

Conference Call Transcript Randoncorp 2Q23 Results

Davi Coin Bacichette:

Good morning. It is very good to have you with us in our conference call for the earnings of Randoncorp. Today, we will present numbers and the main highlights for 2Q23.

Our CEO, Sérgio Carvalho, will give you an idea of our business in the period. Paulo Prignolato, our CFO and DRI, will explain the consolidated result and other financial economic highlights. The performance per business vertical will be explained by the Director of Finance and Investor Relations, Esteban Angeletti.

Before we begin, we have important announcements reinforcing that what is said here are not guarantees of performance, they involve risks and uncertainties because they refer to future events and, therefore, depend on circumstances that may or may not occur.

At the end, we will have our Q&A session, but you can participate at any time by clicking on the button Q&A, at the bottom of the screen, or via WhatsApp.

You can participate by audio or in writing. By audio, send your name and your company on the platform. If you prefer to write, write your name, your company and the question by WhatsApp and the platform. If we do not have time to answer all the questions, we will get in touch with you after the closing.

Our event is being translated simultaneously into English and we also have interpretation in sign language. To hear the presentation in English, please click on the button "interpretation", at the bottom of the screen. To hear only the translator, please click on "mute original audio".

The event is being recorded and the recording will be made available on our Investor Relations website right after the end.

Now, we would like to pass the floor to Sérgio Carvalho.

Sérgio Carvalho:

Welcome to our conference call for earnings. Before beginning to talk about 2Q23, I would like to thank you for your participation in our RandonCorp Day, which happened at the end of the month of June.

For the first time, we made the event in São Paulo to be closer to you. And this was a very good experience. We had the opportunity to talk in a more detailed way about our long-term strategy, and we showed how we are building the future. All the material of the event, including the recording, is available on our Investor Relations website.

We will have a second RandonCorp Day at the end of the year, with focus on visiting our installations here in Caxias do Sul, visiting our facilities. You will be able to see some of our initiatives, especially innovation and technology, both in our plants as well as in our products. We will give you more information in the next few weeks.

Another fact that I would like to highlight is the recognition received by RandonCorp and by our Investor Relations team at the end of July, by a survey made by Institutional Investor. We led seven of the eight categories in the ranking in Latin America in the sectors Capital Goods and Small Caps.

This is the fourth consecutive year that we have a good position, and this motivates us to improve even more. So we have this commitment to continuing making progress in good governance practices, always communicating with transparency all the important things about our Company. Thank you for the trust and this important feedback concerning our work.

Now, going on to the highlights of the quarter, it is with great satisfaction that we present, once again, positive numbers in a period that was full of challenges.

We were able to maintain the growth of the Company on a good level even with the main markets experiencing drops, especially the production of trucks. Our margins remain healthy in all the verticals.

With this, we close another period showing the resilience of our business model and that the strength of some segments compensated for the weaker demand in others.

And even the companies that had revenue that was lower than the previous year, like auto parts, are able to deliver a good profitability, and this is what we want at RandonCorp: to find good opportunities when we have challenges.

We are using these challenging times to conquer new clients, expand our portfolio and our work in many markets in regions like the US and Europe, amongst other initiatives. This has made our Company more global and with solutions that are more complete in the many segments and platforms where we are present.

The consistent result that we conquered during the first semester reinforces the trust that we have in our planning execution and annual projections that were aired at the end of April.

We still see many uncertainties for the next months but, revisiting our numbers, we see consistent and sustainable work in all the companies. And we can say that we continue to reaffirm our guidance for this year.

This does not mean that the market will be easy. The market has a complex behavior with the production of trucks and buses being affected due to the change in engines for Euro 6 and the OEMs are having production stops or reduction of production.

At the same time, semi trailers have been stable in comparison with the previous year, and we see a strong demand for fuel tanks. Also, the after-market continues very strong, especially in Brazil.

Political and economic factors continue, both in the domestic market and abroad, with additional challenges, but the scenario of uncertainties is what we have had a lot in the last few years and we have been prepared for this more and more by reinforcing our strengths by diversification.

One of the important factors to diversify our business is innovation, which brings an important competitive edge and new fronts for revenue.

At the end of June, Fras-le Mobility, through Fremax, began the sale of a new line of products with the application of paint containing sustainable technology unique in the world, called MaxCoating.

This line, which contemplates brake discs and brake drums, is being painted with nanoparticles of Niobium to increase its resistance to corrosion, increasing the life cycle of the part, especially in adverse climate conditions, like snow.

Another factor is that innovation is not only in the product but in the technology applied in the production process, with the use of robots and automation, which increase the versatility of the development of the components.

Once again, we are delivering products and processes that are unique in the world, that were developed in partnership with the Instituto Hercílio Randon and 91.

Another highlight was the delivery of the first forest semi-trailer equipped with the e-Sys system here in the domestic market. I remember that, since the beginning of the sales of road implements with this technology in the last fair, we delivered products to clients in Brazil and abroad.

The production and sale of semi-trailers with the e-Sys system is happening according to our expectations, and new units will be delivered to the domestic market soon.

Apart from this, we are expanding the possibilities of using this system in new segments of transportation, such as in sugar cane and tractor terminals, which are vehicles for cargoes in ports and logistics installations.

In the last few years, we made a strong effort to develop sustainable technologies that bring profitability for transportation companies and significant gains for the environment. We are making progress in electro mobility, contributing to transforming road transport in Brazil and abroad.

To finish, I would like to leave a last message. This is something we have said constantly to you during the last quarters and we have reached very good numbers, which shows the resilience of our businesses.

We will continue looking for more internationalization. Also, an increase in the aftermarket investments in innovation and technology products and practices that are more and more sustainable, always focusing on return to our shareholders and the generation of a positive impact for society.

Now, I would like to pass the floor to Paulo, so that he can continue the presentation.

Paulo Prignolato:

Thank you, Sérgio. Good morning. Thank you for being with us in this conference call of results. I would also like to thank you for the participation in our RandonCorp Day and the recognition by Institutional Investor. For us, this close contact to you, analysts and investors, and the feedback we receive is an important fuel for us to continue making progress.

Now, going on to the results, we reached a Consolidated Net Revenue of R\$2.8 billion in 2Q23 and R\$5.4 billion in the semester. This indicator presents a stability when compared to 2Q22, which is very positive due to the current scenario and the drop in the production of trucks, which

was already explained by Sérgio, and that had a negative impact on the demand for our auto parts.

The maintenance of our revenue came from three fronts. The sales for after market and road implements, that continued on good levels, the expansion of sales abroad, especially semi-trailers and brake systems for the United States, and after market in Europe.

This last one, especially with the acquisition of the company Juratek in the UK and together with other companies acquired in 2Q22, Hercules and DB, represented R\$177.3 million in 2Q23.

Now, going on to the revenue in the export market, we totaled \$130 million in 2Q23, an increase of 16% versus last year. This growth came especially from new businesses that we added, such as the vertical OEM in the US market, both by exports as by the acquisition of Hercules and the revenues coming from Europe by buying Juratek, which I already mentioned.

The other businesses of the Company have had some challenges. For example, the drop in demand for semi-trailers in Chile due to the economic problems in the country and sales to Argentina.

Although they are at good levels, there is a scarcity of US dollars, and this is a barrier for imports, but the expansion of the business with positive factors overcoming the negative due to a correct strategy of the Company to be more and more global and expand its presence in developed countries.

Now, talking about EBITDA, our Consolidated margin continued on an excellent level, reaching 16% in 2Q23, at the top of the guidance projected and close to the level of 1Q23.

This is due especially to the product mix sold with more added value than in 2Q22, deflation of the price of steel and important raw material in our production process, a good performance of acquired companies, which gave consistent results in the quarter and also with the capture of synergies after the integration.

In 2Q23, we also had non-recurring events, recorded in our numbers with the net impact of R\$12.6 million, which reduced by half a percentage point the EBITDA margin.

They referred to an accrual for contingency with the exclusion of ICMS tax from our controlled Nakata company and the positive effect in the combination of business. All the details concerning these recordings are explained in the explanatory notes.

Adjusting this effect to the Consolidated EBITDA, we would have an EBITDA margin of 16.5% in 2Q23. In the last line, the effect of this non-recurring was zero, due to its impact on taxes.

Finally, our profitability remained at a good level, reaching 4.2% of Consolidated Net Revenue.

Now, going on to investments: we invested especially in Capex, totalling R\$99 million. R\$63 million was for buying equipment, specially machines and equipment, making our plants more automated with important gains in efficiency and productivity, and also expanding the capacity.

Another important point is the control of our Debt. As you can see on the screen, our Net Debt, without Randon Bank, had a drop in relation to the last quarter, reaching R\$2.4 billion with the leverage of 1.53 times the EBITDA in the last 12 months.

The drop came due to the following factors: a smaller need for working capital and reduction in investments in the period, the positive effect of the exchange rate and also the reduction of accounts payable, because we are combining the businesses of Nakata and Hercules.

To conclude, I have some data from our shareholder base. We continue to expand the number of shareholders, reaching 46,186 shareholders at the end of June. To compare, at the end of 2022, this number was 41,000 shareholders.

Within the profile that can be seen on the graph, those who increased their position in a more relevant way were foreign investors and institutional investors.

Now, I pass the floor to Esteban, who will talk about the business verticals.

Esteban Angeletti:

Thank you, Paulo. Good morning. We are very happy to have you with us in this conference call for earnings. As Sérgio and Paulo already said, we had many challenges to overcome during these first six months of the year. But, even with this, we were able to reach the main goals we had planned for this period.

With two quarters that were very balanced, both in revenue and in margins, the Company found alternatives to mitigate the effects of the more complex business environment and showed its strength and resilience once more.

On the screen, we have the numbers in the markets for trucks and semi-trailers, which have had different results. While the volume of road implements continued the same, the production of trucks had a strong drop, of approximately 40%.

With these numbers, it is important to reinforce, once again, the relevance of having diversified businesses, which allow us to go through these complex times with consistent results.

After this context in the market, I bring the data from OEMs, which had good levels of sales and margins in 2Q23. We had a revenue of R\$1.1 billion, with a highlight for the export market, due to the acquisition of Hercules, we added 100 million in the quarter and exports of semi-trailers to the US. With the exported volumes and the sales of Hercules, we reached 1,602 units sold in the US market.

Randon continues to be a leader in the market both in Brazil, with 27% market share, and abroad, with 76% of the volume exported.

Analyzing the revenues per sector, which you can see on the graph, we see a drop in agribusiness, which represented 69% last year and now 57% in 2Q23. This happened due to the reduction in demand for dump trucks in the period, and an increase in the sale of fuel tanks, which are classified as sales to industry.

Another point I would like to highlight is that we have a good portfolio of products and we have a portfolio for two months production. The EBITDA margin of OEMs reached 8.8% in 2Q23, due to lower prices for raw materials and a better sales mix.

Now, going on to auto parts, the great highlight in its resilience, especially seeing the drop in the demand of its product in 2Q23, especially due to low production of trucks and buses in the country.

Net revenue reached R\$816.8 million in 2Q23, which represents an 18% drop in comparison with 2Q22. To mitigate this drop in the volumes for OEMs, the companies that make up this vertical intensified their work in other markets, such as agriculture and aftermarket.

Apart from expanding its sales in the export markets, for example, the export of brake systems of master which represented 63%.

In the Net Revenue per segment, you can see this movement and also the increase in the participation of semi-trailers, with 31.6% of the revenue in 2Q23 against 24.2% in the same period of last year. The drop was mainly in sales to OEMs, due to the situation in the market.

EBITDA margin reached 16% in the quarter, and excellent numbers appeared at 1.8% the margin in the same period last year, even with market conditions that are less favorable this year.

This evolution happened to manufacturers, a reduction in the cost of raw materials, caution and discipline in operational expenses and internalization of the production of some items by Castertech and Master.

Talking about movement control, which represents 30% of the revenue of RandonCorp, it had another quarter with excellent performance, both for its market, which is booming, and also the synergies it has captured between its companies.

Fras-le Mobility and its controlled company reached, together, R\$919.6 million in Net Revenue in the quarter, representing an increase of 17.5% compared with the same period in 2022.

The main factors for this progress were the good demand for parts for light vehicles and heavy vehicles in the after market, and also the revenue from Juratek, which represented R\$47.1 million.

Analyzing the revenue per segment, we see a drop in the export market. This happened especially due to the drop in sales to the US, due to the high level of inventory in the US.

Concerning EBITDA margin, this vertical reached 20.3% in 2Q23, an increase of 4.3% percentage points in comparison with 2Q22.

This evolution was possible due to the reduction in the cost of raw materials and the maintenance of sale prices, which gave better margins, gains in synergy among the operations, especially logistics efficiency, and a good performance of all the controlled companies with a highlight to Nakata, which, with the exchange rate, had a benefit in imported items for resale in Brazil.

In this quarter, we had non-recurring factors, as explained by Paulo, which penalized EBITDA in 12.6 million and 1.4% points in the margin. The adjusted indicators of these one-offs are 199.5 million of adjusted EBITDA, 21.7% margin in Adjusted EBITDA.

Now, talking about Financial and Digital Services, the main highlights are accelerated growth with record revenue, reaching R\$178.7 million, an excellent level of pool sales by Random Bank, especially to accelerate business in OEMs, and the first quarter added 28 million to this indicator.

You can see, on the graph of Net Revenue, the relevance of this new segment. The vertical really made progress in EBITDA, 8% points when comparing 2Q23 with 2Q22, going from 19.8% to 28%.

Also, the progress in Adiante. They already have many contracts at levels that are higher than expected for the first year.

Now, information about Advanced Technology and Headquarter. Net Revenue reached R\$48 million in the quarter. CTR, which had a drop in demand by services from OEMs, mitigated this with a recomposition in prices in some lights.

Auttom is now stabilized through the purchase of RTS and now is looking for new solutions. The margins obtained in 2Q23 show an evolution in comparison with 2Q22, and should continue making progress slowly in the next periods.

To finalize, I would also like to thank all of you who voted in RandonCorp for the Institutional Investor award. We, from the Investor Relations team, are honored and happy to have this recognition for our work, and we will continue to evolve even more in materials and also events, such as RandonCorp Day, which we took to São Paulo, thanks to the feedback we received from the market.

I invite you to continue in this journey together with us, giving us support and bringing suggestions, which are always welcome.

Now, I would like to pass the floor to Davi, to begin our Q&A session. Thank you.

Lucas Marchiori, BTG Pactual:

Thank you, Davi. It is good to talk to you. I have two topics.

The first one is about OEMs. I heard the impact of the sale of equipment. I would like to understand if this margin, close to 8-9%, should be the floor this year, because of improvements and inflation for main raw materials. Should we expect better margins in the next quarters? That is for OEMs.

In auto parts, I was curious when I read the launching of Maxcoating, a very interesting initiative. Could you give us some economic information? I know you have a partnership with WEG, so it is a new product launched by the company Fras-le Randon. So I would like to have an update also about the partners. I know there is demand from other industries too. I wanted some more color about this new product. Thank you.

Esteban Angeletti:

OK, Lucas, thank you for participating. I can begin answering about OEMs, then Emerson can talk about Maxcoating and, finally, Sérgio will talk about new technologies and the possibilities of 91.

Lucas, concerning OEM margins, we consider this an interesting margin, especially in a difficult market as we have this year for auto parts, trucks and semi-trailers.

Although we do not have growth, we have seen the possibility of sustaining these margins by the stable demand in the domestic market or growth abroad, especially US, with the production of Hercules and the export of products from Brazil.

You can see the price is stable, there is a deflation in raw materials, stability in prices. This is good news, considering that the Brazilian market is not growing, but we are not seeing a price war, we are not seeing an aggressive price war as we had in the past.

This is due to two factors in the domestic market: first, demand from agriculture, and the second factor, that you saw in the release, is that the fuel tanks, which came back in the last five years, were not very significant, and now it is back with the renewal of the fleet and also due to sugar cane and the transportation of fuel.

So while we continue with this market, demanding products in the volumes we have now with deflation in costs, like we saw in the first semester, in our vision the trend for 2Q23 is for us to continue having deflation in raw materials.

I can tell you that we can protect this margin from 8 to 9%. Obviously, we will continue working, trying to increase this margin. But in the vision we have today, with the market data, we have 8 to 9%, that is what we can defend.

Emerson, before you have the floor, I would like to congratulate the excellent results of Fras-le, which were released last Tuesday.

Emerson Cortez de Moura:

Thank you, Esteban. Good morning. It is a great pleasure to be here representing Fras-le Mobility, especially about your question about Maxcoating.

We have our solutions and products, disc brakes with an excellent penetration in the US, where we have a great demand for resistant paintings due to the severe winters and greater corrosion.

We offered this product, Maxcoating, to many clients. Maxcoating initially brings us a product that is unique in the world. We use Niobium particles in a process that is totally new. There is no other process like it in the world. We surveyed the world and we did not find similar products.

So it is a continuous line, totally automated paints. It paints the disc brakes with microwave water-based paints, and this brings us an advantage to offer four times the resistance of the standard product.

Because of this, we want to make this line grow and offer this to Northern countries. North America and Europe, as the main clients, there is a premium price, we are offering it as products substituting the previous coating systems.

But, as we make progress, we will also have a new price, Lucas, we want to internalize this painting. We're still in the beginning of this operation, but the investment was R\$2.7 million.

We are using the resources we have developed by RandonCorp. As we develop it, it is a solution that can be applied in other parts that we offer to the market. We are very happy with this pioneer product through 91 but now being used in Fras-le Mobility with products to the market.

Sérgio Carvalho:

Thank you, Lucas, for the question. You mentioned new technologies from 91, so let's talk directly about it.

We continue evolving. We have our Company focused on intelligent composite materials, and this initiative continues to grow. We have many large projects we are working on.

The agreement with Iveco trucks continues. The product is being expanded to new applications now outside Brazil, both in Argentina and projects for Europe too, being worked on.

We believe that, with the exception of one OEM, we have projects with all the OEMs for trucks, and we should make more progress in the second half of the year.

We have other products growing in our modular platform. We have a new suspension that we showed at the Fenatran show. During the second half, it will begin to go to production, because it is radically different.

This suspension will bring a competitive edge for us, so there are many good things happening apart from what we have inside 91, which is now operating in a more consistent way in terms of initial revenue.

The project linked to painting, we continue with 17 work fronts. Every month we begin projects with new clients. We have 65 different work fronts within our segments, and all of this continues to have a great potential, we continue to be extremely motivated with the potential. For the time being, there is nothing that can decrease our enthusiasm concerning these solutions.

Two areas of 91 are a little closer. One is the coating for ceramic floors and the other is the usage in cast components, our own cast components, where the greatest benefit is within the unit of our vertical and outside 91.

We have projects with wheel hubs, disc brakes and all this development is more advanced together with ceramic floors. So, a giant amount of activities that we are working on all these developments.

We are leaving research and going to production. So it is taking more time than we had imagined originally, due to the fact that it is a radically different solution, which makes all the clients evaluate with more attention the usage of this technology.

Therefore, it is happening, but at a slower pace than we had foreseen.

Victor Mizusaki, Bradesco:

Good morning. Congratulations for the results. I have two questions.

The first one is concerning road implements. When we look at local revenue in 2Q23, it is 26%. In the past, it was closer to 30%. My first question is: how do you see this trend for the next quarters? Do you see an improvement in demand within your harvest? Do you believe this can have an impact in the next quarters?

My second question is concerning M&A. What are you seeing in auto parts and international expansion M&As?

Esteban Angeletti:

Thank you, Victor, for the question. I will begin answering the first part, then I will pass the floor to Sérgio to talk about the M&As.

Concerning road implements, we have seen a strong demand coming from the export market. The US is doing very well via Hercules and exports, and we have used this excellent moment to expand our activities.

The US is a priority for us, in terms of expansion outside Brazil. And with this time, we want to gain speed in the US.

Concerning the Brazilian market, we have seen a demand, as we mentioned in the conference call, with our portfolio having sales for two months. So the market is for 70 - 80,000 semi-trailers, and we have, today, the availability, we are offering another 110,000 in capacity, and the clients now do not have to place orders very early.

In other periods, the clients were afraid of not having semi-trailers for the harvest, and they used to place orders well in advance, about four months in advance.

On the other hand, in relation to demand in the second semester, what we are seeing, which is positive and I mentioned to you in RandonCorp Day, is the harvest, the corn winter crop.

You know, there is no capacity to store this corn. So they will need transportation. We see this in new orders for dump trucks and grain trucks. This should rise and give us a better demand in the domestic market.

In the long term, we do not have an excellent mix between domestic and export markets, so we want to continue diversifying our businesses in new geographies and countries with strong currencies.

Sérgio Carvalho:

Thank you, Victor. M&A is very relevant in our sales. We have a pipeline that is very robust, with opportunities that we are exploring.

Our intention, as we mentioned in previous events, is to give priority to opportunities in countries with strong currencies, but we have opportunities here that are in the category of opportunities that we cannot overlook in Brazil. In all the verticals, we have these activities and this area and it is very strong.

We believe, as we always say, not all are successful, we have to work on them, but, based on our track record, we believe that we will have good news in the future. One of these opportunities for M&As will become a reality.

Renata Cabral, Citi Bank:

Good morning. Thank you for the opportunity and congratulations for the result. I have two questions.

One is a follow-up on semi-trailers in the US. We saw that you are having good results on the expansion you made, both in exports and also locally, with the acquisition of Hercules. You mentioned, in the past, about the intention of organic expansion, diversifying products, so how is this initiative? Is it short-term?

My second question is about Adiante company. You said they are doing well, can you give us details about contracts signed in which sector, any additional information? This will help us a lot.

Esteban Angeletti:

Thank you, Renata. Sérgio will comment about the US market, he can share this with us. And Paulo can answer the question about Adiante.

But, Renata, just to remind you, I would like to make a quick comment about the US market. The main differences in relation to the Brazilian market is that we have manufacturers in niche markets here, we have a greater portfolio. And also, regional manufacturers, which allow organic growth and inorganic growth.

Sérgio Carvalho:

Renata, good morning. Thank you for the question.

We are working to expand the portfolio of products in an organic way too, and we believe that, in the first semester of next year, we will be able to begin selling a new type of product in the US.

So, in terms of development, it is happening. The product has to be engineered according to the needs of the US market. Due to its regulations, it must be tested and approved so we can begin this process.

Therefore, it is a longer cycle, not as long as in other segments, where we have to wait two years to begin production. It is going to be shorter, but it is under development now.

Paulo Prignolato:

Renata, thank you for your question. We are in an important evolution in Adiante company. We inaugurated our headquarters in Curitiba, many rental contracts closed in sectors of logistics, transportation, agribusiness and different commodities for agro.

You are right, we have reinforced that we are reviewing our business plan upwards, because things are happening more quickly than we had planned. A good acceptance and what we agreed upon with the team at Adiante that, at some time during the second semester, we will share the data of Adiante, the projections, with the market in a more detailed way.

Right now, we would not like to give more details. We will do this together with our partner Gerdau during the next months.

Fernanda Urbano, XP Investimentos:

Thank you, Davi. I have a follow-up concerning the domestic market. In this scenario, do you see a recovery in demand in auto parts in 3Q23? And market data, in your vision, what has justified this better performance in road implements?

Esteban Angeletti:

Perfect, Fernanda. I will begin with your second question. The better performance in semi-trailers versus trucks and production of trucks dropped 35%, and this is explained due to the new engines that are being adopted by Euro 6 and the phenomenon that this provokes especially until March, when we made sales.

Even after that, distributors have to sell the old inventory with Euro 5 engines. In the first semester, 75% of the trucks sold were Euro 5, and very few of Euro 6.

So, today, these were not significant on Euro 6, like we had in 2011, when sales dropped. This made the truck market have this drop that I mentioned.

On the other hand, this does not happen in semi-trailers. Semi-trailers did not have a significant change in price, the price is stable, and the need for transportation is there.

Now, concerning the second semester for trucks, we see this inventory of Euro 5 dropping as this inventory of Euro 5 drops and the demand continues. This year we do not have trucks that are not on the road, so there will be the need to buy Euro 6.

There is also a natural drop in prices by OEMs going back to more acceptable levels, and I believe that this curve between offer and demand will meet and bring a recovery.

In practice, we do not see this yet, but we believe that, at some time, the market will have to offer and demand will have to meet.

About your second question, about 3Q23. How do you see the third quarter for auto parts? I believe I already answered that.

Sérgio Carvalho:

If you allow me, Esteban. In terms of auto parts, we have two verticals. Mobility on the after market continues very well, this is our expectation, and we have heavy auto parts, those that have a greater dependence on the truck sector.

As Esteban mentioned, what is different this year is the fact that, normally, there are situations, but the sale of the product produced at this time of the year, July, we would have very little Euro 5 selling only trucks with the new technology.

This is what we saw in the past, but this year, in July, Anfavea published that 2,315 trucks with Euro 5 were not sold yet. Although Euro 6 was almost 5,400, the greatest result with Euro 6 sold this year. But the fact that they sold 2,300 with Euro 5, no one expected.

At this time, I believe that the normal would be to have all the sales in Euro 6. So I believe we will see more Euro 6 being produced, and this will generate more production and an improvement in the revenue of our auto parts.

Luiz Capistrano, Itaú BBA:

Good morning. Thank you.

I would like to discuss with you the US market. Concerning volumes, you are growing in the short-term. Have we reached a run rate? Do you believe we will have an evolution in 3Q23?

You said you will launch a new product for next year, so, thinking of the second semester, in 2Q23 did you see the volume growing? Should this continue, also, with the impact of this in margins for trailers and OEMs?

Because, in 1Q23 and 2Q23, we had a marginal increase and a small drop in margin. Do you believe this business has a lower margin?

And a second question, to understand a more up to date vision. What do you expect to impact in the discounts given by the government in heavy vehicles?

Esteban Angeletti:

Thank you. Sérgio, you can answer the first question, about the US market. Then, I can talk about the potential impact of heavy trucks in the domestic market.

Sérgio Carvalho:

Luiz, thank you for the question. The US market, in general, continues to perform well, concerning trucks and semi-trailers.

They believed in a recession in the US, but it has not arrived. The strength of the US market is still present. The economy is strong in the US. We are expecting a drop in the market, but not a drop that will penalize in a significant way.

There is a pent up demand that is helping us, but we expect a small drop, and we want to be ready by introducing new product lines, as already mentioned.

Also, we are working to inject new processes in production and improvement in safety in our operations. So we are doing a lot in our US operation to give priority to modernize our operation.

In this second semester, we are working in a more important way, more strongly, but we continue positive that volumes will continue being good volumes for us.

Esteban Angeletti:

Thank you, Sérgio. Luiz, concerning the discount program by the government for heavy trucks, in practice, we have not seen any effect in demand.

This is linked to the price, the investment that is necessary after this discount, linked to credit. Credit is more restricted, more expensive. Now, interest rates are up, credit is scarce and expensive. This due to a higher average ticket makes it difficult for this government program to have a significant impact on demand.

On the other hand, what we have seen is a drop in interest rates. This began and the continuity should bring a scenario of more positive investments in the second semester, with a recovery of demand, both for trucks, road implements and trailers.

Sérgio Carvalho:

Esteban, if you allow me to add. The government has made available R\$700 million. If, for example, a truck costs R\$1 million, we are talking about 700 vehicles only, when in the government's program. It is very little.

Even if the program was a success, this would not bring a relevant impact, because the funds made available were small.

Luiza Mussi, Safra Bank:

Good morning. I have a follow-up on margins. Bearing in mind lower prices for steel, how are the conversations concerning discounts?

We saw an increase in administrative expenses. What was responsible for this increase in administrative expenses?

Esteban Angeletti:

I can comment concerning discounts. This is a daily discussion. We have purchasing and sales. We try to manage the prices to recover margins to have healthy margins in the business. So the gains that we have in margin, we try not to give discounts to sustain our level of profitability.

We have to remember that it is not only in purchasing, we have worked a lot internally in productivity and efficiency gains every month. We look at these projects carefully, which will bring us gains in productivity and efficiency in the operations, and also in the back office.

As a way to sustain this margin in the long-term, we do not want to depend only on the market. We want to have internal conditions to sustain this margin.

Concerning administrative expenses, part of these expenses are related to the structure to support the acquisitions. It is a temporary increase, because of acquisitions. And, for example, to implement in acquired companies the same system that we use in the others generates initially an additional cost.

But the trend is to be more agile in the future and use the standards that we have in RandonCorp. I hope I answered your question.

Gabriel Tinem, Santander:

Good morning. Congratulations for the results.

In semi-trailers, how was the price in exports and Hercules? I would like more details.

We saw a drop in the volume. What was the reason for this difference in revenue and also exports to Europe and Africa?

Esteban Angeletti:

Ok, Gabriel. What happens in the export market? Excluding the US, the main countries are in Latin America. There is a different mix in terms of what is sold in Latin America and in the US.

In Latin America, we sell higher value-added products and, in the US, for the time being, we are exporting bases for containers, which is very simple, and the average ticket is lower. If you look at the total revenue for the volume in the US, you will see this difference in relation to other countries in Latin America.

Africa is a continent where we have low demand in the last 56 years. They are suffering in some countries with political stability, lack of foreign currency. So, the demand has dropped.

In Latin America, we have seen Argentina and Chile with a drop in demand, provoked by greater political and economical instability with lower volumes.

So what we have done is: we have compensated this with the US market. Although the ticket is smaller, they have a greater volume and a good revenue from OEMs.

Marcelo Motta, JP Morgan:

Thank you. I have two topics.

The first: can you talk more about the e-Sys platform? How can this help in revenue?

Last quarter, you talked about investments in the e-Sys platform, and working capital is behaving well in the second half. Should we expect stability in the second semester too, concerning working capital? Thank you.

Esteban Angeletti:

Thank you, Motta. Sérgio, you can talk about e-Sys. We announced a sale in the domestic market. Paulo, you can answer the one about working capital.

Sérgio Carvalho:

Marcelo, thank you for the question. E-Sys is following according to plan. We had low volumes this year. We mentioned, in previous events, that there are three phases linked to this technology.

The first is where you have the early adopters, the pioneers, that buy thinking of ESG but with lower volumes, maybe to say that my company is supporting the environment.

The second phase is where economic factors make more sense. We are close to going to the second phase with better volumes. And the third phase is where the technology would be adopted in a strong way.

We are still in the first phase, but we are expanding. We are using this in semi-trailers in Brazil and outside Brazil. There will be an event in September in California, and we will be showing this solution there too.

But, even in Brazil, we have a court tractor that operates and uses this equipment. We announced the forest version, now we are working with meat packing plants.

Our expectation is that the greatest marketing will happen by companies who are using these products, and they will show the benefits. So it is slow, then it accelerates, then we reach higher volumes.

We are growing. There is a great interest in batteries and other applications, agrobusiness. We have a project in São Paulo for the movement of sugar cane.

The possible applications are growing for this product, but it is a new and radical technology, so it takes time.

Paulo Prignolato:

Marcelo, thank you for your question. Working capital is a topic that we take care of with a lot of care and discipline.

So, for us, an important metric is the number of days equivalent to billing. To give an idea, in June of last year, we closed the semester with 88 days of working capital, June, 75 days a drop, an important drop in the need for working capital. And this difference comes back to cash and this, especially in inventory, accounts receivable.

As you said, we hope for a drop during the next quarters. Part of this reduction happens in the third quarter and another in the fourth quarter, because of cyclic markets and clients.

So the answer is: yes, you can expect a drop until the end of this year.

Andressa Varotto, UBS:

Thank you. I have one quick question, on auto parts for commercial vehicles. We saw margins at a high level, so I would like to understand: how did the different factors contribute to high margins? Was it price stability, price increases or the internalization of some processes and products?

We saw an important expansion in the US. Do you believe this is the result of the synergies that you mentioned, synergies for auto parts? Thank you.

Esteban Angeletti:

Andressa, thank you for your questions. That is an important topic.

We see resilience in auto parts, and the results prove that our strategy is on the right track. More than strategy, we have to talk about execution, too.

In the case of auto parts, the higher margins are supported by verticalization. We have mentioned that items at Castertech that were purchased from third parties, since we have lower production, we are producing them inside.

In the past, we would outsource production because we did not have the capacity. Strategically, this has helped us. When we need to internalize, this helps us to support revenue and margins.

In terms of cost, this helps gross margin. We have talked about the drop in the price of steel and, in the consolidated steel, it represents 60% of our cost with raw materials. So it is an important component of cost.

And now, with the drop in the price of steel, this helps, in a positive way, for our gross margins.

Third point: new markets. We are after new markets, we have this in our strategy, diversification. Last year, we began initiatives to find new fronts in the international market to compensate for the drop in revenue. And now, with truck sales dropping 35%, the revenue for auto parts dropped only 18%. This shows that our strategies are working in 2Q23 and also in 1Q23.

Davi Coin Bacichette:

We would like to close our Q&A session. I would like to thank Sérgio, Paulo, Emerson and Esteban and all the participants.

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

Sérgio Carvalho:

Thank you, Davi. Just to thank, as always: thank you for participating and thank you for the questions.

We continue to say that we are here, available for any clarifications that you may need. Thank you very much, and we wish you a good day.