Operator:

Good morning, ladies and gentlemen. Welcome to the earnings conference call of Tupy S.A. for the 2Q25.

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

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

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

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

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

Now I would like to give the floor to Mr. Lucchesi, who will start the presentation. Please, Mr. Lucchesi, you may continue.

Rafael Lucchesi:

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

The scenario of uncertainty observed since last year grew stronger in the 2Q25, reflecting the slowdown in economic activity in the United States and high interest rates, which impact the global economy.

This context, combined with depreciated freight prices, has caused transportation companies to postpone fleet renewal and new investments while awaiting more consistent signs of economic recovery, factors that continue to limit demand in the sector. These factors were also reflected in the earnings of our clients who revised their projections for 2025 downwards.

Our sales and production volumes fell by 10%, which was reflected in margins, given the lower dilution of fixed costs. These effects together impacted EBITDA for the period by approximately R$90 million.

We carried out market consolidation moves that were important for the Company and its strategy, and that brought us greater competitive capacity and increased our market positions. We will discuss that throughout the presentation.

But of course, that also brought greater structural idleness. As a result of these factors, the 2Q adjusted EBITDA margin was 8%, comprised of 7% from the traditional business and 10% from MWM.

New businesses have contributed to the diversification of our revenue in two segments with high growth and profitability potential such as replacement, energy and decarbonization, in addition to the greater supply of products and services with higher added value, and increased by 12% this quarter.

We are adapting our production capacity to this new volume reality and executing an important stage of our synergy plan. This process began in Mexico at the end of 2024. However, changes in the political and economic scenario led to the review of these projects, which is now underway and will be completed next year, with estimated gains of R$100 million in 2026.

As of 2027, these results will be of R$180 million per year. Our global presence with plants located on three continents and production flexibility gives us greater resilience and it is an important competitive advantage, and has contributed to the acquisition of new contracts.

Capacity optimization along with other efficiency gains being implemented will allow us to meet current and future demand and leverage our margins when volumes resume.

Now I give the floor to Rodrigo, our CFO, who will present the 2Q's indicators.

Rodrigo Périco:

Thank you, Rafael, and good morning, everyone. Revenues totaled R$2.6 billion in the period, representing a 6% decrease compared to the same period in the previous year, as follows: 46% originated in South and Central America, 36% in North America, 50% in Europe and the remaining 3% in Asia, Africa and Oceania.

In the analysis by segment, 85% of revenue came from structural components and manufacturing contract segment, which includes cast iron products and high value-added services such as machining and component assembly, 8% were generated by the distribution segment, mainly responsible for the sale of spare parts, and 7% corresponded to the energy and decarbonization segment, with emphasis on generator sets and solutions aimed at decarbonization.

On the next slide, in the domestic market, revenues from the structural components and manufacturing contracts segment were impacted by the drop in sales for commercial vehicles, reflecting the reduction in the volume of indirect exports, partially offset by the increase in sales for off-road applications, which showed positive performance in the period.

In the export market, revenues declined due to lower demand for commercial vehicles, particularly in the United States, reflecting uncertainties about the macroeconomic scenario that caused potential buyers to postpone the purchase of equipment.

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

Continuing, we highlight the distribution unit responsible for the sale of spare parts and hydraulic products. Sales from this unit accounted for 14% of domestic market revenue, up 3%, driven by growth in the spare parts unit. In the export market, sales increased by 2%. In both markets, performance was partially impacted by lower demand for hydraulic products, reflecting the current economic conditions.

On the next slides, we highlight the performance of the energy and decarbonization unit, a segment that encompasses generator sets, in-house manufactured engines, maritime applications, lighting towers and products and services related to decarbonization.

This segment had a 20% increase in Brazil, driven mainly by strong growth in sales of generator sets. On the other hand, the drop in sales of self-manufactured engines, influenced by the weaker performance of agribusiness, negatively impacted the unit's earnings in both domestic and export markets. This has accounted for 16% of domestic market revenue and 1% of export market revenue.

Continuing the presentation, we have the costs and expenses for the period. Performance was negatively impacted by volume, inflationary pressure on labor and services and exchange rate depreciation, which were partially mitigated by cost reduction initiatives and productivity gains.

In the 1H25, expenses decreased by 1% compared to the same period of last year, mainly reflecting lower sales volumes and efficiency gains. In the quarter, they increased by 4% compared to the 2Q24.

Next, we highlight at the top the adjusted EBITDA, which totaled R$210 million in the 2Q25. The margin of the traditional business reached 7% in the quarter, reflecting a double-digit drop in volumes and inflationary pressure, which impacts on operational efficiency and dilution of costs and expenses, resulting in approximately R$90 million of impact on EBITDA.

MWM's operating margin was 10% in the period, driven by higher sales volumes, better mix and the implementation of manufacturing and organizational optimization projects, which contributed positively to the result.

In the lower graph, we highlight the evolution of net income in the 2Q25, mainly influenced by the better financial result and the exchange rate variation on the tax base.

On the next slide, we talk about the financial results for the period. The reduction of financial expenses was mainly influenced by the reduction in debt, with repayment of R$366 million throughout the 1H25. On the other hand, financial revenues totaled R$33 million, lower than the amount recorded in the same period of last year sustained by the increase of interest rates, which, together with the allocation strategy, helped to mitigate the effects of lower cash.

In the result with exchange rate variations, we recorded revenue of R$26 million, explained by two main factors: positive variations of R$6 million, resulting from the appreciation of the BRL on balance sheet accounts in foreign currency; and positive results from hedge transactions with revenue of R$20 million, of which R$14 million were mark-to-market gains and expense of R$6 million with cash impact.

Below, we have the variations in the main working capital accounts using the 1Q25 as a basis for comparison. Accounts receivable balance was reduced by R$93 million in the period, with an impact of 2 days on the average collection period, a movement that was mainly influenced by the seasonality of the period with a greater concentration of sales at the end of the period.

In inventories, there was a reduction of R$93 million, resulting from management initiatives focused on end process and finished goods, contributing to greater efficiency in the use of resources.

In accounts payable, the variation was marked by seasonality, lower purchase volumes and reduced inventory, factors that directly impacted the account balance.

Finally, net debt at the end of the 2Q25 was R$2.6 billion, corresponding to 2.45x the adjusted EBITDA in the last 12 months. Foreign currency obligations represented 59% of the debt and 39% of the cash balance. We ended June 2025 with a cash position of R$1.5 billion.

Now I turn the floor over to Ricardo, Vice-President of Sales.

Ricardo Fioramonte:

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

This scenario can already be seen in the performance of our customers. Commercial vehicles and machinery manufacturers and agricultural machines whose recent quarterly results show revenue declines between 3% and 19%.

In the United States, we see the deterioration of several economic and sectoral indicators such as PMI and consumer confidence index, but mainly a decline in the profitability of transportation companies reflecting excess capacity and the consequent drop in freight costs. And with that, as our customers in the commercial vehicle segment have already reported, truck sales suffered a significant decline in the 2Q, as a large portion of fleet owners continues to wait and see postponing their purchases.

In Europe, despite the reduction in interest rates in some economies and fiscal stimulus measures the uncertain scenario has also impacted demand in the short term. It's important to highlight that demand does not disappear as equipment continues to be used. So pent-up demand, it will be met later, especially from 2026 onwards.

The off-road vehicle segment, the inventory normalization negatively impacted our sales throughout 2024. However, with adjusted inventories in the chain, we see an improvement in our order books in the period. Peak demand shows mixed signals with some segments performing well, such as power generation, which has been benefiting from expansion of data centers. On the other hand, segments such as construction and mining have been impacted by postponement of investments.

This is a good time to highlight that we are growing the power generation segment. And as announced yesterday in the material fact, we won a new contract to supply cylinder heads for this application.

On the next slide, I want to talk about the impact of tariffs on our business and how our presence on three continents is a significant competitive advantage. We have built a unique arrangement in the industry that allows us to allocate products across different plants.

This is a risk mitigation tool and allows us to offer products that help customers meet their original content requirements. This differentiation has allowed us to win new contracts, which has announced total additional annualized revenues of R$1.4 billion. These new projects will gradually enter production as of the 2H25 and are protected by long-term contracts. They have a higher percentage of added value, such as machining and subassembly services and will contribute to enrich the product mix, with a positive impact on margins.

Speaking of tariffs, our exports to the United States from Brazil represent approximately 14% of total revenues. As of April 2, our products were subject to a 10% tariff, which is passed on to the customer according to contract and has already been carried out.

Since August 6, our products have been subject to a 50% tariff. However, we have inventories in the United States of products that were imported with the 10% tariff that give us coverage for about 10 weeks. Additionally, products that were shipped before August 6 and arrive in the U.S. by October 4, remains subject to the 10% tariff. Considering inventories already imported and products in transit, we will practically have coverage until the end of the year, and therefore, do not expect a material impact on our earnings in 2025.

These inventories give us a reasonable amount of time to work on mitigation measures for 50% tariffs such as transferring production to Mexico, and remembering the products that meet U.S. MCA requirements are currently tariff-free. This demonstrates the resilience of Tupy's industrial structure, which is certainly valued by customers.

Now I turn the floor to Toni, Vice-President of Procurement and Logistics.

Toni Bueno:

Thank you, Ricardo. On the next slide, I want to detail our capacity demobilization projects. Acquisitions brought several commercial benefits in areas such as procurement and logistics, but also created idle capacity. Our synergy plan already considered the adjustment of production capacity and inventories, and gained even more relevance in this scenario of declining volumes. This process began in Mexico in 2024 and will be intensified in 2025 and 2026 in all plants.

Originally, the plan would be completed this year. However, the tariff contest led to the review of these projects given the even greater strategic relevance of the operations in Mexico. This reorganization will result in approximately 25% reduction in capacity compared to the post-acquisition scenario of the Aveiro and Betim plants, and is in line with our operational and integration strategy.

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

The new capacity allow us to meet customer demand, which considers the increase in volumes in 2026 and future growth through the acquisition of new contracts. We aim to achieve a ROIC above the cost of capital in each of the geographies in which you operate, even in a challenging volume scenario.

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

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

Gueitiro Genso:

Thank you, Toni. Good morning, everyone. We are the most recognized engine brand in the country, which also drives the spare parts business, and we are leaders in the generator set market, offering energy security and options with a lower level of environmental impact.

What these segments have in common is high growth potential and profitability superior to our traditional business. The distribution and energy and decarbonization units, with low correlation with the Company's core business, already represent 30% of domestic market revenue or 15% of total.

On the next slide, I want to talk about the fundamentals of the replacement sector, which grew 8% in the 2Q25 and 17% in the first 6 months of the year. It's a market that benefits from the age of the country's fleet. Today, about 1/3 of the truck fleet in Brazil is over 16 years old and 50% of tractors are over 20 years old. This represents a growing and continuous demand for maintenance and replacement parts.

And this is where MWM has a great advantage. The strength of MWM brand is a huge differentiator. We are widely recognized for our quality, robustness and reliability which positions us as a reference throughout the chain. We have even managed to price our products better, a direct result of the market's trust in our brand.

We have an extremely robust distribution network with more than 700 points of sale in Brazil, which guarantees as capillarity, proximity to the customer and speed and delivery.

On the next slide, I want to talk about the drivers of our growth and the size of opportunities. Approximately 30% of diesel engines in circulation in Brazil were produced by MWM, which gives us a very significant installed base and opens space to expand our operations with optional and multi-brand parts.

Since the beginning of the development of the optional line in 2017, we have already conquered 7% of the market that previously used parallel parts, and we still participate in only 1% of the multi-brand market, parts for engines from other manufacturers. We are expanding our portfolio and advancing in this market, including curating products in China.

On the next slide, I discuss the Generator Set segment, which we started offering in 2019 and in which we became a national leader in just a few years.

Revenues grew 19% year-on-year, driven primarily by a more favorable product mix. We are also increasing margins through efficiency gains in the manufacturing process. The demand for energy stability continues to rise, covering urban centers, off-road applications and agribusiness.

Our growth strategy includes expanding our portfolio for these markets, increasing exports. We currently export to 19 countries and offering larger products for data center applications.

On the next slide, I want to talk about vehicle transformation projects. We are in advanced talks with urban transport company, bus and waste collection companies as well. These sectors represent an addressable market of around 180,000 vehicles for solutions with natural gas, biomethane and ethanol engines.

Public policies have contributed to the large scale adoption of these technologies. The city of São Paulo will use biomethane solution in its urban bus fleets. MWM will play a leading role in this journey, providing technical knowledge in engine biofuel technology.

So, there is a lot going on. And as Investor Relations Officer, I am delighted to announce that we have launched another channel to share our initiatives, strategies and future vision with the market.

This first edition is available in our Investor Relations website, and our IR Manager, Hugo Zierth, has talked with the leaders of distribution and energy and decarbonization units. Our CEO, Rafael Lucchesi, Ricardo and Toni, also participate in this edition, discussing our earnings and plans for the structural components unit. I invite everyone to watch the content that's directly related to the performance of this quarter and next steps of the Company.

We will now start the Q&A session.

André Mazini, Citi:

First about the reduction of 25% in installed capacity, will there be any layoff costs associated to that? And if, on the other hand, a larger occupancy of the plant should have an effect of margins in the midterm.

And the second question is also about margins. MWM's margin is a highlight at 10%. It used to be 6% when you purchased the Company. Could you improve margins at MWM from now on? You talked about automation of plants. So probably MWM will go even further up. Thank you.

Rafael Lucchesi:

André, the adjustment of capacity is indeed an agenda that was already part of our strategy, but we had to make a transition. We started an adjustment plan, and then, due to the international scenario, we had to remodel that adjustment.

And as you put it well, of course, this reduction in capacity will provide us more energy when the market resumes with greater resilience and more competitiveness because we reduce capacity.

And now I will turn the floor to Toni to complement my answer.

Toni Bueno:

Good morning, André. Thank you for the question. So we went from an occupancy of 65% to 80%, occupancy rate of our plants. So this will naturally favor our margins. Of course, together with all the other moves that we made, this share specifically plays an important role in our projections.

Rodrigo Périco:

Good morning, André. Regarding MWM, I am glad you mentioned that, yes, indeed, we have improved the margin considerably, but there is still room for improvement, because there are many actions regarding restructuring. We have repositioned the brand, all of that done in the last 18 months. All that brought a significant improvement to operations.

And we have also repositioned the units. So there are three units that are well repositioned. The leaders are very capable, and they look at their units specifically.

Gueitiro Genso:

André, the answer is yes. These units in São Paulo are part of the anticyclical business strategy. And as we said in the presentation, if the structural unit suffers with the delay after a renewal of the fleet, as the fleet becomes older, we sell more spare parts. So we are growing at a 2-digit rate, but we are investing a lot in that unit.

MWM has an inventory of engines, more than 2 million engines are made by MWM in Brazil. So we are naturally present there. But with the curation of parts all over the world, we want to improve that to 2/3 of engines, not only MWM. So this is happening. We believe in that strategy. So this unit will perform well throughout the quarter, and it has a better margin. So the mix helps the Company.

And now I believe that biofuel engines will become important to our revenues is also happening. The vehicle transformation that is the replacement of diesel engines by biofuel, and biomethane and ethanol is also becoming a reality.

And to mention the last unit, it’s services and manufacturing. So assembly of engines was also important in the mix for this quarter.

So in summary, we work a lot with these three units so that the three units in São Paulo play an ever more important role in the mix of the Company. That was part of our strategy already, and we are very happy that this growing. So the growth of both will help a lot in to rebuild the margin.

Gabriel Rezende, Itaú BBA:

Thank you for the question. Good morning. I would like to have a follow-up on the restructuring process. You mentioned on yesterday's release that this restructuring would lead to a gain of 2 p.p. in the EBITDA margin. What is the starting point for that? If we can see the margin in 2026, as you mentioned in the press release, is this EBITDA margin gain based on the margin for 2026? So let's say, 8% adjusted margin to 10% in 2026?

And the second point, a follow-up on Mazini's question, you mentioned now about the occupancy that went from 65% to 80% with restructuring. What is the endpoint of this restructuring? What should be the occupancy of the plant after it's finished? And if the Company would eventually need to expand capacity when volumes expand in 2026 or 2027. Thank you.

Toni Bueno:

Gabriel, thank you for the questions. Starting with your first question, it's important to separate the topics. The first topic is the reduction of idleness, that's part of our strategy and the entire design of acquisitions of the plant in Betim and Aveiro that happened in the past. And the second topic, which is additional, which is efficiency topics. They are based on product quality, automation, maintenance, and also increasing data usage in the Company.

So these two topics are different. The 2 p.p. extra are added related to improving efficiency, and we will reach the top of those benefits at the end of 2026.

As of the second topic, occupancy, 80% of the space, we understand that this is the ideal footprint. Why 80%? Because that enables us, upon receiving new products, to absorb future changes in technologies and continue to be stable in providing our customers with production, even in a scenario of stabilization. So now we have much more capacity to quickly adapt to market changes.

So this is not a simple scenario. But the goal is for us to adapt quickly, maintaining our ROICs, our ROIC structure above cost of capital.

Gueitiro Genso:

Gabriel, continuing, all this plan of capacity plus efficiency takes into account what we have been discussing with you along the quarter, which are new contracts negotiated by Ricardo, our Vice-President of Sales. Because there is a cycle of negotiation, preparing the plant and they start production as of 2026 and 2027. So these contracts will take up part of this capacity that's being reserved starting in 2026.

So there are several actions by focusing efficiency, removal of capacity and new contracts that will make the Company go back to historical levels of contribution margin and EBITDA that it presented before the acquisition.

Rafael Lucchesi:

Toni and Gueitiro gave an excellent answer. But one additional comment is the technological trend for reduced volume in engines. So new engines have thinner walls, more complex technological structures. But as a trend, they are less heavy. So all the answers we gave in terms of value-added and capacity reduction meet the needs of the trends in the technological development that are present in our customers.

Fernanda Urbano, XP:

Good morning. Thank you for the question. I have two questions. First, a follow-up on the plant reorganization. It's clear from your previous answers how the capacity optimization will be once changes are implemented. But I would like to understand, with the 85% of usage of capacity, how does that volume compare to current volumes? Should we expect an actual reduction of volume, or will that only improve the use of capacity? And I would like to understand the division of capacity of Tupy between Mexico, Portugal and Brazil after those changes are made.

And how do you envisage the prospects of cash generation once these changes are implemented? You have mentioned in the presentation and in the release a more efficient monetization of working capital, although the EBIT is a bit lower. So how do these changes relate to the prospects of cash generation of the Company for 2026 and 2027? Thank you.

Ricardo Fioramonte:

In terms of the adaptation in demand and capacity, the projection we are making is that such adjustments will grant us an optimization of 80%, not 85%, in capacity in the midterm. But that takes into account everything that was said before about the new projects, and it also considers that we are at the lowest demand ever. It’s something we have not seen since the pandemic, especially in vehicles, in general.

So we expect the demand to resume and as soon as uncertainties are being eliminated slowly and buyers go back to their activities. So fleet owners go back to acquiring equipment and making investments. So we do foresee an activity level much higher than we have now. So this 80% that was said gives us room to absorb that in the future.

Rodrigo Périco:

Fernanda, good morning. When we talk about cash generation, there are two points that are important to mention. First, capital allocation of the Company. As Ricardo said, we are at the bottom of our sales level. Sales and exchange rate are two offenders of the Company, and naturally, a drop in sales brings a worsening of our dilution of fixed costs. So today's capital is allocated for restructuring.

And the second question that is going to be made, we had an increase in leverage, it changed a bit. But what happened is that we monitor some important drivers related to leverage. And in the Company, I would say that we have operational and financial levers that will be enabled if necessary, so that we can meet the plan and also comply with our covenants.

So the Company has said several times that we have a very well-structured debt, low cost, all the maturity dates and terms have been expanded recently. So we would like to make you comfortable about our liquidity. 2025 is very well solved and I am also looking forward to 2026.

Toni Bueno:

Just to add on what Ricardo said, about the geography's snapshot, it's important to bear in mind that the Company, in this flexible design, creates communicating vessels among all operations. So this movement that we are making to branded products more flexible, it is so complex that if we move 52 products among plants or among lines, more than 100,000 hours of engineering development were dedicated to that, and they need the collaboration of customers and clients.

So it's important to understand that we have a dynamic system that needs to adapt quickly and in an economically feasible way to the scenario that happens.

Rodrigo Périco:

And about the snapshot for the future, which is a very interesting question, we are now undergoing a moment in which the market is extremely dynamic with some instabilities. But as Ricardo mentioned, Tupy is a global leader in this market. We have operations in three continents, which gives us great resilience. And this is extremely important in this new reality of high protectionism.

And considering that, Fernanda, our operational base in Brazil will remain a competitive strength of our Company. But Mexico, because of its positioning and because the importance of the U.S. market and USMCA, our position in Mexico will become more and more important.

Gabriel Frazão, Bank of America:

Good morning. Thank you for the question. My question is about the truck market in the U.S., or North America. We have seen a decrease in that market that was driven by high levels of sales of trucks recently. Were these low volumes enough to correct this unbalance between supply and demand? Or do you expect any other moves in this market?

Ricardo Fioramonte:

Being very objective, based on the orders activity and the orders portfolio of OEM manufacturers in the U.S., we do not envisage a very significant change in the next quarter. It's likely that the industry will remain with low activity levels in the 3Q.

At the same time, it's very important to highlight that the fleet is being used. The equipment in used are being depreciated, so they are just postponing the demand. So this will certainly favor us in the future. We expect and hope that these activity will go back to normal rates as of 2026.

It's a big change considering the expectations for the industry as a whole. In the beginning of this year, we expected higher volumes for this year as well as the beginning of prebuy, which is no longer an option now, and we even work with the possibility of a recovery starting in 2026. But since we are seeing a very steep drop, it's possible that when it resumes, it will be really significant.

Rafael Lucchesi:

Just a complementation. The GDP in the U.S. in 2024 grew by 2.8%., and activity level projections for this year are around 1.8%. So the reduction in this segment, the data announced for the 2Q25 for commercial vehicles, there has been a reduction of 13% in North America and the United States, and off-road, 20% reduction.

So that answers your questions a bit, and that impacts Tupy, because we are suppliers in this chain and the United States is our main market. But as Ricardo said, we are waiting for a resumption of this volume in 2026.

Gueitiro Genso:

I would just like to take this opportunity to connect to what Toni mentioned about our efficiency project to reduce capacity and add flexibility to plants.

Now we are in a moment in which demand is not what we expected in the beginning of the year due to external factors in the U.S. market. So we want to make our plants flexible more and more, so that we can respond in terms of cost to any demand that's not confirmed being able to produce in the plant that's most efficient in our geography.

So the Company is executing this plan in 2025, and throughout 2026, this will make us much more efficient. And that's why we believe we will go back to our historical margins before acquisitions, which is what drove us to increase our capacity and be present in new geographies worldwide.

Jonathan Koutras, JPMorgan:

Thank you for the questions. I have two questions as well. The first is about the demobilization of the plant. Tupy increased the capacity of production of iron by 40% when compared to 2021. Maybe these assets, if you are looking for a purchaser, if is Tupy in negotiating a valuation lower than historical levels when compared to the industry, so maybe it could be focused on assembly and MWM as well as Aveiro plant, that is a strategic footprint in Europe. And the plant, do you have any estimate of the amount of expenditures in the next quarters? Because you talk about positive for 2026, but what would be that in the short term? That's the first topic.

And the second topic is about gross margin. What was the main offender in this quarter? Because when we look at historical figures, you had reported 2 bps drop, but the margin was not so negative. Is that bigger because of M&A, or is there anything more specific for this quarter? Thank you.

Ricardo Fioramonte:

Jonathan, thank you for the question. Regarding your question about a possible sale of these assets, it's important to highlight the strategy of Tupy, if I understood your question correctly.

Communicating to the market, we have adopted the strategy of consolidating this industry in the West, and addressing one of the problems of this industry, which is in that structural idle capacity. And within this role of consolidator, we understand that acquisitions were made with the projection that we were actually acquiring idle capacity. The idea is to remove this capacity from the market, closing that.

Rodrigo Périco:

Just complementing on your question, very straightforwardly, the changes in the gross margin mainly refer to sales volume, which causes lower production volume and smaller dilution of costs.

Toni Bueno:

Just adding on the answer about adequacy costs, when we talk about 2025, we projected costs around R$12 million for all plants on a consolidated basis, and investments for development of tools, machinery tools and improving lines of R$16 million. In 2023, investments were at R$13 million and costs at R$63 million.

So these are our projections that is already included in our budget curves and in this last figures disclosed to you in this quarter's release.

Andressa Varotto, UBS:

Good morning. Thanks for the questions. I have two questions. First, regarding tariff. Brazil is now subject to a 50% tariff. I would like to understand if there's any difference between what Tupy exports to the U.S., what is subject to 50% and 25%, which is the tariff for auto parts sector? And how is the tariff influencing the project to rationalize capacity? Does it mean that we will have much more capacity preserved in Mexico than in Brazil? And if you have any feedback from clients or customers regarding tariffs, it would be nice. And how do you see a potential risk of terminating the long-term contracts that you have with clients once they try to seek other players? Or is this not being discussed?

And the other question is about contracts that start for the 2H25. Could you give us any color as how much revenue they could add in this quarter and next year? And also, how could this impact the margin?

Ricardo Fioramonte:

Starting with your question about how tariffs apply to our products, most of the products exported from Brazil to the U.S. as well as most of Tupy's portfolio is directed to commercial vehicles. In our case, most of this volume has a tariff of 50%. Only a small part is subject to the tariff of 25%.

You asked about how this impacts the plant reorganization. This is the time to highlight this unique arrangement that Tupy built in the casting industry during years, having a footprint of manufacturing plants in three different continents, which allows us flexibility to allocate production according to our convenience.

So right now, Mexico operations are an important strategic asset for us. And this is the long-term solution for these high tariffs imposed on Brazil, if those remain in force. We work with the scenario so that if products remain subject to tariffs, they will be transferred to Mexico.

Andressa, going back to your second question about new contracts, we should have be feeling a higher impact this year, which is not happening due to the commercial vehicles condition in the U.S. But certainly, as of next year, there will be a positive effect of those contracts. We believe there will be up to 10% growth in revenues coming from these new projects.

Gueitiro Genso:

Andressa, just to highlight something that we have been talking for some quarters now. All these commercial agenda built that will start generating revenue in 2026-2027 was built starting 3 years ago, also based on a consolidating strategy scenario for the industry in the West.

So we have more power because we have the strategy of having plants in three different continents and because of our volume. Ricardo may talk more about them, but this new contracts that are worth more than R$1 billion come with the added value and under new contribution margin conditions.

Is that right?

Ricardo Fioramonte:

Yes, this is right. We are pricing the value that our footprint offers to our customers. We are the only independent casting company that is able to produce cylinder heads in the USMCA region according to the requirements, and we can help our customers build, complying with their regional requirements.

Gueitiro Genso:

And some of these new contracts should also be bringing products, which is not happening yet due to the reasons we mentioned here. But this agenda of new contracts, combined with the optimization of plants, support our belief that the structural components industry will go back to historical margins at some point in time, back when we were before this strategy.

Operator:

This ends the Q&A session. I would like to hand the floor to Mr. Rafael Lucchesi for his final remarks.

Rafael Lucchesi:

I would like to thank you again for attending this conference call, and reinforce our commitment to profitability, cash generation and return on capital in all our business units. The necessary adjustments are being made with immediate actions adapting the Company to the lower sales volume. More than specific initiatives, this plan has structural effects and permanent gains, transforming Tupy into a more efficient company and better prepared for the future.

Thank you, and see you in the next quarter.