'd like to talk about MWM, conversations with clients concerning engine assembly services and if you have any contracts for biomethane.

**Fernando Rizzo:** OK, André, thank you for the question. Well, beginning with the efficiency in the Teksid plants, we began a movement now on October 1st, we have one year after the purchase, so before this, we did not have much access to information due to competition laws. There are improvements to be made in the assets, improvements in machinery, efficiency of the machines in the maintenance systems. We understand that we need some changes in some processes with the transfer of equipment, we have equipment in other plants that we transferred, they’re being installed, there are improvements in processes.

The main thing is reallocation of products. With a larger company, until now we haven't exchanged products between plants, we gained some synergies, yes, important synergies initially, but now we will begin with the transition of products between plants. The plants will have similar products in each unit, this is a journey, that's why when we talked about the time to have the synergies, we estimated 3 to 4 years to reach the results because it depended on building tools, product approval, approval by clients, logistics, and improvements in steel processes, the use of new raw materials, we use many mineral or raw materials that have many compositions that we can adopt different materials for the same results, and obviously, we have a great experience in the company in doing this.

So, the first part of the synergies are over, especially in purchasing, some gains in operational efficiency, but we still believe that there are important gains to be obtained due to machine efficiency, allocation of new products, equipment, we're taking large equipment from Mauá to Betim for our process and importance process to give quality, to improve quality. All of this should happen now as of 2023, which was the time necessary to make these adaptations.

Now concerning MWM, yes, as soon as we announced the acquisition, evidently we're talking about the same clients reminding you that MWM assembles engines for third parties, but they were linked to an OEM, they are still linked to an OEM, when they become part of Tupy they will be able to work with all the other OEMs, and these OEMs are current clients of Tupy. So, together with Teksid, we became suppliers of all the manufacturers of construction machines, trucks, so now we're building to add value to the products we supply to all these other clients.

So, what can I tell you? Yes, the operation called the attention of all the companies, MWM has a lot of technical credibility in a complex machining, assembly, engine test, so Tupy has knowledge with metallurgy and knowledge about the main products, engine blocks and heads of these engines, and also with MWM this has a lot of interest, we will close the deal in Q4 and there we will give you more information about projects that we will have in the next few months.

And biomethane you mentioned, biomethane has grown a lot in importance in Brazil due to the decarbonization of Brazilian agro, this is an avenue of growth that is very important for the future of Tupy, we understand that this combination that always studying these fuels, materials, and all the knowledge that MWM has for manufacturer of generators, for electricity, or to adapt engines that work with biomethane and gas, this is an important combination for agrobusiness in Brazil.

So, we're bringing interesting solutions Tupy and MWM, so in farms you will be able to produce biogas for electricity or biomethane for agricultural machines and transportation vehicles in farms. So, we have a complete solution, and this is a topic that we have seen farmers being interested in this, it's a characteristic of Brazilian agro, which is liking this solution and will be a good avenue for growth. After closing the deal, we will show you everything that we're planning in this area.

**André Ferreira:** Thank you.

**Operator:** The next question is from Luiz Capistrano, Itaú BBA.

**Luiz Capistrano:** Good morning, Fernando, Thiago, can you hear me?

**Fernando Rizzo:** Yes.

**Luiz Capistrano:** Well, thank you for the space. I'd like to hear a little more about stops, production stops. We see this will happen next year, but in the short-term, will we have the same production stops at clients? You have production stops at clients and production stops at Tupy. So, I believe that you don't need any more stops in Tupy because your inventory has been adjusted. So, during this quarter we see margins are better, this is very volatile, in 2023 we will see a better supply.

Fernando also mentioned at the end of the presentation about a robust pipeline, please give us more color.

[…]

**Operator:** Our next question, from webcast, the question comes from Lucas Sonsin Xavier:

“Congratulations for the results. Do you attribute the better results to the synergy with the recent acquisitions or the synergies are not very visible in the results? When do you expect to have a complete synergy with the acquisitions made?”

**Fernando Rizzo:** Well, Luiz Capistrano, as soon as he is back, we’ll answer his question. Answering Lucas, Lucas, it's a journey, we projected this since we discussed this, so there are some synergies that are faster to capture, you can make some improvements in the operation you can group purchases, improve service contracts, so this was done during 2022 and now some synergies are more structural, they depend on allocation of equipment, substitution of equipment, heavier maintenance, improve metallurgical process. We are typical transformation industry, we substitute raw materials, we improve the efficiency of equipment, we (unintelligible) scrap, all of this takes a little longer and this is what we will do as of next year.

So, we see this concluding these efforts in 3 years.

**Operator:** Yes, our next question will be from Luiz Capistrano.

**Luiz Capistrano:** Hi, Thiago, can you hear me?

**Fernando Rizzo:** Yes.

**Luiz Capistrano:** I would like to apologize. Two topics, first, production stops. In Tupy –correct me if I'm wrong – I don't see more production stops because your inventory is now normal. Am I correct or do you need more stops in the company? And the second part concerning the stops at OEMs, your clients, I understand that what do you have seen in Q4 are things still volatile. Please talk about this.

And to close, at the end of the presentation Fernando mentioned new contracts, robust pipeline. I'd like to understand how much of this is linked to MWM. So, this is interesting. Thank you.

**Thiago Struminski:** Luiz, it’s Thiago. I will begin. In fact, we made a great effort to reduce working capital as a whole, 18 days in cash conversion, we reduced in comparison with last Q, many initiatives, but the greatest was reduction in inventory. We demobilized 121 million, 21 days, these were stops inside our company, this has nothing to do with variation and demand from clients, and we said maintenance, raw materials, so it was our effort to normalize our working capital consumption.

Now Fernando will answer the rest.

**Fernando Rizzo:** Concerning the pipeline, there's an important geopolitical analysis. First topic USMCA, USMCA, the US always imported our products from many parts of the world, with USMCA you need now local content, more local content the free trade agreement, this will grow until 2027 and because of this many US OEMs are working to have products manufactured in the region. We’re the largest player with 2 plants in Mexico and this will bring projects for our plants, we're working with this. In Europe, there's the issue of energy creating an important comparative, important advantage with some alternatives, and Brazil will grow, Brazil will grow in agro, in transportation, sanitation, infrastructure and our clients participate in this growth, and we supply items to them.

As I said previously, the topic MWM, yes, outsourcing is an important trend in this industry concerning the growth, we want to create a Foxconn of the sector, we want to put together the projects of the clients, locating parts in Brazil, it's necessary to test engines, machining, foundry. Brazil imports a lot of engines, many construction and agricultural, even an important fraction of truck engines come from other regions, the engines, so we believe we have a valuable solution for our clients in Brazil, which manufacturer part and import part, and also expansion in Mexico, which makes sense for USMCA.

So, once we have a company that is well-organized, with the correct governance and technical credibility, I'm sure that we will attract new business and as this happens, we will announce this to the market. But this is what we're building, that's why we insist that this is a journey, this takes time because, for example, USMCA will have the maximum necessity in 2027, we're preparing the company, especially technically and financially for this and to continue growing.

It's an industry that will outsource activities, they’re allocating capital in other activities, other challenges, and we understand that in a multifuel world they will use the fuels available in each region, there will be a customization and the new Tupy we’re building will be more and more important in this effort.

So, this is our journey.

**Luiz Capistrano:** Thank you.

**Fernando Rizzo:** Thank you.

**Operator:** The next question is from Hugo Grassi, from Citibank.

**Hugo Grassi:** Good morning, Hugo from André Mazini’s group. First, looking back to understand the variation of the gross margin, if you can tell us the effect of the integration of Teksid, the production stops and other factors and the growth of the domestic market in transportation, agriculture. So, could you help us understand how much of this is sustainable, this growth, and how much due to pent-up demand?

**Thiago Struminski:** I will begin with margin. When we look at our margin and EBITDA margin 13.3, the effects are similar. What we can see is it's very close to Q1, not far from Q2, so we can capture synergies and gradually gain efficiency in the new operations. Now there are many facts, on one hand we had the beginning of a drop in the cost of raw materials, we have clauses that protect, exchange rate, and the stops that make it more difficult to dilute fixed costs. We had a procedure to stabilize SAP in Mexico, but what we can say is that margins during the year are reasonably stable, they're growing, but in this stability rising every quarter, of course, there are some short-term drops due to stops, but the trend is good to consolidate the efficiency of the new operations.

**Fernando Rizzo:** Continuing about the growth of these sectors, one interesting characteristic, the traditional clients of Tupy, especially in construction and agriculture, they don't produce engines in Brazil, they produce in Mexico and the US, and they would import these sanctions. We supply to them, but these are products we manufacture here, and they come back to Brazil as imported products.

In the case of Teksid, it is different, it belongs to a group that has important companies in agriculture, construction, they manufacture their engines in Brazil and export these engines from Brazil, and now they will become our clients, we already had a commercial relationship, now it’s stronger, and now we supply directly to them. So, yes, it's sustainable, we're well-positioned in this sector and it's a sector that consolidates the manufacture of engines in different regions. This is what we're doing with MWM to supply to them.

Brazil will grow, we will give you new data about the number of tractors in Brazil in relation to other parts of the world. The need for trucks in Brazil, Brazil will grow a lot in all these areas, also pickup trucks will grow a lot because of agrobusiness, these are sectors when we look in the next 10-20 years this will grow a lot because we need a lot of mechanization in our soil, there is a lack of tractors, the fleet is old, there is an important need for infrastructure, therefore, all of this motivates the truck market, transportation market, so we will bring the numbers, for example, to compare with Europe, US, regions where agriculture is mature, where infrastructure is more mature, you will see that we should have long periods of growth in all these sectors from now on because there is a great demand in all of Latin America, actually. This will favor our business and our clients.

**Hugo Grassi:** Thank you.

**Operator:** Our next question comes from Kamal Bussari, from Bearings Group:

“What is giving a boost to the gross of 100% in Europe? Higher volumes?”

**Thiago Struminski:** Thank you for the question. I believe this effect is a base effect. When you look at this every year, Q3 2021 didn't have the exports from Betim to Europe, nor the sales from Aveiro, in Portugal, dedicated to Europe, so, yes, there is a relevant variance between quarters because we didn't have the numbers from the acquisitions in the base.

**Operator:** The next question is from Marcelo Arazzi, from BTG Pactual:

“Congratulations for the results. I'd like to understand more about the company's margin. Do you believe the company should normalize a margin around 13% that we saw in the last quarters, or should margins improve with the synergies? What is the margin you expect?

The second question, volume. You mentioned that volume was low, also related to the strategy of inventories. What are the perspectives for volume next year?”

**Thiago Struminski:** Well, I will begin with margin. What we noticed – and Fernando mentioned – we're building these synergies every quarter, we're consolidating the new operations, we thought we would reach 14% in a consolidated way in 4 years, we're pretty advanced, we want to guarantee these 14%, we’re not very far from this and then we can look up to increase this, especially with machining. There's another element, MWM; when we look at the numbers, the margin is a little lower and the ROIC is much higher than ours, so return on capital is higher, but on the other hand, especially in the mix for manufacturing.

Q4 is seasonal, we depend on the stops of OEMs. So, first, we want to reach for the 14% profit and then look at higher possibilities.

Fernando we'll talk about the market.

**Fernando Rizzo:** Well, we have a table on slide 9 that goes into detail, all the sectors where we work there's a strong potential, commercial vehicles, light commercial vehicles, American pickup trucks the inventory is low right now, so there is pent-up demand, and trucks we saw trucks getting old, maintenance cost is higher so there's this trend to buy new trucks.

Our clients say that they have their production sold for a few months, there are challenges for passenger cars, it's Teksid, more difficult due to the situation in Europe, and in Brazil we also see what the change of PROCONVE 8 (Euro 6), there should be a small drop, but then a recovery. This year was different, we didn't see pre-purchase, we didn't see an exaggerated pre-purchase in this market for trucks. Brazilian fleet is old, there are many indicators we monitor, Brazil is growing, Brazil should continue growing, even if there is a drop it will continue growing and the demand for trucks will continue to grow because Brazil needs more trucks. Right now, we are seeing fleets being changed, so we're preparing the company for all these markets where we are present.

**Operator:** The next question is from Jonathan, from JP Morgan.

**Jonathan Contras:** Good morning, Fernando, Thiago, congratulations for the results. First, Mexico. Do you see any benefits in higher volumes? And the second, hydrogen fuel engines, do you have initial results? Thank you.

**Fernando Rizzo:** OK, Jonathan. Concerning nearshoring, yes, there are geopolitical factors that are accelerating many of our clients in the US, they buy our products from competitors in China and Europe. Europe has a problem with energy, the Chinese has geopolitical issues, logistics, and we have available capacity in the US, that's why we believe a lot in growth in market share for Tupy with these products that are imported from other areas. One is nearshoring and also products for pickup trucks, medium-sized trucks, heavy trucks. So, this is a very favorable trend for us and we're well-positioned for nearshoring.

Concerning hydrogen, yes, we're working on this, it's curious, we'd like to stress MWM also has projects with hydrogen for use in electricity generators, it makes a lot of sense in some regions where you can produce hydrogen from, for example, ferries using solar energy and production of hydrogen to produce electricity in remote areas. So, in the project that we have in Austria right now we have tests, engines being tested, materials being tested, so if you allow me to be more technical, the challenge we have hydrogen engines, what we want in this project is to work with high pressure hydrogen and to increase the thermal efficiency, the conversion rate.

So, we're looking at going upwards of 50%. When we talk about a fuel cell, which is an alternative equipment that is much more expensive than the engine, it needs a lot of development due to durability. As we increase and go over 50% in efficiency, we become very competitive, the engine can use hydrogen that is not pure. Right now, we need very pure hydrogen, and this is difficult due to logistics, and this is for the engine, AVL is doing how to control engines, but on our side the development of materials hydrogen is a small molecule and steel becomes fragile.

So, we're adapting, we have an important work group on materials to understand how materials should behave, but yes, this year in some congresses large OEM said that all off-road applications with zero emissions will be with hydrogen engines with a much simpler and more objective solution.

So, looking at the future, when we have clean hydrogen available in order to use these technologies, we should see a great expansion in many fronts. We believe that if Brazil has wind energy, the best way is to convert hydrogen instead of transporting it, and this is an important substitution and a simple substitution. Hydrogen engines have 70% of their components, being the same as diesel engines, so it is a very promising type of engine, and all the OEMs have projects in this direction.

In 2024-2025 they should have products using hydrogen, we believe that the off-road market and agriculture have a great potential to use hydrogen, and for trucks, off-road trucks in farms, in a large country like Brazil, we believe that this will be a very good solution because there are fantastic technologies, but they're not easy to adapt, we have to create systems, rebuild systems, and this is not easy, this has never happened in society, energy transition takes time.

So, we believe there's a great potential to use hydrogen for many decades.

**Jonathan Contras:** Thank you.

**Operator:** The next question from webcast is Carlos Herrera, from Condor Insider.

**Carlos Herrera:** Good morning, congratulations for the results. With the acquisition of MWM, how do you see the margins? Which should be the impact of WWM this year?”

**Thiago Struminski:** When we look at MWM, every time the mix of contracts improves, the margin decreases and the return on capital goes up. We have an average margin close to 7% and with a ROIC above 20% for many years, so this is what we have.

For 2023, we hope to close in Q4 and as soon as we have this, we will consolidate this effect with Teksid numbers. The immediate effect will be what I said, a drop in margin and a marginal ROIC going up.

**Operator:** The next question from web is from Lucas Sonsin Xavier:

“With most of the debt in foreign currency and the cash position in local currency, do you have protection against exchange rate variation?”

**Thiago Struminski:** Well, it's important to say why we have the debt in US dollars; since most of the cash generation is in this currency, this will be used to pay this debt in the future, so we have a debt in US dollars and revenue in dollars, but the debt is long-term debt, we have a lot of space in US currency to pay this. Since MWM has a lot of revenue in local currency, in Tupy we have different ways in terms of exposure, we are exporters, we sell to foreign markets, we produce in emerging markets, so there are transactions in working capital and there is exposure in accounting, so each one of these exposures has a different remedy and a specific treatment.

**Operator:** 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 Rizzo:** Well, thank you. Gentlemen, we're in a journey with a strategy that has the aim of transforming the company, consolidating the core business, expanding our word work and also to make progress in new markets, especially looking at agrobusiness in Brazil and the opportunities from biogas.

So, we still have to expand the exchange of products between plants, as I mentioned, improvements in metallurgical processes, improvements in billing, and all of this depends on installing equipment, some of them existing in other plants and we're transferring them right now. With all of this we will improve the efficiency rate of these operations, align with traditional operations we have at Tupy and capture synergies when we begin to accelerate a plant.

We have many positive effects in terms of results, but we're very close to the margin that we planned in 3 or 4 years, especially with the integration of Betim and Aveiro. So, we're very happy with what we have done, we believe there are many synergies yet to be captured.

We hope to close the deal of MWM in this quarter, many clients are interested to outsource their activities, we will explore later with machining and assembly of components as soon as we close the deal. With this combination, Tupy will be more diversified, and we will go into many important sectors, like aftermarket, especially in agro with solutions for decarbonization and use of energy available in the field, we will produce electricity, biomethane, adapt engines, equipment to use the energy that is produced in the farm. This is a journey every quarter, this will take the company to a new scale with many avenues of growth that are to be explored.

Thank you for your attention, and as always, our investor relations team is available to give any clarification that you may have. We wish you a good day, thank you.

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