

## Conference Call Transcript 1Q24 Results

### **Caroline I. Colletto**

Good morning to all that are following us in this conference call of Randoncorp. Today's event, we will have the highlights and results of Q1 2024.

Before beginning, I remind you that this conference call has simultaneous translation into English and also sign language. To hear in English, please click on interpretation, which is at the bottom of the screen. To hear only English, select mute original audio.

This event is being recorded, and the recording will be available on our investor relations website, [ri.randoncorp.com](https://ri.randoncorp.com). We also invite you to participate in the satisfaction survey through the link on the platform. Based on the comments that you send us, we made some changes in the format of the conference call today to optimize and adjust it to your needs. That's why we ask you to participate.

Going on to the agenda, we will begin with a message from our CEO, Sergio Carvalho, then, the CFO and Investor Relations, Paulo Prignolato, will talk about the highlights of the quarter, and the Director of Finance and IR, Esteban Angeletti, will give you more details about the results of the period.

After the presentations, we will have the Q&A session, when we will also have the Director of IR, Hemerson de Souza from Frasle Mobility, and our manager, Davi Coin, to participate in the Q&A session, please click on the button Q&A at the bottom of the screen or send your question. You can also participate at any time following the instructions on the screen. If we don't have time to answer all the questions live, we will get in touch with you after the end of the presentation.

Before passing the floor to our executives, I remind you that the information here are not a guarantee of performance they involve risks and uncertainties, they refer to future events and therefore depend on circumstances that may or may not occur. I invite now our CEO, Sergio Carvalho, to begin the presentations.

### **Sergio L. Carvalho**

Good morning, thank you very much for being with us in this conference call for earnings of Randoncorp.

We began 2024 with a positive business environment with the recovery in one of the most important markets in Brazil, trucks, semi-trailers and replacement continued with good demand. The point of attention is the foreign market where we have a drop in volumes, especially in the segment of semi-trailers in Latin America and in the USA. But we know that working abroad is a journey, that's why we continue with our internationalization plan of our verticals since many opportunities await for us in other geographies.

In this beginning of the year, we made some important projects for the future of Randoncorp. We upgraded our ERP system, our SAP system, and upgrades in some plants. So, for example, OEMs, these movements together with vacation and the calendar of the year had an impact on our operations with six work days less in

comparison with Q1 2023. As a result, this will affect our numbers and this will be explained by Paulo and Esteban.

I'd like to highlight also the important actions for our robust financial position, like the loans we're taking out, especially to lengthen the terms of our debt and reduce the average cost of debt. Our markets continue with good perspectives and macroeconomic factors in Brazil are favorable.

It is a year when we will have the *Fenatran* trade show. We will inaugurate our plant of Castertech in *Mogi Guaçu* this year. This will add to us revenue this year, it is being structured to be state-of-the-art with automation. We are reorganizing processes, investing in operational efficiency to be even more productive in our plants.

Innovative products launched recently which have gained momentum like e-Sys Electric Systems will continue in the next quarters. We have many projects in progress, I can't give you many details, but they will materialize in this cycle. We trust that we will end this year with many new things in conquest.

In Q1, we also have two important dates for Randoncorp. Randon, our OEM, is now celebrating 75 years of existence and Fras-le is with its 70th anniversary. In Randon, we have a story of leadership and we have a conglomerate which is Randoncorp as we know it today and through Randon the strength of its brand that the company grew, conquered clients all over the world, and this unit opened many doors, not only for its products but for the other companies of the group especially Auto Parts and Financial Services.

Talking about Fras-le, a pioneer brand where it is celebrating its 70th anniversary with strong in replacement, it is a leader in the markets where it is with pioneer brands with dynamism, safety, and sustainability. Fras-le has reaped many victories with its expansion with consistent results and resilient results. We continue believing and investing in Fras-le, which is a success case.

Before closing, I'd like to express my solidarity to all the people affected by the floods in the state of *Rio Grande do Sul*. The state is in a calamity state more than material losses were concerned in preserving the life and the safety of our employees and their relatives. We took many measures apart from offering services and support channels to all those affected by the floods. We are also working to rebuild the state through Instituto Elisabetha Randon, and we have on the screen the data if you want to contribute. The data is here. We want to keep our stakeholders informed about these floods in the state of *Rio Grande do Sul*. We are sure that the state will recover and will leave the situation stronger and more united.

Now I'd like to pass the floor to Paulo who will continue the presentation.

### **Paulo Prignolato**

Good morning to all who are here in our conference call. I echo the words of Sergio. We have solidarity. We're doing our best to minimize the impact of the floods in the lives and safety of the people and the communities where we are present. We will continue this way knowing our role and our responsibility in terms of society.

Now talking about what we see in the business environment in Q1 2024, I highlight some important factors concerning demand. The interest rate, Selic, had a drop reaching 10.75% a year, stimulating the domestic economy with lower costs for financing. The inflation and the price of raw materials did not have significant changes. Concerning exchange rate, the US dollar is worth five *reais* (BRL) at the end of the quarter, and this is a healthy level for our business. Finally, concerning the Harvest for 2024, we highlight that it should be the second largest harvest in history in Brazil. Despite the drought in the Midwest at the beginning of the year, we see no negative impacts from agribusiness in Q1, but we are alert to possible changes of scenarios and their effects.

Now talking about the numbers of commercial vehicles, you can observe that we had an important recovery in the production of trucks in Brazil in this quarter. OEMs reactivated some shifts and they have a good portfolio of orders. In sales we also see a drop in comparison with Q1 of the previous year, but this happened especially due to the high level of inventory of vehicles with Euro five engines at the beginning of last year. The semi-trailers remained with good demand in the Brazilian Market a little higher than in the same period 2023, and this has helped the segment sales to agribusiness, especially the product grain with fourth axle and the continuity of renewal of tank fleets. The negative point is exports, the drop in the US market and some countries in Latin America this is the main factor for the drop in volumes for exports from Brazil.

Now concerning the replacement market, the market is on a good level with the sale of new vehicles still on a low level due to high cost of acquisition and difficulty in financing. There is a strong demand in used trucks.

We see now the main indicators of Q1 2024. What impacted was the lower smaller number of work days in Q1. We had to update our ERP, our SAP, reorganization in plants, and holidays. So without these facts, we had 5% more than last year. Our margins were also had an impact due to a shorter quarter which really affected the EBITDA. Without this impact, our consolidated EBITDA margin in relation to Q4 2023 would have been 3.7 percentage points. Concerning net profit, the drop is explained by the factors we already mentioned, together with greater distribution to minority and also losses due to lower estimates of recovery of tax losses.

Now going to finance, we have important movements to share with you concerning our debt. We work to decrease the average cost of our debt and to lengthen the payment terms, apart from diversifying financing sources. We took out two loans in Q1 2024 that enabled us to really make progress. A loan with BNDES for exports incentives and IFC that you heard through a material fact explained in the last conference call. More recently, in April, we announced a new issuing of debentures mentioned by Sergio. This will enable us to improve even more the profile of our debt and amortization schedule. Here on the screen, we see the history of the net debt without Randon Bank. You can see that in the last 12 months, we went from 2.5 billion in debt to 1.9 billion in debt. Leverage remained controlled on a low level during the whole period showing our commitment with a solid financial position.

Now talking about our shareholder base, I highlight that we reached an expressive number of investors, close to 53,000 shareholders, so 10% more than in last year. The profile is very similar to the end of last year with a growing participation of

foreigners as shareholders. Our market cap was 4 billion reais (BRL) at the end of the quarter, advancing 72% in relation to the closing of Q1 2023.

Another point I'd like to highlight is our history of the payment of dividends, apart from being a company that grows its revenue and margin, we're also a value company. Concerning 2023, we distributed 46% of net profit, more than the minimum established by our statute, which is 30%.

I would also like to thank the analysts and investors who voted for our public meeting in 2023, Randoncorp Day, to be one of the 10 best evaluated by APIMEC, our long-term partner. The date of our next event is defined and will happen on June 19 in *São Paulo*. Soon, our IR team will give you the save the date, official save the date. We want you to participate, it's a very rich moment when we will share fundamental information about our company and our strategy.

Now I'd like to pass the floor to Esteban who will continue with the presentations.

**Esteban M. Angeletti**

Good morning, it's very good to be with you in our conference call for Randoncorp. As of this quarter, we will show the consolidated numbers detailing the main highlights in each one.

As Carol said in the beginning of the conference call, we accepted your suggestions and this change is part of your suggestions.

Beginning with net revenue, Paulo already brought us some data about the performance. Our revenue reached 2.5 billion reais (BRL) in Q1 2024 which represents a drop of 4.5% in comparison with the same period previous year. In general, the main factor of impact was the drop in the number of work days. The update of the SAP ERP apart from requiring a stop in the beginning also had an impact on the following week concerning the use of the systems linked to production especially in OEMs which affected the production rhythm in the period.

We show on the screen some graphs that show the distribution of net revenue by vertical and by sector. As you can observe, it was a quarter that was very balanced in terms of the revenue with 30% for each vertical and 10% for Services and Technology. The sectors responsible for most of our revenue were replacement, agro-industry, and foreign market.

When you look at the causal graph at the bottom of the screen, we see the variations in revenue from Q1 2023 to Q1 2024 by sector, and I highlight industrial segment had a growth of sales especially due to good demand for tanks with renewal of fleets. Services that grew with pool sales due to the expansion of credit and also sales in DB, Urban mobility in Auto Parts and also buses. Agro-business which was affected especially by the lower availability of products by OEMs due to the factors we already mentioned. Replacement due to the drop in work days which had an impact on the billing and the foreign market which had the largest drop due to a drop in sales of semi-trailers in the US and a drop in exports of many of our products to Latin American countries.

We're working on alternatives to mitigate these impacts looking for other sources of revenue since right now there is no sign of recovery of better sales in the US.

Looking at international sales, you can see here on this graph the drop in the regions I mentioned. So, I would like to highlight an increase in EMEA especially due to the acquisition of Juratek in England in March 2023 adding important revenue to the company. With all this scenario in the foreign market, the percentage of international sales on consolidated net revenue went from 23% in Q1 2023 to 18% in Q1 2024.

Now EBITDA and EBITDA margin, the main highlights were less dilution of fixed cost due to a drop in workdays in the quarter and negative effects of the drop in revenue from the export market which have better margins than in the domestic market and non-usual expenses linked to provisions accruals already mentioned by Paulo which affected OEM and Movement Control.

You can observe on the graph the distribution of consolidated EBITDA.

Concerning organic investments made in the quarter, we had a growth especially in auto parts. The most of it refer to new plants in the city of Mogi Guaçu, Castertech and Suspensys. In Movement Control, we made investments in the green boiler and substation of Fremax, both based on sustainability which will allow us to reduce our emissions of CO2. The great highlights were the investments in semi-trailers a modular system in Araraquara is being expanded and new resources are foreseen for this project.

Thus, we'd like to close our presentations and now I pass the word to Carol to begin our Q&A session.

### **Caroline I. Colleto**

Thank you, Esteban, Paulo, Sergio, for the presentations. Once again, we thank you all for participating in our conference call and especially for the messages you have sent us, the solidarity with everything we are seeing here due to the floods in our state.

Now, we'd like to begin the Q&A session. We will have the information on the screen; we have some questions, but you can participate by audio or zap.

So our first question comes from the analyst of BTG, Lucas Marchiori. Lucas, thank you for participating.

### **Lucas Marchiori**

Thank you. Good morning, I would like to express our solidarity.

Two topics. The first, I'd like to hear from you an update about the truck market. What is your projection? Have you Vehicles, Road implements?

And second, looking at ROIC, please tell us the main levers for improvement in ROIC during the year. What are the verticals candidates for improvement? What are the main initiatives to accelerate ROIC during the year? Thank you.

### **Davi C. Bacichette**

Lucas. Thank you for the question.

Beginning with the issue of markets, I will ask Sergio to comment on how we see the evolution during the first months, and then I will ask Esteban to comment on ROIC together with Paulo.

Thank you. Sergio, if you can begin with markets.

**Sergio L. Carvalho**

Yes, my camera is on, but someone has to enable it.

Thank you, Lucas, for the question.

Our vision concerning the domestic market, especially trucks. Your question is about trucks. Our vision is very positive for the year in Brazil. We showed an increase in production, a substantial increase in production. I'm trying to turn on my camera. Our vision is very positive. OEMs are adding production capacity, we believe we will have a good year in trucks, a very positive year. The beginning of the year, this quarter, they are well-aligned with this vision.

Semi-trailers in Brazil, Paulo already touched upon this, very positive to semi-trailers, we have an expectation we're in the most critical months there is a pause between April-May, but after May, we expect better volumes for semi-trailers from agribusiness. We're very comfortable in relation to semi-trailers in the beginning of the year, very positive.

Replacement, looking at maintenance and the garages, we see a healthy situation for replacement parts. This is important for us, very positive.

And our concern, as mentioned by Paulo and Esteban, is due to international sales, our exports and production outside Brazil are centered in the Americas, South America, North America. The performance of the economies there, are restrictions and difficulties in the economies in Central America and in the US. Semi-trailers, this segment, we were expecting a downturn already in the economy, and semi-trailers had a strong drop. Some segments had significant drops, and heavy trucks in the first semester continues with the drop, but we know that the second semester will be different.

The domestic markets, in the domestic market, we are very positive. Our concern is with export sales. Having said this, foreign sales, talking about continuing, we continue to increase our internationalization effort. We know that there will be peaks and valleys. We have a long-term plan and vision, and we will continue with our long-term plan and vision in terms of internationalization.

**Esteban M. Angeletti**

Thank you, Sergio.

Lucas, the second part of your question, thank you for the question.

Concerning ROIC, first, I have to say, we want to have a return above the cost of capital invested. We have this goal. All the projects we analyze, this is one of the assumptions that is important.



Now, looking at ROIC, looking at denominator, I believe we have two highlights, Lucas. First, working capital, you saw that we had an increase in Q1 versus Q4 last year but much less than in previous periods, and this is due to all the initiatives we have made to reduce working capital. I mentioned some of you in the market in our meetings; Randoncorp is like a cruise ship, when you make changes, you have to wait for two or three quarters to see the effects. We're seeing this effect in the first quarter, the trend is to have less capital invested, helping the denominator.

Now concerning CAPEX, we always want projects that will add value to the company with a return above the cost of invested capital, you saw that in Q1, we restricted CAPEX to be sure of what we would do, but the plan continues.

Now talking about verticals, Sergio also mentioned in his previous speech in Q1, especially in OEMs, we had a combination of factors that were bad for the result of this vertical, but we believe that this will be beneficial in the future. Investments made in the new ERP system, new SAP system, and upgrades in plants, a new paint system which will give us more efficiency and lower cost. I believe you heard the call yesterday; just repeating it, we have a good we see garages working well, repair shops working well, and we see growth in Auto Parts when we compare net revenue, there was a growth of 5%, but when we compare by workday, this growth was higher, closer to 14% by workday in Auto Parts. It is linked to the production of trucks, and we saw the new numbers for truck production in April with a robust growth, 60% growth. So this shows that we're on the right track; the market is helping us to sustain this ROIC or to have a ROIC above the cost of capital.

**Lucas Marchiori**

Thank you.

**Caroline I. Colleto**

Well, our second question, Gabriel Tinem, analyst at Sell-side, Santander.

Thank you, Gabriel.

**Gabriel Tinem**

Good morning. Thank you for the opportunity.

Two questions, the first is focused on products in the US; give us some details about this operation in the US and volumes export, and also Hercules; how about the improvements in the plant? What do you expect?

A second point focused on the domestic market on semi-trailers; we see a great drop in market share due to the change in the SAP system in the beginning of the year. During Q2, what will you do to recover? Will anything new be necessary to recover?

**Davi C. Bacichette**

Thank you, Gabriel. I will pass these two questions to Sergio. The first on Hercules and the US market, semi-trailers in the US, and the actions in Hercules, improvements in Hercules, and also the second point, market share was below usual, but as you said, we mentioned the impacts; one of the reasons why this

happened. If you can give us more detail, and also in the future, what we can expect. Thank you.

**Sergio L. Carvalho**

Perfect. Gabriel, thank you for participating.

The market, as I mentioned, for semi-trailers in the US, is the first to reflect the problems in the economy. Two years ago, a recession was expected; thank God it did not happen, but there was a slowdown in the US economy, and semi-trailers is the first to show this. The segment in Hercules had a very large stop in the department of containers, so we're developing other product lines, other platforms to participate in other segments, and this project is in progress. We are seeing the first signs of the first orders for container holders at Hercules, but semi-trailer as a whole, as I mentioned, is the first to be affected and the first to recover. So we already have some signs that semi-trailers as a whole, the net order intake level is improving. We invested a lot to improve the work conditions and safety conditions of our employees in Hercules, to use better manufacturing processes so that our operation is better prepared today. It is no longer similar to the operation we acquired; it is much better organized, better processes, better health, and better safety for our employees. We are ready for the recovery in the US market as I said, expanding the number of products we produce in Hercules however the exports we had last year to the US market aren't occurring right now, due to the situation in the US market.

The second part of your question has to do with the Brazilian market. In this quarter, if we look at the last 12 months, we have a leadership position. We lost volumes, yes, in the beginning of the year due to the reasons we explained, we launched a more efficient and modern version of our SAP, our ERP, and this provoked a stop in production. Since the end of last year, we lost production days, at the end of 2023, and also in the beginning of the year. So we began the year with a lower inventory; we had less days of production. Many peripheral softwares that talk to our traditional ERP, we had problems too, and this also had an impact on our production capacity. So, we began the year with less inventory, and the market was better than we imagined, and with additional difficulties. that's why we had a smaller production, having said this, all of this has already been solved; we have everything realigned, and we continue with production levels that are higher now, much higher. And I am sure that our volumes will recover, and our market share will go back to previous levels. So, we trust that this is only during this period, these problems.

**Gabriel Tinem**

Thank you, Sergio.

**Davi C. Bacichette**

Thank you, Sergio. We received a similar question from Andrei Morosanuda, so it was answered concerning the US market for semi-trailers.

**Caroline I. Colleto**



So now we have the third question by audio, Andre Ferreira, analyst Sell-side at Bradesco.

**Andre Ferreira**

Good morning, thank you. I have two questions.

First, can you explain better the reorganization of the plants? Will you have a positive impact in margin in Q2 with the upgrades in plants?

And also, if we adjust margin of implements with the EBITDA margin becomes stable, even with a relevant drop in revenue and volumes. Looking at road implements in April, we see a 27% increase, so I'd like to know, road implements, without these impacts, is it prepared for higher EBITDA margin in Q2?

**Davi C. Bacichette**

Perfect, Andre, thank you for the question.

The first, I'd like Sergio to answer concerning the upgrades in plants, reorganization of plants to improve efficiency, and the second question for Esteban concerning Q1, our margins. We have the 11th emission of debentures, so we have some restrictions in terms of talking about projections for the next quarters. We will try our best to explain the benefits we may have in margins with investments we have made.

So, first, Sergio, then Esteban.

**Sergio L. Carvalho**

Thank you, Andre, for participating, for the question.

Andre, we had many actions linked to increased capacity, optimizing our plants, within for OEMs. One of them is a new paint line, which is bringing gains not only in productivity but also benefits in relation to the environment.

We also had a realignment in terms of what we produce in which plant. With this realignment, we were able to have more production capacity. For example, products in Caxias do Sul went to Erechim plant. Traditionally we had all the bases in Caxias do Sul, so now we began in the southwest production in, for example, products for semi-trailers, closer to the markets, so these transfers of production lines to other plants, optimizing mix and productivity, investments in new technologies, and production of structures in other locations, this is what we mean by the upgrades and changes we made in our plants.

**Esteban M. Angeletti**

Thank you, Sergio. Andre, the next part of my answer is linked to what Sergio just said about these projects to gain efficiency. Apart from this automation, new equipment, reorganization in plants, I would include new products in modular lines with lighter products.

So, modular systems that are much lighter, so better efficiency for our clients. So, this motivates clients to renew their fleets with lighter products, and with this, we can see a recovery of market share.

But you are correct, Andre. If we adjust OEM margin without non-recurring effects, it would be stable. We believe that from now on, when we add these efficiency gains and additional automation, this should help us to improve even more margins.

Finally, the last point we should today our breakdown of revenue how we are balanced among verticals each one representing 30% so 60% of industrial revenue is coming strong apart from the revenue of services automation technology which has helped Randoncorp, so apart from better margins from OEMs we have the rest of our portfolio business with a positive contribution.

**Andre Ferreira**

Very clear, thank you.

**Caroline I. Colleto**

Now, the next question is from Fernanda Urbano, Sell-side analyst from XP. Thank you, Fernanda.

**Fernanda Urbano**

Good morning, thank you. We wish a lot of safety for the employees who are in risky areas in the south of the country. I believe you explained all the points that we have. In terms of OEMs, I have a follow-up question regarding competition and market share. Do you see the possibility of higher prices, according to your product mix? The second question, thinking of the new plant in *Mogi* for Suspensys, can you tell us about the investments and when you will inaugurate, in Q1 2025?

**Davi C. Bacichette**

Thank you. The first is for Esteban, about market share and market competition, and then Sergio if you can talk about the progress in the new plant, both Castertech and Suspensys, the two plants in the city. Thank you, Esteban.

**Esteban M. Angeletti**

Thank you, Davi. Fernanda, thank you. Well, I believe we explored well the market for semi-trailers; the volumes are in Brazil, the market exists, the demand exists. We will have the second-largest harvest in Brazil, so there will be a great need for transportation, also with the winter crop for corn. We've had reviews showing higher volumes, and this to say that competition is there, yes, but it is not a predatory competition. There is no price war in an aggressive way that could hurt the industry as a whole. So, there is more and more consolidation among the main players. We haven't seen any predatory competition. About Market share that Sergio mentioned, Q1 suffered with a combination of negative factors, I don't want to repeat them, but we believe in a recovery with gains in production that we will have in Q2 and also greater availability of inventory too. Sergio, please comment on our operations in *Mogi Guaçu*.

**Sergio L. Carvalho**

Fernanda, thank you for participating. Everything is going well in *Mogi Guaçu*. We have, as Davi said, two new activities there: Castertech, foundry, machining. This operation had a small delay due to strikes and difficulties in receiving some new

equipment due to a strike. Also, importing was affected, but we overcame this. We are already beginning production at Castertech, products that are very necessary today. We buy many products from suppliers that we will produce at Castertech, so we're foreseeing improvements in productivity with local production at Castertech in *Mogi Guaçu*. There, we also have the construction of the new plant for Suspensys, which is on track to begin production in the Q1 2025. We are having a good performance in the schedule; we're industrializing this new activity. So, we're doing very well.

**Caroline I. Colleto**

Thank you Fernanda. Next question, Luiz Otávio Capistrano, analyst Sell-side at Itaú BBA. Good morning, Luiz, thank you for participating.

**Luiz O. Capistrano**

Good morning. I'd like to begin by thanking you for your time during these difficult times with the floods in your region. Let's hope this situation will end. Concerning trailers in the US, well, you already answered. I'd like to hear concerning the next few years. Some players are talking about new regulations in emissions in 2027, but with a limited capacity of industry in the US, you could have an improvement in 2025. We may see a valley in demand this year and two good years, 2025, 2026. I know it's a little early to talk about this, so let's talk about 2025, 2026. Do you see this?

**Davi C. Bacichette**

Thank you, Luiz. Well, Sergio, please talk about the US market in the next few years, although we know it's long-term, okay? Sergio.

**Sergio L. Carvalho**

Perfect, Luiz, thank you for the question. Luiz, I'm part of an entity; it's like Anfavea and Sindipeças in the US. I just came back a week ago, we discussed exactly this point and what you said is very aligned with what we discussed there. Yes, there's the EPA, there's the EPA in the US with different demands to reduce pollution. The criteria is different, the macro objectives are the same but the way they will do this is different.

Yes, 2027 will bring a new regulation for emissions and the US fleets. Based on previous experience, they know they will not be able to wait until 2026 to begin the pre-buby, so the expectation is that in 2025 volumes will begin to grow in the US due to the changes in 2027. When you look at the long term and you normalize the peaks and valleys, the market is always growing. So you asked what happens after the pre-buby, so in 2027 will we have a reduction? It may happen but if you look at the horizon there is growth.

One of the great players in the US market just announced the launching of a new truck plant to be prepared for this new situation. So for us, Randoncorp, it is favorable. So greater participation in the US market not only semi-trailers but Auto parts at a time when the market is saying we will grow and we will grow a lot.

**Luiz O. Capistrano**

Thank you Sergio.

**Caroline I. Colleto**

Thank you Luiz. So now our next question from Andressa Varoto, good morning Andressa, thank you.

**Andressa Varoto**

Good morning. First, I'd like to express our solidarity to all the population in the Rio Grande do Sul. Let's hope you will recover well from the floods.

There's an issue, a question within Auto Parts. We're seeing the truck market production reacting, recovering year after year. And we had the problem of the new SAP as you mentioned and also cast products for aggro. We know there is a drop in this sector and also a reduction in volumes to OEMs.

So how can we foresee the revenue from this vertical? Like you said in April we saw an increase, a 60% increase in the production of trucks. How do you see revenue of Auto Parts reacting to higher production of trucks? Thank you.

**Davi C. Bacichette**

Thank you, Andressa. I will pass this point to Esteban, reminding you that we had in Q1, despite the new SAP program, not only OEMs were affected, but all verticals. However, Auto Parts was able to grow in revenue in comparison with Q1 last year, even with six work days less. Esteban, please give us more details about the market and what can affect Auto Parts.

**Esteban M. Angeletti**

Thank you, Andressa, thank you for the question. We see that we're aligned with Fenabrave. There's an expectation of growth in production, then to 30% depending on the family of vehicles, and Auto Parts is directly linked with the growth of production of trucks.

Auto Parts has four main sources of revenue: contracts with OEMs for the main truck OEMs in Brazil, we have a second source supply to semi-trailer producers like our Auto Part supplies to Randon, we also supply to other semi-trailer producers. The third front, aggro, yes, is seeing a drop in demand, and the fourth source replacement parts with a market where we want to grow, and the fifth point would be export market production in foreign plants.

Going back to trucks, what we see in Q1, the main effect is that we adjusted our ERP system. If we exclude these effects, if we look at the revenue by workday, we grew 15% in Auto Parts. If you look at the revenue by workday, reminding you that in the distribution of the year Q1 is the weakest because of vacation and Carnival holiday especially between January and February are very slow months. Q2 Q3 are stronger in terms of workdays and production, and finally this year in November we have the Fenatram trade show which should require additional production in Q4 or Q3.

**Andressa Varoto**

Thank you.

**Caroline I. Colleto**

Our next question, Felipe Lenza Sell-side analyst at Citi Bank, good morning Felipe. Thank you.

**Felipe Lenza**

Good morning. First of all we like to express our solidarity. My question, Randon is working with outsourcing, are you working on total outsourcing?

**Davi C. Bacichette**

Thank you. Paulo, please comment on Addiante and the business to answer this question.

**Paulo Prignolato**

Good morning to all. Good morning Felipe, thank you for your question and also the solidarity concerning Addiante. We are doing very well, continuous growth, and we want an edge in Addiante with a service package. Addiante offers a service package; this is our objective: to have maintenance or offering Telemetry services. So the objective of the partners for Addiante is this, a complete package not only assets but also services.

**Felipe Lenza**

Thank you.

**Caroline I. Colleto**

So our next question, Marcelo Motta, analyst at JP, good morning Marcelo, thank you.

**Marcelo Motta**

Good morning. Also, our solidarity for we hope the problem of the floods will end. Two points, first railway cars, so quarter after quarter we're expecting a recovery in Railway cars. Do you have anything to say? And also tax levels, they are higher, the government is increasing taxes. Can we expect lower income taxes in the future? Thank you.

**Davi C. Bacichette**

Thank you, Motta. The first I will pass to Esteban about railway cars and our expectations, and second to Paulo if you can answer. Mr. Antonio Rizzo is also asking the same thing so we can answer these two questions about taxes.

**Esteban M. Angeletti**

Thank you, Motta. Thank you for the question. In OEMs, apart from semi-trailers and parts, in the last five years, we have had small volumes in railway cars. This year we're hoping to have a better year than last year. We have already sold 180 Railway cars for Vale, a Mining Company, to be delivered in the second semester. Regarding new orders, we have some companies requesting orders. The market is smaller than what we expected, but there are signs of recovery, and this recovery comes from two factors: the main operators of railways renewing their concessions

and investing, and the second, they have studied to increase the efficiency in terms of the number of railway cars pushed by locomotives. This will bring new needs in terms of railway cars, so we have these orders we are negotiating two other orders, and in the future, we hope more investments on the part of railway companies. Paulo, please comment on taxes.

### **Paulo Prignolato**

Motta, thank you for your question, also your message concerning solidarity. Concerning income tax, we follow the guidelines of CPC 32. We have a policy, and we consider always the next 10 years. What changed in this quarter was the non-recording of taxes on tax losses in some of our companies, always reminding you that it is not lost, it's off-balance, it continues there, and when we re-evaluate these projections, we can go back to our results. So we consider this as being something temporary. We can't say it's going to change in Q2 or Q3, but we can say that it's temporary. That was the main factor in income tax.

### **Marcelo Motta**

Perfect thank you, Paulo.

### **Davi C. Bacichette**

Well, I will go on to the next question, same question as we received from four analysts: Pedro Soares, Mateus Varela, Débora Borges, and Larissa Vilar, requesting to know about the situation in the state, the floods, the impact on our business. So, Sergio, I will ask you to answer about the floods. Last week we stopped production for two days, so please talk about our plants in the south of the country.

### **Sergio L. Carvalho**

Thank you, all of you, for the solidarity. It is the greatest catastrophe in our state, and the state has already had a hundred deaths due to the floods. People without houses, a very delicate situation. On the positive side, our culture is the following: let's face the problem, let's work together, so solidarity is unique, very strong. We have had support from the rest of Brazil. So many good things happening with the support coming from the rest of the country. For us in Randoncorp, we are working, but thousands of employees lost their houses due to avalanches, those who lived close to hills, especially near the mountains. We quickly organized our crisis committee in Frasle Mobility. On Tuesday night, we began our actions. On Thursday, we had to paralyze some operations, some plants, and this continued until Sunday. On Sunday night, we recovered almost all the operations, with one exception: our Controil company, which is part of the Frasle Mobility group. The plant was flooded, and this single plant continues paralyzed. So, our operations are back since Sunday night, almost normal. Auto Parts, Friction Materials, all our local plants began working on Sunday night or Monday morning. We began to use other alternative roads. We have routes that are a little longer than the original routes, but we're being able to ship products and receive raw materials.

Our greatest concern right now is with Controil in the city of *São Leopoldo*. The plant was flooded, and in the lowest part, we have some water still, but we don't



have a clear vision of when we will begin producing in this plant. Our people from DB Server in *Porto Alegre*, it's not a plant, it manages software, this company, it is in the capital and was affected by the flood. Homeless in the region of São Leopoldo and Porto Alegre are very high. We have 450 employees of Controil that are homeless, 1/3 is homeless, and also in DB, 36 families are homeless. We supplied food yesterday, we continue with our efforts to help them. We're very concerned with illnesses due to the floods so we have preventive measures, vaccination too. We're concerned, today it rained, but not very strongly, so in the next few days also we will have rains so if things don't get worse, we hope to know more clearly when the plants will produce again.

Our company as a whole has had a great effort in engagement, giving support not only to our employees but also the communities where we are present. We're working long hours, and we will continue making efforts in this direction. As I said, it's the greatest catastrophe we already had in the state, and we're working in the right direction, taking care of people first of all, and now rethinking the support we will continue to give to all these families affected. So, it's a very difficult situation, some families lost everything, so our support will always be fundamental.

**Davi C. Bacichette**

Thank you, Sergio. Another question in writing from Mr. Antonio Rizzo. Paulo, for you, he wants to know about monetary correction that we have seen in Argentina and the impact we saw in the quarter, so please comment on Argentina.

**Paulo Prignolato**

Mr. Antonio, thank you. You should remember that in Q4 last year, we had a negative accounting effect concerning our results in Argentina due to a great devaluation of the exchange rate of Argentina, the peso. What we saw in Q1 was a stable exchange rate in Argentina. The country is being able to reduce its inflation rate. There's a lot to be done still, but bearing in mind that the inflation is dropping and we had a roughly stable exchange rate in this quarter, the effects in Argentina were positive because we have in that country assets, our industrial plants, plots of land, our inventories. So these assets have their value in strong currency. Based on the stability of the local exchange rate, there were good financial effects. So this is the main situation in terms of our operations in Argentina.

**Caroline I. Colleto**

Thank you Paulo. Now the last question for today from the analyst Sell-side at Bank of America, Gabriel Frazão, Gabriel.

**Gabriel Frazão**

Hello, thank you. I have a question on Auto Parts. The greater production of trucks we will see this year is positive, but you will have to outsource some processes that you internalized last year. What will be the net impact on margin with the growth of margin in 2024? Thank you.

**Davi C. Bacichette**

Thank you, Gabriel, for the question. I will pass this to Esteban, reminding you that outsourcing is for Castertech due to their capacity.

**Esteban M. Angeletti**

Thank you Gabriel. In fact, you are correct. There is this expectation of higher volumes, more trucks this year, a stronger production of trucks. Last year, we had the change from Euro5 to Euro 6 engines, but most of the contracts of Auto Parts that we have are negotiated with the OEMs with a certain spread. We don't have great drops due to dilution of fixed costs. There is the impact of outsourcing of part of the production of Castertech. On the other hand, as it is true that we're working on efficiency and productivity, also this is true in the other verticals too. We always challenge our team with monthly follow-ups concerning the initiatives and the effects. So, there is a balance. For example, greater outsourcing at Castertech is compensated by greater efficiency in other plants.

**Gabriel Frazão**

Very clear thank you.

**Caroline I. Colleto**

So we'd like to conclude the Q&A session. We thank you all for participating, more than 10 questions, a record in our conference calls. And now I pass the floor to Sergio for his final comments.

**Sergio L. Carvalho**

Thank you, Caroline. Once again, I'd like to thank you all for participating. Thank you for the solidarity. As I say, we are all available for further clarification you may need. If you have more questions, please call us. We wish you a good afternoon and we will meet again in the next meeting, the next call.

**Esteban M. Angeletti**

Goodbye everyone, thank you!

**Davi C. Bacichette**

Thank you all.

**Caroline I. Colleto**

Goodbye, thank you!

**Paulo Prignolato**

Good afternoon everyone, thank you!