2Q24 Nexa's Transcript
Earnings Call and Q&A

Participants:

I - Mr. Ignacio Rosado – CEO of Nexa Resources
J - Mr. José Carlos del Valle – CFO of Nexa Resources
R - Mr. Rodrigo Cammarosano – Head of IR & Treasury of Nexa Resources
L - Mr. Leonardo Coelho – Senior VP of Mining Operations of Nexa Resources
O - Operator

O – Good morning and welcome to Nexa Resources Second Quarter 2024 Conference Call. [Operator Instructions].

I would now like to turn the conference over to Mr. Rodrigo Cammarosano, Head of Investor Relations, for opening remarks. Please go ahead.

R – Good morning, everyone, and welcome to Nexa Resources Second Quarter 2024 earnings conference call. Thanks for joining us today. During the call, we will be discussing the company's performance as per the earnings release that we issued yesterday. We encourage you to follow along with this on-screen presentation through the webcast. Before we begin, I would like to draw your attention to slide number 2, where we will be making forward-looking statements about our business, and we ask you to refer to the disclaimer and the conditions surrounding those statements. It is now my pleasure to introduce our speakers. Joining us today, is our CEO, Ignacio Rosado, our CFO, José Carlos del Valle, and our Senior Vice President of Mining Operations, Leonardo Coelho. So now I will turn the call over to Ignacio for his comments. Ignacio, please go ahead.

I – Thank you, Rodrigo. Good morning, everyone. Thanks for joining us today to go over our second quarter results of 2024. Please, let's move to slide number 3 where we will begin our presentation with the main highlights of the quarter.

Let me start by saying that we had a strong second quarter results. We have been witnessing positive momentum for commodity prices from the end of the first quarter, which has been sustained throughout the second quarter. Our solid operational performance and financial results reflect our commitment to our strategy and our focus on executing our priorities, as well as our efforts to optimize key investments and initiatives. In the second quarter of 2024, consolidated net revenues were US$736 million, up by 27% quarter-over-quarter, mainly due to higher LME prices and increased smelting sales volume. Year-over-year net revenues were up by 17%. Adjusted EBITDA in 2Q24 was US$200 million, 64% higher compared to the US$123 million in the last quarter. This performance was attributed to higher by-product contribution, higher zinc prices, and increased smelting sales volume. Compared to 2Q23, Adjusted EBITDA increased by 180% from US$72 million. Our net leverage ratio in the 2Q24 was 2.72x versus 3.75x in 1Q24, and 2.83x in 2Q23. This results reinforces our commitment to our strategy and our healthy and steady business fundamentals. Now, let me talk about the operational performance of Aripuanã. Throughout April, May, and June, the plant increased utilization rates, delivered stable concentrate quality and improved metallurgical recoveries that contributed to a solid Adjusted EBITDA. In June, we achieved a positive operational cash flow generation. These factors confirm the transition of Aripuanã to an ongoing operation. I will dive deeper into the key drivers of Aripuanã later on in the presentation. Let me also emphasize that our Cerro Pasco Integration Project continues to advance on all fronts, and we expect its approval in the upcoming months.

Our brownfield exploration program in the second quarter advanced toward expanding our portfolio and aimed at increasing the life of our mines. That said, our drilling strategy for this year is on track. We are focused on near-mine expansion, brownfield, and infill drilling. As previously disclosed, we announced the divestment of Morro Agudo at the beginning of April, and on July 1st, we announced the closing of the sale transaction. Under these conditions, mining activities ceased at the end of April. The sale of Morro Agudo is an important step in our portfolio optimization, which is a central part of our strategy to improve cash flow generation and returns. This focus allows us to concentrate our efforts on our most attractive operations. Additionally, in April, we concluded important transactions in line with our liability management strategy. These transactions included extending our debt profile through the issuance of new debentures and bonds, as well as conducting tender offers. This strategic move allowed us to optimize our financial structure, diversify our funding sources, and enhance our liquidity position. José Carlos will provide more details on this topic in his presentation. Now let's move to slide number 4 to discuss our operating performance.

Regarding the operating performance of the mining segment, zinc production reached 83kt in 2Q24, up 2% year-over-year, primarily due to higher zinc average grades, particularly at Cerro Lindo. Compared to 1Q24, zinc production decreased by 5% due to lower volumes from the Peruvian mines and the absence of contributions from Morro Agudo in May and June 2024, following the sale of this asset. In terms of cash cost, in 2Q24, it decreased to US$0.03/lb compared to US$0.37/lb in 2Q23. This decrease was mainly due to higher by-product contribution, driven by higher copper and lead prices, and lower treatment charges in the period. Compared to 1Q24, mining cash cost decreased by US$0.24/lb, impacted by lower treatment charges and higher by-product contribution. The cash cost in the first half of this year performed below the lower range of our guidance. The cost per run of mine for the quarter was US$49/t, up 10% year-over-year due to lower treated ore volumes, and up 7% quarter-over-quarter, mainly explained by higher third-party services and higher personnel costs. The cost per run of mine in the first half of this year was within our guidance. Now, moving to slide number 5.

Regarding the operating performance of the smelting segment, metal sales totaled 148kt in the second quarter of this year, down 1% from 2Q23. Compared to 1Q24, metal sales increased by 7%, driven by higher production volumes at Cajamarquilla and Juiz de Fora. Smelting cash cost in 2Q24 was US$1.19/lb compared to 1.12/lb in 2Q23. The increase is mainly attributed to higher raw materials costs due to higher zinc prices and lower treatment charges. Compared to 1Q24, cash cost rose by 21%, also impacted by higher zinc prices and lower TCs. Our conversion cost was US$0.30/lb compared to US$0.32 per pound in 2Q23 due to improved operational efficiency in the period. Compared to 1Q24, conversion cost was relatively flat. I would like to highlight that both, cash cost and conversion costs in the first half of this year performed within our guidance. Now, moving to slide number 6, where we will start talking about Aripuanã.

The solid operational performance of Aripuanã and its improved financials, mark an important advance in the second quarter. Our efforts focused on plant stabilization, continuous improvement of feed and utilization rates, enhancing metallurgical recoveries and concentrate quality, as well as reducing downtime hours. In June, the average utilization rate was 81%, with many days operating above 90%. Treated ore improved significantly by the end of the quarter, reaching 133kt, a 32% increase compared to march. In July, we expect to treat more than 140kt of ore, and we aim to achieve a target capacity of 160kt per month by September. At current treatment levels and with improved grades from the Link and Ambrex orebodies, we anticipate further production improvements that will continue to improve our margins. Regarding Aripuanã's financial performance, we noted a significant improvement this quarter, with positive Adjusted EBITDA for the second consecutive quarter and positive operating cash flow in June.

These are key milestones that reaffirm the asset's solid progress. Looking ahead, we expect further increases in plant feed and throughput rates, improved concentrate grades, higher metal recoveries, and cost reductions. In the next slide, we will provide more details on Aripuanã's operational performance for the quarter. Now, moving to slide number 7.

Starting with the capacity utilization in the upper left side, we noted that it performed at 81% in June based on the designed capacity. When considering the 90th percentile for the month, the performance was 86%, indicating solid progress in plant reliability. In the upper right side, which shows plant downtime measured in days of corrective maintenance, we noted a significant decrease. This indicates also an important improvement in plant stabilization. At the bottom of the slide, both, metallurgical recoveries and concentrate grades are performing at or near target levels, and in some cases, surpassing those levels. As mentioned earlier, this solid operational performance and improved financial results, confirm the full transition to an ongoing operation and mark an important milestone in Aripuanã. Now, moving to slide number 8.

On this slide, I would like to highlight our progress with the advanced technical studies for the Cerro Pasco Integration Project. As we have discussed in previous calls, this project has the potential to unlock significant value for Nexa. We have made substantial progress across the four key work fronts, completing important steps such as engineering for the underground mine connection and the El Porvenir shaft upgrade. Additionally, we have advanced the engineering studies of the tailings pumping system, which will allow us to pump tailings from El Porvenir to Atacocha. Significant progress has also been executed on the plant's engineering assessment, which represents opportunities to enhance processing capacity. Support activities, including technical reviews and environmental studies and permits, are also advancing as expected. In March, we issued a technical report on the joint operations of El Porvenir and Atacocha, reflecting some of the benefits of the Integration Project and resulting in an increase in the reserves base of the Cerro Pasco complex. We are moving forward with the project, closely monitoring market conditions, and expect to submit its approval in the upcoming months. Now, I will turn the call over to José Carlos del Valle, our CFO, who will present our financial results. José, please go ahead.

J – Thank you, Ignacio. Good morning to everyone, I will continue on slide 9. As you can see, beginning with the chart on your upper left, total consolidated net revenues for the second quarter increased by 17% year-over-year. This increase was primarily driven by higher LME metal prices and increased mining sales volumes, partially offset by lower net premiums and slightly lower smelting sales volume. Compared to 1Q24, net revenues increased by 27%, driven by higher LME metal prices and increased smelting sales volume. For the first six months of 2024, net revenues totaled US$1,316 million, up by 2% from the same period a year ago. In terms of profitability, consolidated Adjusted EBITDA in 2Q24 was US$200 million, compared to US$72 million a year ago. This improvement was mainly explained by higher mining sales volumes, improved performance in our Aripuanã operation, higher by-product contribution, lower variable costs and higher zinc prices. Compared to 1Q24, Adjusted EBITDA increased by 64%, driven by higher by-product contribution, higher zinc prices, and increased smelting sales volume. In 1H24, Adjusted EBITDA reached US$323 million, up by 58% compared to the same period a year ago. Finally, it is worth noting that our consolidated adjusted EBITDA margin increased to 27% in 2Q24, representing a 16bps improvement compared to 2Q23 and a 6bps improvement compared to 1Q24. Now, let's move to slide number 10.

On the top left of the slide, we can see that in the first six months of 2024, we invested US$138 million in CAPEX, with nearly all of this amount directed towards sustaining activities, including mining development and tailings storage facilities. In line with this, our 2024 CAPEX guidance for the year remains unchanged at US$311 million. With respect to mineral exploration and project evaluation, we invested a total of US$29 million, with US$17 million allocated to mineral exploration and mine development to support our exploration activities. Following the typical pattern we see every year, we expect our investments in these areas to accelerate in the second half of 2024, and thus, we are maintaining our 2024 guidance for exploration and project evaluation at US$72 million. Now let's move on to the next slide, where I will discuss our cash flow generation for the quarter.

Starting from the US$200 million of Adjusted EBITDA, net of non-operational items, we can see that we generated a solid cash flow from operations before working capital variations, at US$133 million in the quarter. We then paid US$36 million related to interest and taxes and spent US$67 million in total CAPEX for our operations. Additionally, as part of our liability management strategy, we can see that loans and investments had a positive net impact of US$146 million. This resulted from our new bond offering of US$600 million, a debenture issuance of approximately US$130 million and a BNDES credit line of approximately US$40 million. These were partially offset by loans and financing payments, including cash tenders for part of our bonds maturing in 2027 and 2028. Furthermore, we paid US$4 million of contractual dividends to non-controlling interests. Then we had a negative impact of US$6 million from foreign exchange variations on our cash and cash equivalents, driven by the depreciation of the Brazilian real against the U.S. dollar during the period. Finally, in line with typical annual trends, we saw a negative effect of US$17 million related to working capital, a significant improvement from the negative US$125 million in the first quarter. As in 2023, we expect this working capital effect to be reversed positively throughout the second half of the year. Combining all these effects, our free cash flow generation in 2Q24 was US$149 million. Now moving to slide number 12.

In this slide, you can see that our liquidity remains healthy, and we continue to present a sound balance sheet with an improved and extended debt maturity profile. At the end of 2Q24, our available liquidity was approximately US$794 million, including our undrawn sustainability-linked revolving credit facility of US$320 million. Regarding our overall debt profile, the average debt maturity in 2Q24 was 5.9 years, an increase from the 3.7 years reported in 1Q24. In line with our proactive approach to liability management, you may remember that we successfully extended our debt maturity profile at the beginning of the second quarter. This was achieved through the issuance of a new 10-year bond, funding a cash tender offer for part of our existing notes that were due in 2027 and in 2028, while obtaining a 6-year term ESG-linked debenture of approximately US$130 million, and a new credit line from BNDES of approximately US$40 million for an 8-year term. As Ignacio mentioned at the beginning of his presentation, these transactions marked a significant milestone for the company. As a result, we now carry an average cost of debt of 6.61%. It is important to mention that as of June 30th, our total cash position is sufficient to cover the payment of all obligations maturing over the next 4 years. In terms of leverage, as measured by the net debt to Adjusted EBITDA ratio, this measure decreased from 3.7x to 2.7x quarter-over-quarter. This substantial decrease is primarily due to the increase in Adjusted EBITDA over the last twelve months and a reduction in net debt. These strategic moves have allowed us to optimize our financial structure, diversify our funding sources, and enhance our liquidity position. The extension of our debt profile is part of our ongoing optimization effort and reflects our commitment to prudent financial management and confidence in the long-term prospects of our business. Following these transactions, we will remain attentive to market conditions, as we continuously evaluate options to maintain a maturity profile that is in line with the long life of our assets and at the most competitive costs. Moving now to slide 13.

Regarding market fundamentals, it is noteworthy that in 2Q24, LME zinc price averaged US$2,833/t, up by 12% from 2Q23 and 16% from 1Q24. This increase is primarily due to macroeconomic factors such as expectations of lower U.S. interest rates and expectations on Chinese government stimulus, and fundamentals factors, such as tight concentrate market and low zinc inventories. The LME copper price averaged US$9,753/t in 2Q24, up by 15% from 2Q23 and 16% from 1Q24, mainly attributed to bullish fund manager investments, in addition to the macroeconomic factors mentioned a moment ago. Looking ahead, zinc prices are expected to remain positively supported by U.S. monetary policy, economic stimulus in China, and the current tight zinc concentrate market. In the mid to long-term, the fundamental outlook for both zinc and copper prices remains positive. Moreover, investments in construction, infrastructure and the automotive sector are anticipated to continue to positively impact demand expectations for base metals, while growth in supply is expected to remain relatively limited. Now I will hand over the presentation back to Ignacio for his final remarks.

I – Thank you, José Carlos. I would like to conclude this presentation by sharing some important news in our sustainability agenda. As part of Nexa's circular economy initiatives, we completed our first commercial sale transaction in may involving 26.4 tonnes of waste material from our Três Marias smelter. This project aims to sell significant amounts of waste from our smelters by developing partnerships and evaluating viable technologies and trade routes for these materials. Additionally, in collaboration with the Brazilian agricultural research and the Brazilian micro and small business support service, Nexa partnered to expand the rural practices project in Vazante, Brazil. This initiative aims to enhance the income of 40 selected farmers by introducing new agricultural techniques and market strategies. This project demonstrates Nexa's commitment to improve local agricultural practices and supporting community development. Another notable achievement is that Nexa Peru was recognized for the third consecutive year as one of the 16 leading companies in sustainable practices by the Peruvian stock exchange for the 2024-2025 period. This recognition reflects Nexa's ongoing commitment to integrating ESG strategies into its operations and advancing responsible mining practices. These highlights underscore our commitment to operational excellence and transparency, as well as our dedication to creating sustainable value for our shareholders and the communities where we operate. Looking at the remainder of the year, we will continue to focus on enhancing productivity, efficiency, and performance across operations and corporate areas, while also prioritizing the safety of our people. We will maintain our disciplined focus on our priorities, including the improvement of Aripuanã's performance, the development of the Cerro Pasco Integration Project, delivering on guidance, extending the life of our mines, and consistently improving our cash generation. We believe that Nexa is well-positioned to maintain positive momentum. We have an established business with a proven track record and unwavering commitment to stakeholder value creation. This concludes our remarks, thank you for your support. Operator, we are ready to open the floor for questions.

Q&A Session:

O – We will now begin the questions and answers session. [Operator Instructions] Our first question comes from Lawson Winder with Bank of America Securities.

Question – Thank you operator and good morning, Ignacio and team, thank you for the updated as always. I wanted to just start off with your thoughts on the zinc market. So that was really helpful the color you provided. But just ask in particular about some new production coming on in Central Africa and in Congo, there's new production. And just your thoughts on whether or not that would be a concern of yours as you look out to the second half of this year and then 2025 as that asset starts to hit run rate capacity.

R – Okay. Lawson, it's Rodrigo here, thank you so much for your question. Yes, I mean, we expect, we have been following the possible new productions very closely. We know that some mines are about to put more concentrate in the market in the coming months, including Aripuanã, our mine in Aripuanã. But we keep our view that this is not going to be enough to somehow offset the tight concentrate market that we are seeing right now. So as a consequence, we may still see in terms of fundamentals based on the supply/demand rationale, we may see a positive support for zinc pricing in the following months. Of course, just like we said, Ignacio mentioned, sorry, José Carlos mentioned in the presentation, we may see some volatility, especially driven by the U.S. elections and the expectations on Fed rates cut. But we keep our view. We are very confident on the fundamentals of zinc, not only in the short-term, but also in the mid, long-term. And we will keep following this possible new production that should come as well as monitoring the Chinese market very closely. So as everybody knows, China is another important player in the zinc industry and it's important to understand what's happening in terms of the production and the consumption of zinc concentrate in China. Thanks again for the question.

I – Yes, and just to add to what Cammarosano is saying, Lawson. Regarding the smelters, you know, that TCs are so low now that in some cases, we have negative TCs and the premiums as well, that most smelters are not making money. In our case, we are in privileged markets, we are in Peru and in Brazil. So, we are very close to the producers of concentrate, but it's a very tight market. And in the cycle, when you see that, you see that this couldn't last many months. So, we know that some smelters are making money and are trying to keep up with the market, but this is not sustainable. So, we believe that zinc prices have to go up because otherwise, scarcity of metal will come in the coming months.

Question – Okay, thank you very much for that color. All very helpful. If I might, I'd like to also ask about capital allocation and how you guys are thinking about making a decision on investments in the Cerro Pasco expansion versus paying down debt and the continued ramp-up of Aripuanã. I guess Aripuanã, you're now expecting that to be EBITDA positive going forward. So, does that now provide some additional flexibility with capital return? And then what's the timing of decision around Cerro Pasco?

I – Yes. So very good questions. Aripuanã is starting to make some money for the rest of the year. As we were saying, throughput capacity is going to be 80%, 90% of our target. And with the production that we have based on stable recoveries and good quality of concentrates, we will start accumulating cash in Aripuanã. So, it will no longer be a cash deficit mine. However, building Aripuanã was really difficult because we spent a lot of money in this project and part of that has been translated into a very high gross debt. So, part of the capital allocation that we want is that our priority is to reduce this gross debt. We believe that in the second half of this year and starting in 2025, we will start bringing more cash flow. And part of that cash flow is going to go to pay down debt, okay? Part is going to go to pay dividends as well because we are a company that pays dividends. It might not be the case this year or probably the first quarter of last year. But long-term, we pay dividends. And then we will invest in growth. Pasco is the most advanced project that we have. Our two operations, we have two operations there. So, it's a no-brainer because, as we said before, there is a lot of potential in the intersection of the two mines and we will unlock potential of Atacocha that today has resources that cannot be converted into reserves because we cannot access them, and by using the infrastructure of El Porvenir, we will access that. The CAPEX for this is US$150 million. We will approve this in the coming months. I'm trying to say that probably before the year-end. And probably the bottleneck here is that the pumping system that we pump tailings from El Porvenir to Atacocha. So, we extend life of mine of the dam, yes, is probably the first bottleneck and we will have to approve equipments to buy because the lead times are long. We will approve that in the last quarter of this year and finishing engineering of the shaft, finishing engineering of these tailings dam facility and advancing with the permits will help us approve on an official basis, this project in the next 4 months. But the idea is that with this US$150 million is going to be funded with our own cash. We have some possibilities of advancing sales of lead, et cetera, et cetera. We will communicate that. So, in summary, bringing down the debt, paying some dividends going forward once the cash flow is accumulated and bring Pasco, I mean, approve that in the next months. These projects last 2 to 3 years but is the most important project that we have to bring more cash flow later on. So that's more or less where we are today.

O – And the next question comes from Carlos De Alba with Morgan Stanley.

Question – Good morning, Ignacio, José Carlos and Rodrigo. Just maybe following on Cerro Pasco before I ask a question on Aripuanã. So just to confirm, the US$150 million CAPEX that you mentioned is for the entire project or just for the first stage?

I – Yes.

Question – Okay.

I – No, no. No, it's the entire project because I can give you color on that, if you want, but please go ahead.

Question – Yes. Can you talk a little bit about the CAPEX for Cerro Pasco Integration Project in total? And if there are different stages, if you can add color to that and the pace of the disbursement because I think you mentioned that it could take potentially 3 years to complete the project. So, if you can give us a little bit of color on the total CAPEX and maybe the pace of disbursements in those 3 years, that'd be great.

I – Perfect. So, the 3 years has two components. One is permits because we need a modification of studies for the integration of the two mines. The two mines are now connected, but we will have to connect them at a lower level. It's a 2km and we will have to extract the mineral from Atacocha through the El Porvenir shaft. So that will take time, that takes at least 2 years. So that is our restriction. The other restriction is the pumping system, no? We have four components in this project. The pumping system that pumps tailings from El Porvenir to Atacocha is key. Why? Because the El Porvenir tailings dam will finish in 3 years. To continue exploiting El Porvenir, we will have to pour the tailings into Atacocha. The engineering of that project takes us to probably US$80 million. We are finishing that, and we will need to start buying the equipment because they are long lead time. That project itself is US$80 million. It's going to probably demand 2 years, those US$80 million. It's 40-40, 2024 and 2025, okay? Then we will have to upgrade the shaft. The shaft of El Porvenir is a very efficient one. We don't need to upgrade all the shafts. There are some parts that are in good conditions and are very reliable. So, we are assessing that. And that might cost between US$15 million to US$20 million, okay? Then we have to build a water management plant because close to the tailings that could cost, in Atacocha, especially that could cost us between US$20 million and US$25 million. And the rest is the integration. The integration of the two mines, yes? And all the development of the mines, let's say, to extract the mineral is sustaining CAPEX that is not considered in this project. So, US$80 million for the pumping, US$20 million for the water management, US$15 million, US$20 million, for the shaft and then the remaining to integrate the two mines. But there is a lot more CAPEX than is sustaining CAPEX, okay? So, this is more or less, it's a very straightforward project. And what is the beauty of this, the NSR of El Porvenir today has an NSR of US$100/t, US$110/t, okay? So, by extracting Atacocha, the idea is that we extract mineral and that's in resources, so it has a lot of certainty, of US$150/t. So, our mix is going to give us a higher NSR. But the most important part is that in the integration, we have a lot of potential with grades and mineral that the NSR is above US$200/t, okay? We don't have even resources there, it's only potential. So, once we build all these four components and in parallel, and we will communicate that probably next year, we will start drilling this intersection, so we can bring all of these high-grade minerals and change the mine of the plant to have a more positive NAV. This is more or less where we are, finishing engineering. And I guess, towards the end of the year, we will announce probably before the pumping system. And I will say at the beginning of the next year, we will announce all the components of the project and how we're going to treat them. So, this is more or less the context of this Cerro Pasco, Carlos.

Question – Again thanks for the color. So, the total CAPEX is indeed US$150 million, right?

I – Yes. It's a total CAPEX. I mean it might change a little bit probably because of the engineering, but it won't be material. It won't be material.

Question – Right. Okay. And then moving on to Aripuanã, sorry. So now that the operation of the mine has graduated to an operating mine, would you start disclosing cost for Aripuanã and stop making the adjustment on the EBITDA for the ramp-up expenses?

I – Yes. That's the idea. That's the idea. We have now moved to an operation, and we will need to start disclosing that as well. Yes. That's the way it has to be from now on.

Question – And would that start in the next quarter or until 2025?

I – No, next quarter. The idea is that third quarter, we'll start doing that.

Question – Okay. Any advance that you can give us now? Or should we just wait until you report the third quarter?

I – I think we have to wait. I think we have to wait because, we don't know prices.

O - And the next question comes from Camilla Barder with Bradesco BBI.

Question – Just 2 quick questions on my side. First, on CAPEX. Maybe still early to say, but could you talk about your expectations for CAPEX next year? And secondly, your guidance for costs this year unchanged, but it would be great to hear if you could provide some more color on how you see costs evolving through the second semester. Thank you.

J – Hi Camilla, thanks for the question, José Carlos here. I'm not sure if I heard everything well, but I'll try to give it a shot. The first one was in relation to CAPEX for next year, if I heard correctly. We are obviously always looking beyond the current year, and we have an expectation of what CAPEX should be. We're finalizing or fine-tuning the projects, the numbers of all the different priorities that we have. So, we don't expect a significant reduction in CAPEX. I think it should be somewhere around where we are today for 2024, somewhere between, in the low US$400 million. So, I don't expect a significant variation on that. We have a number of projects and investments that we have to make mostly sustaining but things that have to happen in 2025. Can you please repeat the second question you mentioned, I think it was related to cost, but I don't know if there was a specific question. I just heard cost, but if you could please clarify.

Question – It was cost for the second half.

J – Cost for the second half, okay. Sure. As we mentioned in the earnings release, and I think we mentioned in the presentation as well, I mean we feel good about the cost levels that we are having mostly within guidance. So, for now, we're keeping our cost guidance and we're not expecting right now that we will make a change. Obviously, things can change. But we feel comfortable that we are being able to be within the guidance that we provided, mitigate the impact of inflation that is still there in all of our operations, so always finding ways in which we can compensate for the pressure that we see in some of the inputs and in third-party services. So, for now we're keeping things the way they are, and we expect that we will be within the guidance.

Question – Okay, thank you.

O – And the next question comes from Orest Wowkodaw with Scotiabank. Please go ahead.

Question – Hi, good morning. Two questions. Sorry, could you just clarify, did you say that we should anticipate CAPEX for 2025 around US$400 million, mostly sustaining? Did I hear that correct?

J – No. What I said was that we shouldn't expect a significant variation from what we have in 2024. And the guidance we have for 2024 is US$412 million, so something in that same range.

R – I'm sorry, Orest, just to clarify, in this calculation that José is mentioning, we consider the CAPEX, which our guidance for this year is US$311 million, mostly sustaining. We expect this level to be the same next year. The difference for the US$400 million because José Carlos is also including some of the expenses that we consider together when evaluating the total CAPEX internally here at Nexa. But in terms of the CAPEX, to compare with the guidance for this year, it's US$311 million and we expect the level to be the same next year, also considering a scenario which is pretty much what we have right now. But if we approve the Cerro Pasco Integration Project, we may increase the total CAPEX, because we're going to include the investment that we have to do in Cerro Pasco next year according to what Ignacio explained. So, this US$400 million is a combination of the CAPEX plus some operational expenditures that we have that internally we consider as CAPEX. Just to clarify and make sure that there is no misunderstanding, okay.

Question – Thank you. And just secondly, I'm just wondering, we previously heard some discussion about trying to diversify into copper and potentially looking at some copper acquisitions. Is that still on the table from a strategy perspective?

I – Yes. Yes, that's on the table. And the reason behind is that we are, let's say, a very competitive company in terms of the underground mining. We believe ourselves, that one of our competitive advantages is underground mining. And we already have some copper in our portfolio. We have copper in Cerro Lindo and now in Aripuanã. So, we are looking for projects that are similar to those that have a higher copper content. Why is that? Because we have the advantage of exploiting that type of deposits, but copper is more resilient than zinc for certainty. I mean if you look at the volatility on copper, it's much lower than zinc and given our advantage, if we focus more on copper, our cash flow volatility is going to be lower as well. The fundamentals of copper are very important, same as the zinc ones. So yes. Yes, the idea is that we bring more copper into our portfolio for the coming years.

Question – Thank you.

O – There are no further questions from the phone. I will now transfer it over to Mr. Rodrigo to read questions from the webcast.

R – Okay. Thank you, operator. We have a couple of questions from the audience in the webcast. So, I'm going to start with a question from Mr. Luis Ordonez. The question is, do our expectations that higher production levels and metal price would continue in the coming quarters? Ignacio, can you jump in on this one?

I – Yes. What we try to focus is on reliable production, reliable controlling of costs and reliable controlling of CAPEX. So, I can tell you that we are on track to achieving that for the second half of the year in the guidance that we gave. The levels of EBITDA are influenced by prices, no? Our view is that prices are going to remain similar to those of the second quarter. But volatility is there, and we don't know. If prices remain, it might be the case that we might have these current levels of EBITDA, but we don't know that. But what we can confirm is that we are committed to our targets on production costs and CAPEX, that are the main components of the EBITDA.

R – Thank you, Ignacio. Following up the question, we also have another question from Luis. Does Nexa have a guidance of target or a target for the net leverage? I assume this is by the end of this year.

J – Yes. Thank you, Rodrigo, and thank you, Luis, for the question. I will talk in general because we have mentioned this before. We have a conservative approach to this. And obviously, in a mining company that has to go through the different cycles, you are subject to changes in some factors that you don't control. So, you have to take that into consideration. We're setting a target. In the first quarter, we had a high leverage exactly because of that because prices were low. And in the last 12 months, our EBITDA had suffered because of these low prices. As Aripuanã starts contributing to our results and we have prices that are more in line with fundamentals, this leverage level is already coming down in a material way. And as Ignacio mentioned, one of our main objectives is to bring down the gross debt in as much as we accumulate cash, we will focus on bringing down the gross debt. So, the combination of that will help us continue to reduce our leverage until we bring it down to levels below 1.5x, which is something that we feel more comfortable with. And is our short to medium-term target is to have it back below 1.5x.

R – Yes. Those were the questions from the audience. So, operator, we're all set here. I would like to thank you so much and hand over to Ignacio.

I – Okay. Thank you very much for the time. Again, in this quarter, I just want to reiterate that we are very focused on achieving guidance on production, cost, CAPEX and trying to start reducing our gross debt. We are very happy with the advances on Aripuanã. Aripuanã has been a very, very difficult project. And now we are towards the end of the ramp-up and started making cash flow. Aripuanã is a mine that is going to give us very good surprises in the coming years because it's a long-life asset with very good net smelting return. We are very confident that Cerro Pasco is coming in the next 3 years. So, with all of our mines: Cerro Pasco, Aripuanã, Cerro Lindo and Vazante, the priority is to extend the life of the mine and have stable cash flows going forward given our operational guidance. In the case of the smelters, given the location and given the market that we face, there are stable smelters, even in these difficult situations, we are making money. So, the idea is to keep that going forward. Thank you very much, and we will speak to you soon in the next 3 months. Have a good day.

O – The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Participants of the Q&A:

Lawson Winder – *Bank of America*

Carlos De Alba – *Morgan Stanley*

Camilla Barder – *Bradesco BBI*

Orest Wowkodaw - *Scotiabank*

Luis Ordonez - *Lucror Analytics*

(Call Duration: 53 Minutes)