

Q3 2019 Earnings Call

Company Participants

- Andre Luis Rodrigues, Chief Financial Officer
- Andre Meneguetti Salgueiro, IR Manager
- Paulo Geraldo Polezi, Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Alexandre Falcao
- Analyst
- Catherine Kiselar
- Murilo Freiburger
- Rogerio Araujo

Presentation

Operator

Good morning, and welcome to WEG's conference call to announce the results of quarter three, 2019. This call is being broadcast, and the slide presentation can be accessed at ir.weg.net. After the call, the audio recording will be available on the same website. (Operator Instructions)

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Today, we have with us here at Jaragua do Sul, Mr. Andre Luis Rodrigues, Chief Financial and Administrative Officer; Paulo Polezi, Finance and IR Director; Wilson Watzko, Controller; and Andre Salgueiro, IR Manager at WEG.

Now, I turn over to Mr. Andre Rodrigues.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. It's a pleasure to be here for the conference call to announce the results of quarter three 2019. Let's start with the highlights of the quarter. Our net revenue grew 3.5% versus quarter three, 2018. The good performance of mature businesses in Brazil, along with the growth in our solar power generation business and the growth of the GTD revenues in the external market have supported this good performance, even in a scenario with a lower share of wind power generation and with some times of deceleration of the global economy as seen recently. The details on this performance will be presented by Mr. Paulo later on.

The second highlight was the increase of 18.4% in our EBITDA, reaching BRL579 million. The EBITDA margin grew 2.2 percentage points, reaching 17.3%. This is a result of a favorable combination of costs rationalization, reduction in our expenses, gains in scale in addition to a better mix of products sold. And finally, we were able to maintain a good level of ROIC.

Now moving on to Slide number 4, we have here more details on the ROIC with a growth of 2 percentage points versus quarter three, 2018 reaching 19.2%. The consistency in this indicator in the last quarters reflect the better operational performance of the company demonstrated by the growth in our revenue and improvement of our EBITDA margin, combined with a business development strategy with attractive return on the capital invested and discipline on the use of this capital demonstrated by the management of our working capital and optimization of our investment program.

Now, I turn it over to Mr. Paulo Polezi.

Paulo Geraldo Polezi {BIO 19468811 <GO>}

Thank you, Andre, good morning, everyone. On Slide number 5, we see the evolution of our business areas in the different markets. I start by industrial electro-electronic equipment in Brazil, a segment in which the sales of short-cycle equipment still present a very good performance, with highlight to serial automation equipment and low-voltage electric motor, which have been showing continuous improvement in the last quarters.

Also, in this quarter, we saw a concentration of the sales due to the new regulation of energy efficiency for electric motor, which is in force in Brazil since September 1st. Another highlight was an improvement, however discrete of the demand for long-cycle equipment, automation panels and high voltage motors destined to a specific segment, such as pulp and paper, oil and gas, and mining. This improvement is still based on the maintenance of current assets.

The GTD market in Brazil is still reflecting the lower share of wind power generation projects. However, on the other hand, solar power generation and transmission and distribution still have a positive contribution, especially for products in connection with the auctions held in recent years. In motors for domestic use, we still see a good performance of our revenues since the beginning of this year in Brazil, and this is mainly due to an increased share in important segment of the market, such as washing machines and air conditioning. For paints and varnishes, the good performance is mainly due to the increased share in different markets and strategic customers as well as maintenance projects in important industry, such as oil and gas.

Abroad, we can see a consistent demand for long-cycle equipment focused on capacity increase projects and construction of new manufacturing plants in important industries for WEG, such as oil and gas, mining, and water and sanitation. For short-cycle equipment, we start to see some signs of deceleration, coming mainly from Europe and Asia, which has an impact on the sales of low-voltage motor and serial automation equipment.

For GTD, the greatest contribution was for transformers, particularly due to the synergies observed between operations in the United States and Mexico, and the good number of orders for our generator plants in India and also in the U.S. In motors for domestic use despite the lower revenue of our operations in China, we were still able to increase our share in some customers in the U.S. and Argentina, despite the problems faced by the economy of these countries. In Spain, the growth in the revenue results from a constant pursuit for new customers and a gain in share in countries in Latin America.

Slide number 6, shows the evolution of our EBITDA for quarter three, 2019, it went from 18 -- it grew 18.4% versus quarter three, 2018. The EBITDA margin closed the quarter at 17.3% with an evolution of 2.2 percentage points versus quarter three, 2018. This reflects the cost rationalization,

reduction in expenses, change in scale, and a more favorable mix of products sold due to the lower revenue coming from wind power generation with lower operating margins.

Finally, Slide number 7 shows our investments in terms of CapEx for the past quarters. In quarter three, 2019, investments reached BRL134.2 million of which 37% were invested into Brazil and 63% to production units abroad. This number grew compared to quarter three, 2018, mainly due to the progress in our investments in the first casting operations of WEG outside of Brazil, which is now in its final stages of construction in Mexico and the new plant in China, expanding the capacity to assemble industrial motors and first line automation products.

Now, I turn it over to Andre.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Thank you, Paulo. To finish this presentation before we start the question-and-answer session, I'd like to highlight some recent achievements and our prospects for the rest of the year. We recently announced the acquisition of two new businesses continuing the company's strategy to develop its digital business area. Thus increasing our offer of solutions for the 4.0 Industry. In September, we announced the acquisition of PPI-Multitask, the company specializing in MES Solutions, IoT and software for the industry. And in the start of this month, we announced the acquisition of the company V2COM, specializing in IoT and telemetering solutions.

Also this month, we announced the continuation of our partnership with Volkswagen trucks and buses to manufacture the first light duty truck in Brazil, 100% electric, the E-delivery, WEG will be one of the participating companies in the e-Consortium. We will be responsible for supplying the powertrain system, which is made up of an electric motor and frequency inverter. Also yesterday, we announced our investment in the new electric engine manufacturing plant in India, a very promising market, which further strengthens our presence as a global player in low-voltage electric motor.

And finally, I'd like to reaffirm that our expectations for 2019 are still the same. We will continue to grow our revenue, however, at lower levels due to the known reduction of our wind power generation projects. About operating margins, we expect to see an evolution in our EBITDA margin versus 2018, due to the better performance of mature businesses in Brazil and the better profitability of our operations abroad, the maintenance of a good ROIC is supported by the growth in our revenue and EBITDA margin this year.

We can now start our question-and-answer session. Please operator, you may proceed.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now open for questions. (Operator Instructions) The first question is from Mr.Rogério Araujo from UBS.

Q - Rogério Araujo {BIO 17308156 <GO>}

Good morning everyone. Congratulations for the results announced, I have two questions. The first question is about the new energy efficiency, regulation. Could you give us more information? First, if it will apply to all low-voltage electric motors, including white line appliances, and how did the pre-purchase movement takes place, did it help the results of the quarters?

Could we expect a drop in sales due to this pre-buy? And does that have any stock? Because as I heard, you're planning to continue to sell into February. So what should we expect for the first quarter of next year? This is my first question. Thank you.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Rogerio, good morning. Okay. Let me tell you a little bit about the impacts, try to answer your question. Yes, we did have a concentration of our revenue this quarter, due to anticipation of orders. Due to the change in the regulation. The new regulation is the IR3 replacing the IR2. Which is known as premium motors. And the sales, the deadline for the sales were August, this year. The new regulation ends up inciting greater search for IR2 motors in the market. Because although they can no longer be produced, they can still be sold, until February 2020.

So you ask whether this is applicable to all motors? Yes, it is applicable to all motors except appliances. Appliances are not included. A little bit of the impact. We saw a growth of about 19% in this business area, this quarter in Brazil. If we were to normalize this, excluding the IR3 effect, we could say that we would still be growing two digits in the domestic market in businesses area. And in respect to the coming quarters, of course that we have some stock, because we were anticipating this movement. So until February, we should see some remaining effects of all this but only in what relates to sales. So we have two quarters ahead of us, quarter four this year, and quarter one next year, but we always look at sales on an annual basis.

So we should see some changes in our revenue this next quarter, but not much distant from what would be sold, if that hadn't happened. And about the ROIC. In the conference call for quarter two, 2018, you've talked about an expected sustainable ROIC of about 15% to 17%. However, we have seen an increase. Since then, it's now at 19%, but we still haven't really seen a recovery, a relevant recovery of investments in Brazil or a relevant improvement in long cycle investment. Neither here, nor in the rest of the world.

Q - Rogerio Araujo {BIO 17308156 <GO>}

So what explains this surprising ROIC, versus what the company expected? Is it one factor or a mix of factors? I'd like to know and I'd like to know what is the expected ROIC for the coming years -- a sustainable ROIC. What do you have in mind if you consider -- even considering that investment in Brazil will recover over time. So I'd like to know more about the expected ROIC for the coming years.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Hello, Rogerio. This is Andre. About the ROIC performance, we have seen an improvement in the last three quarters. We know that this is due to our strategy to invest in new businesses with attractive return, some operational factors, which we haven't seen the impact of now, such as the gains in scale, efficient allocation of capital. This is what has been supporting the growth in our ROIC, in the past few quarters. The profit has been improving our results in general. And this all, comes along with our discipline, a better allocation of the working capital, this all have been really helpful to these positive results.

When we started the year, we were expecting to deliver an attractive ROIC, and it's even better than we expected. For the coming years, we still have some very positive prospects. The ROIC level that we consider reasonable for the company is about 15% to 17% like you said, like we announced in 2018. So something around that level, a higher ROIC, we know that we have strict discipline on investments, long-term investment to see growth in the future. So it is possible that in the future we will be able to allocate more investment to support our growth in other businesses. For example, we just announced yesterday, the low-voltage electric motor plant in India, to continue with our growth strategy in foreign markets.

So of course, this is the main performance indicator of the company, the ROIC. So it's going to be our focus in coming years and if we can support it at higher levels, higher than the expectation, it's

even better. But it's difficult to give you a forecast in the long-term of the numbers that we can reach.

Q - Rogerio Araujo {BIO 17308156 <GO>}

All right, thank you. Just like to here follow-up about the ROIC about your investment in the 4.0 industry and that becoming perhaps a software provider, a software company in the future?

A - Unidentified Speaker

Rogerio, this is where these were small investments and the share that these investments have in the company today, are still very small, but they're going to become relevant in the future. These are companies that have good profitability, good returns. However for now, the impact on our consolidated ROIC is marginal.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you.

Operator

The next question is from Mr.Alexandre Falcao, from HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. Could you tell us about the report that was published a few days ago, talking about investments in distribution, transmission. Will this change your expected results? I know that these results are divided between the coming years, but should we be -- can we be more excited in terms of long-cycle from now on?

And also, about the voltage lowering stations, can you talk about these two verticals a little bit more? Thank you.

A - Andre Meneguetti Salgueiro

Mr.Falcao, good morning, this is Andre Salgueiro. Yes, about transmission and distribution in Brazil as a whole, particularly, the auctions that we had in the past five years, we had a large volume of investments being allocated to this industry in Brazil through different transmission lines that are planned to be built, as well as substations in the coming years. So the prospect for this segment is very positive for the market as a whole and also for WEG.

So since the beginning of this year, we have been expecting improvement in this business unit with very good prospects for the next 2 or 3 years. This is the overview for GTD. About the EPS announcement, this shows the expectation for this industry in the mid and long-term. We should continue to see investments coming to this market and we have a very good position in Brazil with a complete solution, in terms of transformers.

I think we're the only player that can manufacture the whole line of transformers for substation. So we are very well positioned to make the most of the opportunities that will arise in the coming years, in this market.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thank you.

Operator

Next question is by Catherine Kiselar from Banco do Brasil.

Q - Catherine Kiselar {BIO 20979709 <GO>}

Good morning, everyone. Congratulations for the results. My first question is about the power lines. You've talked about, T&D operations in the US and Mexico. Could you quantify this business, so that we can better understand these gains? And then I have a second question to make.

A - Unidentified Speaker

Good morning, Katherine. Your audio wasn't very good. So let me just make sure that I understood. The first part of your question is about T&D, in Mexico. Is that right?

Q - Catherine Kiselar {BIO 20979709 <GO>}

Yes. Let me ask my question again. Is the audio better now?

A - Unidentified Speaker

Yes, it's better.

Q - Catherine Kiselar {BIO 20979709 <GO>}

So my question is about the gains and synergy that you mentioned. So the gains and synergy in the T&D operations in the Mexico and the US, could you please quantify these gains?

A - Unidentified Speaker

Yes, Catherine. We have indeed reported a considerable improvement and a profitability of our operations in Mexico and the US. And certainly, the acquisition that WEG completed in 2017, was the main driver for this improvement. We recently started selling large transformers produced in Mexico. We've always had this capacity to produce in Mexico, but we didn't really have a sales channel established in the US. So this acquisition 2017, allowed for us to start the sales. The first thing is that, now we can allocate the products that we produce in Mexico and sell them in the US through this new operation.

And in the US, this company that we acquired was already a leader in this market for renewable energy. So this puts WEG at a very good position in this market. And finally, this has also translated in profitability. This business had a very low margin for us, but now after these changes, we have some very good expectations for the future.

There's another factor related with the synergy, which is many of the components that was supplied by the American market & American companies, are now supplied by our operations in Mexico. So it's a combination of all these factors that increases synergy, improves profitability. And WEG has been gaining share in the US in this business area.

Q - Catherine Kiselar {BIO 20979709 <GO>}

Thank you. My second question has to do with costs. Do we see some gains, in terms of cost reduction, increased in productivity? And we've heard about all the initiatives that you -- design and are now putting into practice. This cost level, is it sustainable? Can we expect to further improvements in

the future? What can we expect for 2020?

A - Andre Meneguetti Salgueiro

Hello, this is Andrea Salgueiro. Thank you for your questions. In respect to costs, a large portion of our cost is related with materials. And within the category of materials, I think the main one is metals, which covers aluminum and steel. And of course the prices will vary according to market characteristics.

Of course, we have some hedge mechanisms to ensure some predictability of the cost, but we are subject to the macro movements of these costs, which takes place globally and end up impacting our costs in the mid-term. This is something that we don't really have much control over, although we do have scale and bargaining power with some suppliers, the prices of these commodities will fluctuate, according to macroeconomic trends and global growth.

Q - Catherine Kiselar {BIO 20979709 <GO>}

All right. Thank you. we will be monitoring everything from here. Now, following up along the lines of the previous question. We've been hearing about -- well, about contracts and business prospects. Do you have a positive outlook? I'd like to hear from WEG.

A - Andre Meneguetti Salgueiro

It's like what I said in my previous answer, the prospects for transmission and distribution are very positive for the coming years, due to all the auctions that were held and all the investments that will be injected into these projects, in coming years. And what we can see in our orders is that our order base is improving, year after year. So we have very good prospects.

Q - Analyst

Thank you. Thank you, for your answers and congratulations once again for the results.

Operator

The next question is by Lucas -- from BTG Pactual.

Q - Analyst

Good morning, everyone. Thank you for the call. Congratulations, I have two quick questions. I have a question about the project in India. Can you tell us more about the opportunities that you see in India and whether the purpose of this project is to supply to Oman's refinery, the demand that comes from the human refinery in the Middle East, would That be feasible?

And would that be the purpose of this new plant in India and about the e-Consortium with Volkswagen. My second question is about that. Could you explain at which stage -- there's this, are you already in Rezende is Volkswagen already selling or negotiating contracts for the e-delivery in addition to the bad contract or the -- is this still under development? I'd like to hear the status of the project. Thank you.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Hello Lucas, this is Andre Rodriguez. About the plant in India. Let me tell you how this started, we've been in India, since 2011. We were able to acquire a plant there and since then, we've been increasing our market share for this category of products in India. And why did we make the decision to purchase this new plant there? For low-voltage motors, it's still a very interesting market. We're talking about a market that is similar in value to the Brazilian market, with very good prospects for the future.

We can't forget that India is still investing a lot in infrastructure and irrigation is a very important industry in that country. We are well structured in India. This Indian unit already has 800 employees. When we built it, we bought a very large piece of land and we decided that now it was the right time to build a low voltage motor manufacturing plant, which should start its -- which just start in the beginning of next year. We are now in the project stage and in 2021, we plan to start operating to develop this business, which is the main business of WEG globally, and now we're entering a new country with many growth opportunities. And no, this has no relationship with the Oman project, The Oman project is more recent.

So it's something that will happen in the short term and this plant will only be ready to operate in 2021. For the Oman project, we plan to supply different types of motors, specialty motors. For example, the explosion motors come from Portugal, a part of them will come from Brazil, part of them will come from China. And in China, we will be much more focused on the Indian market, this is the plan for now. And about the e-Consortium, there was an official announcement and WEG is now officially part of the e-Consortium. This is a continuation of the partnership with MAN Latin America, to manufacture the first 100% electric truck in Brazil.

So WEG is one of the companies in this project and it will have shared the possibility in assembling these trucks, in the Resende plant, and it will supply the power train system, which is the electric motor. The frequency inverter and also electric motor and inverters for accessory systems, auxiliary systems. The -- Volkswagen expects to start selling these trucks in the end of next year, 2020. They already have orders for 1,600 units of a company, that these orders are from a company that tested the e-trucks for one year. And now after this formal announcement, the commercial development stage will begin.

A - Unidentified Speaker

Of course they will not sell to one customer only, they will open this for the market and this plan in Brazil, will be a platform for exports, as well export of these trucks. So, now we start to see the concrete execution of something that was only a project in the past. But now, it's formally announced and formally started. So in addition to this company that tested the trucks, you don't have anything consolidated so far, you don't have any concrete sales. Know, Volkswagen is in charge of sales. And for now, we only have these orders for certain number of units for one company.

Operator

Next question is from George from Morgan Stanley.

Q - Analyst

Well, actually, my name is Lucas, but congratulations for the results. My question is about Industrial Electro-Electronic Equipment in the Brazilian market. I'd like to understand, whether you've seen any price increase for serial products, particularly for IR2 motors? And if you have any expected price increases in the future?

A - Unidentified Speaker

Hello, Lucas. Good morning. Thank you for the question. In this quarter, we didn't see any changes in prices, here in Brazil. However, the product which has a level 2 efficiency, versus level 3, because level 3 has a -- it is manufactured a different way. The costs are higher, that's why the price is higher. And the market knows that. That's why we have more demand for IR2 motors at this moment, but not necessarily because of any changes in prices.

And that once a year, usually in the beginning of the year, we review our prices to pass on the cost of the previous year. So we update our prices once a year, at the start of the year and this hasn't changed. That's the plan for next year as well. In the beginning of next year, we will assess the impact of inflation and the cost of our materials to see if we need to adjust our prices. This has no influence whatsoever by these things, that you mentioned.

Operator

Next question is from Mr. Daniel Solomon. Agro Capital.

Q - Analyst

Good morning. I'd like to go back to the costs, to understand if that gross margin gain that you showed, comes 100% from raw materials as you said in your release, or is there any impact of a greater cost dilution, due to the concentration of sales in IR2 motors as we saw in the quarter? So can we expect a similar cost level and gross margin for the next quarter.

And the second question, still about costs. How long will it take for us to feel the effects of materials? So where is the lag, if we have an increase or drop of prices of copper or aluminum, for example.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Hello, Daniel. Good morning. Thank you for your question. Yes. Indeed, the main driver of costs, main driver of the gross margin this quarter was costs. But actually it's a mix, and the best way to understand the impact on WEG's margin this quarter, is a combination of different factors. Let me give you some more details. We have mature businesses in Brazil, particularly for automation and power generation. These businesses have been showing more efficient and profitable operations, so this is one of the wins in Brazil.

Also -- and this has to do with your -- with the previous question about the operations in the US. Our foreign operations are also better with highlights to our US operations with transformer. So we have a better margin there, which improves our margin here. And the third factor is a mix, the product mix, which has two components to it. The first one you know, which was the lower number of wind power generation projects, which had a much greater representation -- representative in our portfolio last year. We know that the net margin of these businesses is lower. However, the ROIC is very good. But now, we have fewer projects of this type, And the second factor is a large concentration of electric motors, due to that effect of IR2, IR3 and this type of equipment also gives us a good margin.

And finally, we had a positive effect on the SG&A expenses, which dropped 5% versus last year. So it's a combination of all these effects and costs were helpful, but the improvement in our foreign markets and the improvement in the product mix were also good highlights. And the second part of your question. As we see this volatility in prices or costs and how long does it take for them to impact our results. Well, that is a diversified company. But for mature businesses, I say that in a one year time, the effects can be seen in our businesses.

Q - Analyst

Okay. Thank you. So your expectation in terms of margin provided that, you still have a positive perspective for these mature businesses. You expect to maintain the margins at a slightly higher level than in the first -- half of the year, for example?

A - Unidentified Speaker

Well, it's complicated to predict the behavior of our margins in the future. But I think, that they should stay at that level at, the average of this year. Of course that will depend on other economic factors that we cannot predict, but a good reference was the average that we had over the course of 2019.

Q - Analyst

Okay. Thank you. Good morning.

Operator

The next question is from Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you. For the follow-up, I'd like to know your thoughts about the auction, last week. I think the start of operations is planned for 2025. So what were your impressions about the relevance and the price of the wind power and solar power in this auction? And about the time frame for investment. Did you have any contract with the winners? And I'd like to hear your impressions about the auction.

A - Unidentified Speaker

Hello, Rogerio. Thank you for the question. Let me give you an overview of what happened in the auction and what it means for the market in WEG. For our business, the auction was very positive, because it points to an increase in the demand for power in our country. So this is the first thing that we can see clearly about the auction. Also, there's a positive expectation about the resumption of investment in capital projects which are closely linked to auctions in general. So little bit of the figures of this auction, 2.9 gigawatts of installed capacity and about BRL11 billion of total investments.

Linking this to our solutions, let me start with wind power. Wind power saw a recovering price. It was sold at about BRL99, which is better than the 1st -- the previous auction. In total, they talked about six projects, BRL4.5 billion, in terms of opportunity. And for WEG, we quoted with some customers, we didn't have any previous contact signed. And for most projects we have not really defined a supplier. So we're still looking for the best opportunities for wind power. We have a very up-to-date machine of 2.4 Giga, which allows us to compete fairly in the market.

About solar energy, the price is also better than in the previous auction. They talked about four projects, BRL2.1 billion in total. And in this case and similar to wind power, we talked to some customers, we didn't really find any free contract, but we have a track of every positive track record with solar powered plants. And we can also go after contacts in and this area -- in this sphere, because we know that most of the projects have not yet defined their suppliers.

And for hydropower and thermal power in this case, that is somewhat better position. We saw a recovery in average prices for hydropower. The auction of 27 projects, we are able to supply to 25 of them. They -- our product portfolio, these 25 projects are for PCH and PGS and within this universe, four of the projects were already defined that they're going to use WEG's equipment and for the other ones, we are now working on quotations. We have a real -- a very good real chance of supplying motors and turbines for these projects.

Also natural gas, three projects, BRL3 billion. In the case of natural gas in our portfolio, we don't have solutions to be directly supply to large thermal power plants, but we have a good chance with smaller projects and we're going to focus on those. And for biomass, they auctioned six project, nearly BRL800 million. And in this case, we are very well positioned, with a great chance of taking part in practically all the projects.

And of the 6, in 3 of them, we already supply to the companies. We are their suppliers already and Three of them, we are now negotiating. So in general -- overall, this auction was very positive for the market, for the country and for WEG and it will certainly give rise to many good opportunities.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. And can you talk a little bit about the timeframe of these investments, when we're going to see the revenues from these projects?

A - Unidentified Speaker

Well that varies project-by-project. Usually for solar power, we will see the results faster and also for biomass. And the ones that will take the longest, are for PCHs and wind power. So starting next year, we will start to see the results of these opportunities and that should last for six years in the

future, but it varies a lot, is very difficult to predict. But if they will be seen in as -- in a time frame of five years, I can say.

Operator

Next question is from --, HSBC

Q - Analyst

Good morning. I have a question about internet of things and software programs. Can you tell us more about the strategy in this market?

A - Unidentified Speaker

-- thank you for your question. What was the rationale for these buys? It has to do with the recent creation of our digital business area, which allows WEG to offer solutions for the 4.0 industry. And in simple terms, the 4.0 Industry has a pyramid of solution and the first tier, encompasses all the sensors. We have a lot of products in this area and the latest one developed was the motor scan, which is a chip that you put in your motor and you can measure temperature, vibration, rotation.

The two acquisitions come as a solution for the next two tiers of the pyramid, the communication and protocols -- through V2COM. The main product of V2COM, are hardware and software solutions is related with connectivity and IoT platform services. With a complete range of solutions for telemetering, for power systems and connection to the smart grid, which is a product that we already manufacture. The next layer is -- so you have sensors and communication and protocols and the next layer is manufacturing system management, that's where PPI-Multitask comes into play.

Which was the first acquisition that we announced in the end of September, and the main product of PPI is the MES, the manufacturing execution system, one of the most renowned, cooperate systems integration software. The first, you have a sensor, then you need to extract information that the sensor measures and you'll use equipment and telemetering solutions and then you have to send that information to a control and management software, which is the MES. This demonstrates that this is a great start, we just started, but we are already very well structured in terms of our strategy and our ability to provide a complete range of solutions, a complete offer of products and services.

So this is the focus at least in this early stage, because when we talk about digital solutions, we're talking about a universe that has solutions of different types, different sizes and WEG -- the purpose of WEG in this sense is to make the most of the businesses in this area, offering complete solutions for our manufacturing customers. This was the rationale for these acquisitions. We may have more acquisitions into the future, if possible. We have been studying many options. But we are going to keep to our scope and to the strategy that we have been developing so far.

Q - Analyst

Thank you, for your answer.

Operator

The next question is by Murilo Freiburger from Bank of America.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Good morning. Thank you, for the call. I have two questions. I'd like to know more about this global deceleration and how you see the impact on the main market, particularly international markets. And how this could impact the speed of expansion of international revenues in the coming

quarters. And also, the company has a relatively low market share in these foreign markets, so maybe you won't see such a large impact. So could you give us more insights in this sense?

And also, this is something that you already mentioned, but I'd like to know about distributed generation. I'd like to have an idea of what is the phase of growth, your prospect for the future. I'd like to hear about what we can expect, how big this can get in your activities, because we know that the GTD has the highest potential for revenue generation in the mid and long-term. So these are the two questions that we have.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Hello Murilo. Thank you. This is Andre Rodriguez. So I'm going to answer your first question about the signs of global deceleration. Yes, that's what we have been seeing particularly in the last two months, which is a change of the trends that we had been reporting until the second quarter this year. This global movement is much more concentrated on short-cycled products. As you know, we have a lower visibility of our customer base for a short-cycle product, a visibility of two, three, four months at the longest. This is what we can see and predict.

But the demand for a long-cycle product is still good, it's still positive. This demand encompasses projects for construction of new plants in the industries, that are important for WEG, such as oil and gas, mining and water and sanitation. And also, we must remember that the decision making for these projects took place one or two years ago. That's why, they are not so impacted by this global deceleration, right now. And even with the first signs of a slowdown, it's important to say that in local currencies, we saw a growth A growth of 2% to 3% in the first half of the year, in the main regions where we operate.

And as you mentioned in your question, we are on a continuous process of market share gain in different segments, different markets, different products. That's why sometimes, we don't really feel these macroeconomic effects as intensively as we would. These global signs of declaration, I prefer to look at the cup, half full. I'm sure that, that still has a lot of opportunities, we have been announcing some important international agreements, deals or markets in which we didn't use to have participation. For example, the Oman refinery was one example.

Also the contract for replacement of low efficiency motors in Europe. We are now going after markets looking for, important markets such as India. We are building a structure there. So I think that WEG -- because it has a smaller share in businesses -- international -- some international business. We end up having more opportunities & not feeling so much of the impacts of this global deceleration, and about solar power, Andr is going to answer your question.

About GD, we know that GD had been a good surprise in the past quarter. It's not just for WEG, but also for the entire market, everybody knew about its potential, but nobody had foreseen that it would develop at this pace. But we are having another year of good performance for solar power generation, particularly distributed generation. As we said in previous calls, we have a very good position for this type of project. We have a very favorable position for the development of this type of business.

We have a business model that we think, works really well, we work through integrators, so we don't work selling directly to the end customer and this is also another positive factor. And we are also investing to be even better positioned in this segment. Our latest announcement was a new warehouse close to the port of itaja in the state of Santa Catarina, with a greater install capacity, to be able to separate these projects and to keep supplying to an increasing demand in the GD market. Of course, there's a regulatory issue which is now being discussed in the public audience of our authority or energy authority.

We should have an answer for that, next March -- March, next year. Focusing on some particular customers with a greater focus on remotes generation or customers that have those mini solar

power plants in their private properties. It is important to stress that our current revenue in GD, most of it, comes from small retailers, small generation. Which is not so affected by regulatory changes. So we keep our positive prospect for the future and we expect to have very good opportunities in this segment, in the coming years.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Thank you. Thank you, for your answer.

Operator

We are now closing the question-and-answer session. Now, I turn back over to Mr.Andre Rodriguez, for his final remarks. Mr.Andre, you may proceed.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

So once again, thank you very much for being with us, for the announcement of our results in quarter 3, 2019. And I'd like to wrap up by reinforcing the invitation that we recently made through our mailing list and our IR website.

We're going to have the WEG day on November 22nd and November 28th and 29th in --. So then, I hope to see you there. Thank you very much and have a great day.

Operator

This conference call is now closed. Thank you very much for participating and have a great day.

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