TUPY

International Conference Call
TUPY S/A
First Quarter 2020 Earnings Results
June 30th, 2020

Operator: Good morning, thank you very much for waiting. We welcome you all for the conference call for the earnings of Q1 2020 for Tupy.

All the participants will be in the listen-mode only, and later we will have a Q&A session when further instructions will be supplied. If you need any help from an operator during the conference call, please dial *0. This conference call is being recorded.

The company would like to remind you that this event is being transmitted simultaneously through the internet via webcast, it can be accessed at: www.tupy.com.br/ri, where you will find the slide presentation. The selection of the slides will be controlled by you.

The company clarifies that any declarations made during this conference call concerning business perspectives, projections or operational goals concerning Tupy's business are forecasts based on current expectations of the administration in relation to the future of the company. They are highly dependent on market conditions, both national and international, on economic performance of the country and the sector, therefore, subject to change.

With us we have Mr. Fernando Cestari de Rizzo, Chairman of the company, and Thiago Struminski, Vice-President of Finance, Administration and Controls.

Mr. Fernando, you may proceed.

Mr. Fernando Cestari de Rizzo: Good morning and thank you for being with us.

I hope that you enter families are in good health and safe, especially during the pandemic, and we will be covering this too. But before, I would like to explain briefly about Q1 2020 and how we were able to evolve in other initiatives even with the current scenario.

On slide number 2, we have gone through a process of transformation and at every quarter we have observed the evolution of the positive effects of the combination of the many initiatives adopted by us in order to make the company more competitive. 2020 began with an excellent operational performance and even with the impact of Coronavirus-19 at the end of the quarter, we were able to see significant progress, both in Brazil and in Mexico.

We continue to observe a strong renovation of our portfolio of products and we measure this with the CGI products, which make up 20% of our physical sales, and machining services and/or assembly, which was responsible for 25% of the products delivered. This increase in relation to the same period of last year is due to our investments in Research & Development and our long-term relationship with the clients, which allows us slowly to make progress in the value chain offering services that enable our clients to concentrate on the specific challenges of their business.

This is an important commercial strategy for Tupy, and which has contributed for our performance and will be even more relevant in the next few years.

From an operational point of view, the search for cost reduction and flexibility has been done by the adoption of new automation technologies and also artificial intelligence, which leads us to a more agile production process reaching a higher level of operational efficiency. The transformation of the purchasing processes has also helped in a significant way to reduce costs, develop and mitigate risks with suppliers too.

I'm mentioning purchasing, but the transformation in progress in Tupy involves the whole business. We count on a renewed leadership which understands the company and its objectives.

We also had success in implementing defense systems: Many actions predefined to reduce costs and preserve the company's cash in periods where we have a drop in demand. So this set of actions are there to be used and we monitor market indicators; if we see the indicators changing, we immediately began to really take new action with more speed.

During this quarter, I'd like to call your attention to the fact that in spite of a drop of 24% in volume, our adjusted EBITDA grew 20%, higher than the exchange rate appraisal during the period and higher than the fixed cost that we absorbed. We can see Brazil with excellent reaction inside the country. So this is due to our sophisticated portfolio of products that we deliver to our clients since the beginning of 2019.

Concerning capital obligation, we continue with the strategy to make selective investments which will add value to our business at the same time as we look for opportunities to gain even more efficiency in the management of our working capital.

Now going on to slide number 3, I would like to highlight that since we have clients in many regions, we began to observe some actions and impacts related to Coronavirus-19 in the beginning of February. With this, during February, we put together our Crisis Committee and we hired a doctor – an infectologist doctor – to help us as a consultant in our action plan in order to give priority to the people, the safety of our employees and preserving the solid financial position of the company and the supply of our clients.

Having a risk map that is clear allowed us to act and anticipate an even before the guidance of the government. We are one of the first companies to stop operations in the country, and thus, we preserved the physical health and psychological health of our employees and their families at a time that is very critical. This allowed us to really adjust our structure, both in terms of demand and inventory, and also to promote an environment for the sanitary conditions imposed, such as: Social distancing; protection of groups at risk; and protection of mothers with children under the age of 10.

This stop was planned, mitigating the impact on our main stakeholders, and so we worked on 6 fronts, as you can see on slide number 4. The communication was intensified by all means giving the care inside and outside the company, and everything was understood by our employees, who also have a magical follow-up 24 hours a day, both in person and also through an 800-number.

We prepared ourselves to keep our clients supplied even with a possible geographic problem in the value chain, and in response to the reduction in demand and also stops all over the world, we used our defense actions resulting in greater flexibility in our production with transfer of products between lines, reduction of work hours and salaries and temporary suspensions of work contracts, creation of specific control plans to reevaluate all the expenses of the company. We involved our suppliers in all the actions in order for them to preserve the health of their employees and also for us to have a follow-up of the impacts on their operations. With this, we prepared a robust contingency plan with the risk of disruption, which fortunately did not happen.

These actions also have a direct relationship with cash preservation. We always manage the company with a lot of financial discipline, this has allowed us to go through this problem with greater security.

With suspended temporarily our investments, with the exception of those for safety and the environment. We also cut costs and expenses that were not essential. In April, we adopted also a different work regime with wage reduction and work hours reduction in Brazil and Mexico, apart from the temporary suspension of work contracts based on the Government Decree 963.

And although we concluded 2019 with R$840 million in cash and reduced leverage, to be conservative we expanded our liquidity buffer with loans worth R$494 million.

And we are looking at our financial results and protection strategies. In Q1, we had the impact from the derivative market, which will be compensated by the improvement of operational result during the year.

Since there is a lot of uncertainty concerning the duration of the crisis, we are trying to anticipate scenarios and to be prepared for each one.

Now, to talk about the main indicators of the quarter, I would like to invite Mr. Thiago Struminski, our CFO.

Mr. Thiago Struminski: On slide number 5, we have the results of the period. Our revenues reached 1.1 billion in spite of the 24% drop in volumes, which was mitigated by higher value added services and also exchange rate appraisal.

Our operational result had a positive impact by many initiatives that we implemented during the last months, which contributed for a growth of 12.6% of gross profit, and also here the adjusted EBITDA, here 15.1% respectively adjusted EBITDA.

The net profit had an impact because of impairment, we had a loss, and also derivatives and financial instruments used to adjust the credits to be received from Eletrobras, also hedge which had also an impact from taxes in Mexico.

We closed the quarter with 1.4 billion in cash, an increase of 524 million in relation to December 2019 with new loans and exchange variation on the cash in foreign currency.

On slide number 6, the volume of 1.1 billion. This result had an impact due to the performance of the last 3 weeks of March, a reduction in orders due to Coronavirus. So we see that 25% were totally machined, also 23% CGI, and with this we had a growth in relation to total sales of the company.

On slide number 7, the revenues have a drop of 15%, the revenue per kilogram had an increase, 17% in South America, 67% had origin in NAFTA, 17 in South America and Central America, 13% Europe and 3% Asia, Africa, Oceania. Applications we had 88% products for commercial vehicles and off-road, 7% passenger cars, 4% hydraulics.

On slide 8, we have transportation, infrastructure and agriculture in Brazil, all were impacted. Commercial vehicles have a drop of 33%, more than other categories, especially due to a reduction in indirect exports, especially to the European market.

Slide number 9 shows the drops of revenue in the export market with off-road dropped a little more, a drop of 17.9%.

Slide number 10 shows the performance of sales in hydraulics, 4% of the revenue. In Brazil, we see a drop in sales due to the uncertainty in the environment, political, economic and Coronavirus. But in the export market we had a more favorable impact due to the mix of products, exchange rate devaluation and higher prices.

On slide number 11, we see the cost of products sold and operational expenses. CPV 900 million, a drop of 19%, gross margin of 18%, an increase of 420 basis points in relation to 2019. So we have a highlight here for improvements in Mexico, we had a drop of 32% in the cost of raw materials also due to the reduction volumes and a reduction of 4% with labor due to operational efficiency and a drop of 5% in maintenance and third-party materials due to efficiency in the period and compensating the lower dilution of costs and exchange variation. Operational expenses had an increase of 3% year after year.

Slide number 12, here we see adjusted EBITDA, 165 million, an increase of 20% in relation to Q1 19 reaching a margin of 15%, an increase of 440 basis points. The drop in volumes was compensated by initiatives in efficiency.

On the bottom part, we see a net loss of 207 million due to many nonoperational factors, most of them without cash effect. We have more details on slide number 13. The first is, for example, the derivatives used to adjust the present value of the credits to be received from Eletrobras.

These credits are due to the rights to monetary correction of the compulsory loans from the electricity company of the amount that we are to receive. Last year we received 63 million, now jurisprudence on this topic shows that there is the possibility of Eletrobras paying us in shares the remaining balance, and the value to be received reflects this adjustment. So this is being treated as a put that Eletrobras has.

This instrument is updated every 3 months, it is priced with the Black Scholes model and every time there is variation, we have to record them as expenses or revenue. So the impact of this we had an expense of 54.8 million in the quarter without cash effect, this is due to the drop in prices of the shares of Eletrobras and the increase in volatility.

So in Q1 19 we had a revenue of 7.4 million due to the price of shares in the derivatives.

So on slide number 14, we see that since 2016 the company is using hedge operations to mitigate the exchange variation in the future cash flow. This is due to costs as a result of the currency used in each country. 70% of the components produced in Brazil are related to the US dollar and the costs are in local currency. In Mexico it's different, the revenue is in US dollars and 40% of the costs are in pesos, local currency.

For this reason, instrument, the derivative, known as zero cost collar which is the purchase of a put and the sale of a call and thus establishing the minimum/maximum for the exchange rate.

So while the adjustments are made and we adjust the values and, since they are linked to future revenue, so we have a monthly update. So these effects, for example, revenue and also expenses are adjusted every month, so we had an impact of 245 million due to the strong devaluation of the local currency during this period.

So when we liquidated the operations, we had a disbursement of 17 million, but this was compensated in operational results, it's the net result of the quarter. With these operations, we had a favorable result of 2 million.

We have operations already until December 2020. Since March, we stopped making new operations due to the uncertainty in relation to demand, and also, we have a lot of volatility in the exchange rate now.

Since we had a quarter with many effects on the net profit, we made a summary on slide 15. The first is related to the zero cost collar that I just mentioned, it was partially compensated or more than compensated by the appraisal we had due to the operations in foreign currency and the net effect is 138.8 million.

Then, we also have the derivatives of the instrument to adjust credit to be received from Eletrobras, we already mentioned, 54.8 million. The next item is the impairment of intangible assets. Reminding you, the company recognizes as intangible assets the relationship with clients due to the acquisition of the Mexican units in 2012. So their value went up because of the volumes expected in the next 10 years.

So we have higher volumes than the expectation, but every time intangible is recognized for a company so we do and impairment for some segments, which have had inferior volumes due to the low visibility of demand for the next few months, and here especially because of the limited time for recovery and the asset will be amortized until April 2022. So thus, we wrote off 34.4 million reducing expenses with depreciation worth 16 million during the year.

So last of all, we observe here the effect of the currency on the tax base in Mexico. The tax base on assets and liabilities of companies in Mexico where the functional currency is dollar were converted to Mexican pesos. These fluctuations on the exchange rate change the tax basis and consequently exchange effects are recognized as revenue or expense. So in Q1 20 we registered expenses of 70.1 million due to the devaluation of 24% in the peso in relation to the dollar when compared with the previous quarter.

So on slide number 16, we see the main working capital accounts. Q4 2019 was the basis, an increase of 10 days in accounts receivables also due to exchange rate devaluation, so 90% of this is in strong currency. We had impact, some clients stopped their operation and did not even receive the products we manufactured, so an increase of 18 days in inventory due to our strategy to mitigate the risk of supply to our main clients in different geographies than in those produced, so the safety stocks were increased.

We also intensified flexibility between the plants to increase operational efficiency and this slide also suffers the effect of exchange rate variation. Inventory in stock currency make up 67% of the total.

So we absorbed an increase of 3 days in Accounts Payables due to many actions promoted to lengthen the payment terms for our current suppliers. 45% increase in the annual comparison in the number of suppliers that accepted our program with our financial program. So we increased the payment terms.

Slide 17, here we show investments in assets, 38 million, a drop of 19% in comparison with 2019 representing 3.5% of the revenue. We will hold investments here in Q2.

Now slide 18, our cash position went up 524 million due to new loans, new bank loans, we are talking about loans were up 494 million at the end of March. So although we have a comfortable cash position, these operations have the purpose of forming a buffer of liquidity while we go through this Coronavirus.

Exchange rate also helped to increase cash; operational cash flow had a consumption of 34.3 million especially due to the working capital accounts.

Slide 19, net indebtedness of the company 1.2 million, 1.7 times adjusted EBITDA in the last 12 months. The leverage is due to the fact that 80% of the debt is in US currency converted by the final exchange rate, R$5.20, and the revenue that makes up EBITDA we use for this, the average exchange rate, 4.47 to a dollar.

The percentage of foreign currency is in line with our business profile. We have a bond, which will become mature in 2024. In relation to cash, 64% was in local currency.

Due to the low visibility of the impacts of this pandemic, so we took out this loan 494 million at the end of March at a cost of CDI +3.7% to form this liquidity buffer.

Now Fernando will make his final comments.

Mr. de Rizzo: Thank you, Thiago.

On slide 20, we can observe now almost at the end of Q2 we see a strong impact in April and May due to stops at our clients with a bad product mix, unbalanced product mix. So we decided to adopt even more strict protocols to guarantee the health of our employees and to prepare ourselves for a comeback. We have worked in a very flexible way adjusting production line to demand and forming inventory closer to our clients.

The cash preservation is a priority, maintaining financial discipline that we have had and also activation of our defense actions. I mentioned this previously, and this has allowed us to go through the current situation.

We believe that April and May were the peak months of the crisis and we see a gradual recovery as of Q3 2020 due to our exposure to the export market and especially to countries that have a more dynamic economy than that of Brazil and that have stimulated their economies.

We also use this period to prepare a robust recovery plan for the company, which was activated which was begun last week.

Now slide 21 about the market. We have heard some news that show that we will have a robust recovery in the US, positive signs from construction, home construction and loans and the increase in the use of fuels.

For example, heavy pickups have had a sales volume very close to the period before the crisis. The dealerships already are running out of some models, this will accelerate the production by the OEMs. Our main clients in the sector also are beginning to produce like they used to before the crisis, in July.

In the off-road segment, especially construction and mining, we believe that the recovery will be only in 2021. But it may be accelerated by investments in infrastructure, which I mentioned previously close to US$1 trillion in the US and also similar programs in Europe.

In Brazil, apart from the reduction in interest rates, heavy vehicles should benefit from the positive performance of agriculture, which should bring demand for agricultural products too. The distributors of diesel oil have said that they already have levels equal to those before the crisis. This is important, it shows the high occupation rate of the equipment during this period. So both in Brazil and the US, trucks, agricultural equipment continued to operate with the high occupancy rate, high usage rate in the last 3 months although we haven't seen a substitution.

Talking about the future and looking at Tupy, we would like to highlight that the acquisition of the company Teksid will strengthen even more our business model due to the opportunity to offer new products and services and also due to the many synergies resulting from the process of integration. Right now, we are waiting the approval by the authorities, antitrust authorities, to conclude the business.

Teksid has an exceptional team and together we will add even more value to our clients offering solutions that are more innovative and also sustainable. We are sure that the companies with a differentiated governance and healthy balance sheet will make an important… will help us to be more competitive.

The slide number 22, now talking about ESG, we have a leadership role not only number segment, but also with our employees and the communities where we are present. In our action plan, we try to understand the reality and specific needs of each region and the best way for us to contribute. In Joinville, in the city of Joinville in partnership with the municipal government, we created a center to test and screening for Coronavirus-19 with capacity to handle 150 people per hour, thus helping the city's municipal health systems.

We also donated equipment in Mexico with donation of EPIs, clothes and food and we manufactured hospital equipment and we developed the software for health management tool.

These and other initiatives you can on our page on LinkedIn. I invite you please to follow us on LinkedIn. All these actions are linked to our commitment with the community expressed in our mission and values and which are contemplated in our sustainability journey, and this is in all of the company's business where we try constantly to evolve, evaluating our impact on all the value chain. For this, apart from a strong commitment on the part of leadership, we have a follow-up of our governance committee and people management as well as involvement of all our stakeholders.

Once again, I thank you for participating and we would like to begin the Q&A session.

Question-and-Answer Session

Operator: Ladies and gentlemen, we would like to begin the Q&A session. To ask a question, please dial*1. To remove your question, please dial*2.

This conference call is exclusively for investors and investment professionals.

Our first question comes from Catherine Kansalar, from BBI.

Ms. Kansalar: Good morning, thank you. First of all, I would like to congratulate the company for its initiatives to fight Coronavirus. Congratulations for the efforts and results.

My first question, considering the actions and more exposure to the US market, as we can see, the company is using this strategy. What motivated this decision?

My second question, can we see a change in the Capex plan with a robust recovery that you are observing? What can we expect, can we expect changes, substantial changes? Thank you.

Mr. de Rizzo: Catherine, thank you for the question. Well, we are preparing the company, we are seeing, similar to a crisis in the past, we see the mobilization of governments and there is a mobilization on the part of the governments to increase infrastructure, stimulus for… we have a sanitary crisis in the world, we know that we need a lot of infrastructure around the world, so we believe that next year in this sector we should begin to see a strong recovery of construction because we need this in Brazil and in other countries.

In the US, they have obsolete infrastructure to be substituted, also in Europe. So we see this need, for example, drinking water, electricity, sewers and so forth. Clearly, our strategy was always to go after this, to go after… for example, we had a sanitation law that was voted this week in the Senate, this will affect in a positive way our business; more trucks more machines.

So from the beginning, we always saw the world with his need of Capex, and we went after clients that we believe it would be the winners in this process for the transformation the world needs. So we are very sure that our products, that are those more sophisticated products, special alloys, machining and assembly of components, will continue to increase not only in volume, but also in value that we add to our clients.

So I will give you an idea about the market. Tupy has a strong exposure to the US, more than 60% of the revenue, but also important exposure to Europe, Teksid is stronger in Europe. In this sector, first we look at pickups, especially pickups for small businesses, these are not leisure pickup trucks, they are for small construction companies, small businesses, agricultural sector, so they have been sold, they continue to sell, inventory is low in the US and we see a good situation in this sector. Construction I already told you.

If you look at other crisis in the past and the years after the crisis, we see an important increase in construction after the crisis.

Agriculture is doing well in Brazil, apparently it is doing well in the US also. And an important information: the fleet of equipment is the oldest, very old, mature to begin a renovation of equipment in agriculture. We believe this should happen in the next few years. This also happened in 2008-2009.

And trucks, trucks we came from very good years in terms of the sale of trucks in the US, now the trucks are operating, we monitor this because of the consumption of diesel oil and there was no substitution. We believe that all the effects of the policies, people will have money, will buy. So for example, in e-commerce they receive the products at home, so you need more equipment, and we believe this will give incentives to components, sale of components in the future.

With this context, we don't need Capex – you made an important question – our Capex we have a project for acquisition of Teksid and also projects to make progress in the value chain of our clients. So we should continue investing in more machining and assembling in the next few years, we are discussing projects with clients. We believe this is an irreversible trend and Tupy should make progress.

So with physical sales we have, we will generate more revenue during the next few years because we will add more services. I hope I answered your question.

Ms. Kansalar: Thank you, excellent. Thank you.

Operator: The next question is from Marcelo Motta, JP Morgan.

Mr. Motta: Good morning. Fernando mentioned the expectations for June, when we look at the company's numbers for April and May, I would like to understand about the recovery in volume, the impact of the exchange rate on revenue looking more inside the company.

And also, when we look at the margins, we begin to see the results of the initiatives the company carried out during the last few years, more depreciation of the local currency and the initiatives, any additional initiatives that were not mentioned in Q1. You talked about reduction of the work hours and wages, whether maybe you used vacation already. So, thank you.

Mr. Struminski: Marcelo, thank you for your question, Thiago speaking. We are trying to be clear in terms of our TR of the quarter and we showed what happened in April and May. On average, we had 70% lower performance than last year.

These were the most difficult months in terms of management and volumes. What we observe in the US, most of the OEMs and clients began working again in the middle of May based on the agreements with the local unions, and this took a little longer for those in Mexico. For other reasons, this stop was a little longer in activities.

In June, almost all of our clients working. In June, we began to see a level closer to the reality but recovering. So we made many decisions looking inside the company, consuming more expensive materials in a process that could be done with inferior-cost products, but always avoiding cash disbursement.

Oh we had a lot of success until May avoiding expenses. In June, we began to feel more the impact on Accounts Receivable because of the drop in volume as of April. So we have made a great effort to protect cash and it will be a bad quarter, we know; second quarter will be bad, it will be difficult for everybody due to the drop in volumes.

Mr. Motta: Thank you. Concerning margins, do you have anything else to tell us in terms of initiatives?

Mr. Struminski: Well, most of the management for margin is focused on dilution of fixed costs that we have difficulty in managing. We made a great effort with our employees, the government allowed us to cut work hours and wages, we made an effort in Mexico too consuming our bank and vacation to try to maintain the jobs and until we know the performance of Q2.

Mr. de Rizzo: We had a frank dialogue with our employees, from the beginning that we would all have to make sacrifice, all the employees understood that some sacrifice would be necessary because we know there will be a recovery and we didn't want to lose talent.

I'd like to thank all of the company's employees for this commitment in relation to the company and this understanding, they are all sacrificing to preserve jobs in the company, to preserve talent that will help us during the recovery.

Of course, there are many effects, adverse effects during the quarter, low production, some plants stopped, we stopped totally some plants, but there is a journey that we began 18 months ago for gains in operational efficiency, we have evolved a lot, there is a commercial journey to have new products. In 2019, we showed interesting indicators in our renew products, the percentage of CGI, machining, but we weren't able to convert this into margin.

This is happening now, converting this to margin with a better organization, we brought many new leaders, managers, directors of the company, 38 new leaders among 70 in the last 18 months, so this renewal in managers and directors to have more efficient processes, to improve. Purchasing is a good example: We have a renewed team in purchasing, but they haven't delivered all the performance, and this period doesn't help to deliver everything we want.

So I believe the journey has begun, gains in efficiency are on the way and they have a lot to do in purchasing, machinery, efficiency, and also automation and data analytics that we mentioned to you. By the end of the year, we should have a committee to explore all of this, which is very interesting, artificial intelligence, better quality of the products, also reduction in the consumption of electricity, sand blasting, many actions, a new team, a young team, and we are doing many new things.

And the purchase of Teksid, the acquisition will help us a lot, we will take these things to Teksid and we hope to learn from Teksid, for example, the production system they have, WCN *(sic)*, more sophisticated than ours, and other practices that we believe are present there which will contaminate us positively and the 2 companies will come out stronger. Also product allocation between plants where we have more efficiency.

And we truly used this period to work on this planning to fine tune the planning. That's why I say the recovery involves Tupy and also the value creation plan after the stock.

Mr. Motta: Perfect, thank you.

Operator: If you have any question, please, dial asterisk 1.

The next question comes from Werner Roger, Trígono Capital.

Mr. Roger: Good morning. Thank you for the presentation with this difficulty into industrial sector.

You mentioned that Q1 was hurt by a mix that was not very good. Please, explain this bad mix and if the market wants more pickups. Does this help or not the margin?

Second question, some OEMs, the renewal of the fleets, renewal of fleets substituting them for cleaner and more economical products. Do you have any news about this process of renewal of fleets?

Mr. de Rizzo: Werner, good morning, thank you for the question. Your first question, in Q1 we had a better mix, we continue to make progress, you can see that in the percentage of machining and CGI. The bad mix is in Q2. We have the portfolio for April and May. So this is it, Q2 is more difficult.

In Q1, which was interrupted 3 weeks before the end – this is important – all these indicators were good, we did not have a full quarter, but we were much better than last year. So all the indices were better, we stopped the plant, the first stop in the plant happened inside the Q1.

I would like to reinforce; the company has a greater operational efficiency that we will explore in the next quarters.

Fleet renovation, Sindipeças […] … Brazil has 2 million trucks and more than 80% have bad emissions. Euro VI should come to Brazil in 2022-23, but we at Tupy we understand that there should have been a greater effort to substitute these 80% for Euro V trucks. This would help the environment; it would help much more the environment than any other initiative in transportation.

So in terms of transportation, we don't need new engines, we need control on the older vehicles and substitute them. So, yes, this is in progress, this will help productivity and environmental benefits. So our authorities are more sensitive to this and they are discussing, and they are working in this direction. We see this, so it is in progress, led by the authorities.

Mr. Roger: In relation to the mix in pickups, how is the mix for pickup trucks? How do you classify them in terms of technology and margin?

Mr. de Rizzo: Pickup trucks is a large sector. Tupy is very strong in heavy pickup trucks, diesel pickup trucks, those that take more load, more expensive, but are used by small businesses. For them, diesel is cleaner, more torque, more efficiency. Always remembering that diesel is used where you need efficiency, where you need… diesel is always a better option than gasoline where you need efficiency.

So it in these heavy applications, we also have gasoline powered engines, we supply them, so this is a sector that continues to grow, to evolve, there is an expansion in capacity on the part of our clients with more vehicles because we continue to see a growing demand.

The mix in the US continues to grow, so it's a greater universe where we have a lot of aluminum. There are some initiatives for electric pickups. Our products are for load, for cargo, that's where our products are used.

Mr. Roger: Thank you.

Operator: The next question comes from Thais Cacello, Itaú bank.

Ms. Cacello: Hello, thank you. I have 2 questions. The first has to do with revenue. We saw that there was a reclassification according to the type in revenue. What are the reasons?

We saw that large numbers are the same total revenue, domestic revenue, but by type of application we saw a reclassification.

Mr. Struminski: Thiago. Thank you for the question. We always have difficulty in classifying revenues by segment since it's not clear to us where our product ends. We make an effort for valuation to try to refine where our product ends. Every time we know this clearly, we make the adjustments. The same product that we sell can be used in many sectors, sometimes in 4 sectors, 3 sectors, energy, sometimes commercial vehicles. So this is reasonably frequent, always with the objective to improve the valuation of those who analyze the company.

Ms. Cacello: Correct, thank you. My second, question gross margin and adjusted EBITDA margin. You were strong in these areas in Q1, we know that we will have a stronger impact in Q2. Are the margins sustainable in the future Are they sustainable in the future, the margins?

Mr. Struminski: We observe in Q1… Fernando said that we lost 3 weeks of volume and performance in a strong operation. Brazil had a good performance, Mexico improved in spite of how this volume will be in the future with the exchange rate we are projecting, we will have good margins from now on. We believe, yes, we have a period of volatility now, but we can even improve what we did in Q1.

Ms. Cacello: Okay, thank you.

Mr. Struminski: Thank you.

Operator: Ladies and gentlemen, reminding you, to ask questions, please, dial*1.

We would like to conclude the Q&A session. Now I'd like to pass the floor to Mr. Fernando for his final comments.

Mr. de Rizzo: Well, thank you. We thank you for the questions, we thank you for participating, and we'd like to say that we continue trusting in our strategy for growth.

We have dedicated a lot of time to know what will be the new normal. We believe this pandemic will bring long-standing consequences in people and the way they do business. We see the growth in e-commerce, which depends on distribution centers, equipment to move cargo and distribution.

Apart from this, we have expectations that with the social and economic impact brought by a sanitary crises, many topics will be discussed, like access to basic sanitation, drinking water, hospitals, infrastructure, which will allow a good standard of life, and this will require investments.

We are looking where the focus will be on investments. We have people suffering, people who have needs, and society is looking at this, so this is in line with our company and its products.

Tupy is now 82 years old in March and it went through many crisis, financial crisis, exchange rate crisis, and with all the adversities, with all the problems, Tupy always showed that it is a resilient company. This time it will be the same.

All the transformation that we went through was accelerated, and we reached a new level of maturity in our processes, flexibility, in our operational efficiency and also in the speed of decision-making.

Apart from technology, we invested a lot in governance, risk management and financial discipline. These pillars have allowed us to go through this period in a tranquil way and make us believe that we will come out of this stronger with all the learning we had. We have a genuine focus on net cash generation for our shareholders.

I'm very proud, it's an honor to lead Tupy’s team, especially now. I would like to thank the commitment and dedication of all our employees and the support and our administration counsel and all support from shareholders, which have supported our strategies and also what we have done.

So I thank you all, I wish you a good day and a good week. Thank you.

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