Y 2020 Earnings Call

Company Participants

- Andre Luis Rodrigues, Chief Financial Officer and Investors Relations Officer
- Andre Salgueiro, Investor Relations Manager

Other Participants

- Alexandre Falcao, Analyst
- Lucas Marquiori Banco, Analyst
- Marcelo Motta, Analyst
- Regis Cardoso, Analyst
- Rogerio Araujo, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome everyone to WEG's Audio Conference Discuss Results about the Fourth Quarter of 2020. We'd like to inform you that we are broadcasting this audio conference along with the slide deck at our IR website at the following URL -- ri.weg.net. After the audio conference, the audio track will be available in our IR website as well. (Operator Instructions)

Any predictions contained in this document of possible forward-looking statements made during the conference about future events, concerning the company's business perspective and operating and financial projections and also related to the company's potential growth in the future are based on beliefs and assumptions on the part of the company's administration and are based on information currently available. These forward-looking statements involve risks and uncertainties and therefore depend on circumstances that may or may not materialize. Investors should have in mind that general economic conditions, industry conditions, and other operating factors might affect the future performance of WEG and lead to results that will differ materially from those expressed in these forward-looking statements. We'd like now to remind you that this audio conference is being conducted in Portuguese with simultaneous translation into English.

With us today in Jaragua do Sul, we have Mr. Andre Luis Rodrigues, CFO and IRO; Mr. Wilson Watzko, Controller; and Andre Menegueti Salgueiro, IR Manager at WEG.

Please, Mr. Andre Rodrigues, you may carry on sir.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning everyone and is a pleasure to be with you once again to discuss our results. We'll start with the highlights of the quarter. Talking about the net operating revenue, which grew by 29.4% vis-a-vis the fourth quarter of 2019. The continuity of the improvement of the economic activity was an important driver for this result, especially in Brazil where the economic recovery observed as of the third quarter 2020, has kept our demand for our products and solutions at a high level. In the external market, we continue to observe a slow gradual recovery in short-cycle businesses, which despite being lower than in Brazil has maintained a constant pace, since the end of the second quarter of 2020.

As for industrial activity related to long-cycle projects, we still present some level of volatility reflecting a drop in revenue in the external market in local currencies. Another highlight was the EBITDA, which saw a growth of 47.2%, reaching BRL981 million. EBITDA margin grew by 2.5 percentage points, reaching the level of 20.1%. Throughout the presentation, Andre Salgueiro will go into detail about this variation.

Lastly, we had another evolution in the quarter in terms of ROIC, return on investment. As we see on the next slide, we just saw a growth of 5.3 percentage points when compared to the fourth quarter of last year, 2019, reaching 25.5%. The consistency of this indicator for the past quarters mirrors an improvement in our operating performance showed or demonstrated by the combination of revenue growth and EBITDA margin expansion, exceeding investments and also showing small need for working capital in 2020.

I now turn the floor over to Mr. Salgueiro, who will continue.

Andre Salgueiro

Good morning, everyone. On Slide number 5, we have the evolution of our business areas, in the markets we have footprint. Starting by the business in Brazil, where the Industrial Electronic and Electrical Equipment was the great highlight. The sales of short cycle equipment remain up with a good demand for automating or automation equipment, where we have managed to increase our footprint in the market and also in electric motors of low voltage, in part associated to a high demand for our products by the civil construction and agro industry segments.

We also got good rhythm of deliveries in long-cycle projects to the highlight for pulp and paper, mining and oil and gas. In GTD, we had the maintenance of the good performance of the last quarters, where important projects being delivered, especially (technical difficulty) connected to the transmission lines auctions that were held in the past years. Our distributed solar energy, GD saw a good performance as well, thus contributing positively for the quarter results.

As commercial motors and appliances demand remain positive once again and in segments such as durable consumer goods and specially motors for the white line, food and civil construction have contributed significantly for this performance and Paint and

Varnishes had good performance in the quarter happened in a more granular way, but you can highlight a good demand in the segments such as civil construction, consumer electronics, re-painting of automotives and sanitation. As you know, external market, Industrial Electro-Electronic Equipment when has seen a recovery of economic activity around the world after the initial paybacks brought by the pandemic and especially for low voltage motors. It's worth mentioning that, this is happening at a slower pace down in Brazil and still below the business volume that we saw in the same period of last year.

Volatility of new orders for long-cycle (inaudible) quarter has impacted the growth of this business in the quarter with reductions in the project levels in some important sectors, such as oil and gas for example. In the GTD area, the growth rate was lower than in the past quarters, especially because of the reduction in the volume of projects in terms of generation of energy. It's worth mentioning the continuity of important projects in the TED area in North America, where synergies and market share, which is relevant in the US and Mexico continue to make important contributions to this business area of the company. As for appliances and commercial motors, our sales are still recovering, a process which has started in the past quarter with the highlight for the operations in the US and Mexico, where we have seen continuous increase in our market share.

Lastly, as for Paints and Varnishes, good performance was driven by an improvement in the economic activity in Argentina and of more intense level of sales in Latin America and especially in Mexico with the startup of our paint manufacturing plants in the country.

On Slide number 6, beside the evolution of our EBITDA in the fourth quarter 2020, where we saw a growth of 47.2% when compared to the same period of last year. EBITDA margin closed the quarter at 20.1%, showing an evolution of 2.5 percentage points when compared to the fourth quarter of 2019. Margin gain came with the rationalization of expenses and costs and improvement in margins of long cycle operations in Brazil, in addition to better margins in some operations abroad.

Finally, on Slide number 7, we saw the evolution of our investments. In the fourth quarter of 2020, investments reached the level of BRL158.4 million, 51% of which were allocated to Brazil and 49% to our units located abroad, thus consolidating a return to investments to normal levels in the company. After a moment of suspension due to uncertainties brought about by the pandemic, it's worth mentioning that our production system is based in what we call modular expansion, which allows us to adjust our capex according to demand and thus maximizing return on invested capital.

With that, I wrap up my part of the presentation and turn the floor back over to Andre.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Thank you. And before we move to the Q&A session, I'd like to reinforce some of our best accomplishments and also comment on our outlook for this year. As for our accomplishments, we have created late last year, the new sustainability office at WEG, a new governance structure, which aims at centralizing activities related to ESG topics. Those topics have always been taken very seriously at the company and we believe that it has been incorporated into our culture, but due to a growing demand coming from different stakeholders, we decided to create this new structure to address the topic at a more specific deliberate way.

Another accomplishment related to ESG, while the selection of our actions by the 11th consecutive time to compose the portfolio of Sustainability Index at ISC of the B3. We have also concluded last year, some expansion works in terms of production capacity, including the acquisition of a new manufacturing plant for transformers in Betim, mean there's arise with the approval with no restriction by the CADE last October and the expansion of our plants of motors in Austria.

I would like to highlight the results of 2020, which came out at a much higher level than expected, even amidst scenario upgrade challenges our net revenue saw a growth of 13.9% when compared to 2019 and our EBITDA margin reached 18.7% with a growth of 1.9 percentage point when compared to 2019 and our ROIC saw a growth of [ph]25.5% the highest level in the past years.

As for the perspectives for 2021, we'd like to reinforce that the pandemic still brings about several uncertainties about this scenario in terms of economic recovery worldwide. But even amidst the scenario, we expect to present another year of growth in revenues, albeit not at the same levels we saw last year. Operating margin should continue healthy, but with a possible and volatility because of the dynamic of business at WEG.

And lastly, our capex, which as per our proposed budget reached [ph]better in a year, especially due to the delay and important projects, which have been scheduled initially for 2020 and also because of the need of new investments to support the current levels of growth of the company is experiencing.

I now close my presentation. Please Operator, back to you, we can start the Q&A session.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we'll l now start the Q&A session. (Operator Instructions) And our first question comes from Mr. Alexandre Falcao, HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning. Good morning, Andre, everyone. Salgueiro, Rodrigues, good morning. My question has to do with the capex item and also about capacity, we see a very strong growth. You have mentioned in the past, the Paint plant was at full capacity last year. I'd like to understand given that improvement in the scenario, do you expect some kind of restriction in terms of the capacity, that's the first question.

And the second question is about the price of commodities, copper specifically. Whenever we see those [ph]will be very fast copper has been moving around, they tend to have pressure on margins. You tend to take a little longer to adjust prices, when you have fast increase in input prices, can we expect that for the first two quarters of 2021? Thank you.

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

Hi, Falcao. Thank you for your questions. I'll address about -- the question about investments and then I'll give it over to Salgueiro, who will touch upon copper and other commodities.

Well, first half, we have announced that we need to increase our capex for this year at around BRL1 billion, twice as much as we had been doing for the past years. Of course, last year we already plan on having a slightly higher volume, but the pandemic hit and we had to delay some of our investments. Part of those investments, take to an increase or lead to an increase in capacity. I can site the new unit for transformers and Missouri, which will increase our capacity in terms of transformers, that increase in capacity for transformers in the US will lead us to invest more in Mexico and boilers to meet that new capacity increases, which in the pipework -- pipeline for China in terms of automation, investments and modernizations, development of new products, the transformer plant in Betim, also has increased our production capacity for transformers, we had no way of expanding, we would need another increase or a new investment and that plant came about at a very timely moment, is not only a matter of investing, we need to train personnel, we need to provide technical capacity, technical skills that doesn't happen overnight.

As you know, we have the plant in India of course, which also increased our capacity, so those are all new investments and also in line with already of penetrating in other countries. In addition, we can also highlight the decision we made to increase our production capacity of commercial motors, because we understand that there is room for us to grow on that front and because of the high demand we've seen in the past quarters in the past months, which led us to seek other alternative investments that also have to do with modernizing and automation existing plants, always seeking higher productivity levels of course and so within that BRL1 billion, we understand that 38% would be allocated in Brazil and 62% will be allocated outside of Brazil. So as for the Paint plant, we also made a decision to invest in Mexico, starting in a greenfield project to also reach the Mexican market and also the American market, especially for paints.

A - Andre Salgueiro

Falcao, good morning. This is Salgueiro speaking. Thank you for your question. I'll comment on the copper issue specifically. Copper is an important metal within our cost structure. As you know for copper, we have that hedging mechanism. We look forward 12 months and then we scale back with our hedge to have some kind of price predictability. We know the price is going up, we cannot control that of course, but we do have those hedging mechanisms as I said, so that we can mitigate those impacts on the company.

The hedging mechanism is important because it provides us with that potential predictability on prices and allows us to make the necessary adjustments and the best that on whenever necessary. So as a rule, that's what happens, so trying to give you the short answer, we might have some isolated impacts, but they tend to is to pass that on in the mid to the long run. So here in Brazil, we adjust prices, last year we had an increase, not only in copper, but also in other raw materials, especially because of the foreign exchange variations. So we had two price through adjustments throughout the year and in some businesses, we had three price readjustments, so we're able to do that. As for the external, international market, that's not as easy to do. We tend to wait a bit, until the main market players start showing their intention, so your adjustments are not as constant abroad as they are in Brazil, but oftentimes the foreign exchange variation offsets think back, so briefly that's how we approach. It also relevant to mention is that the copper prices and metal prices going up mean that higher, we have higher demand, so that important segments such as mining are important for what WEG and we might have the chance of selling to other areas, so the commodity prices going up is something that's interesting to us.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay, thank you.

Operator

Our next question comes from Mr. Lucas Marquiori from BTG.

Q - Lucas Marquiori Banco

Hello, everyone. Good morning. Thank you for taking my question. I have two questions in my end. Number one, about the short-cycle products, I'd like to have an idea about how much better our margins for short-cycle products, with all the adjustments you made in terms of efficiency, productivity, that you conducted throughout the pandemic? We always had in mind that short-cycle products would have lower margins than long-cycle products, so we expected some kind of accommodation in the margin and that didn't happen in the third and fourth quarter, so I would like to understand whether short-cycle products have changed margin levels to see what we can expect going forward?

Second question at the end of the presentation, your comment about perspectives for 2021 and you do talk about a slowdown in growth in revenue, so what kind of slowdown drivers do you see going forward? This is expected to be an year of intense consumption of commodities and as we see the short cycle improving, we should also expect higher numbers. So why do you see a slowdown in revenues? I know there is foreign exchange issues as well, but I'd like to understand the dynamics a little better, that led you to think of a slowdown in the short term.

A - Andre Salgueiro

Hi, Lucas, good morning. Thank you for your questions. Salgueiro, speaking. I'll address the margin for the short cycle and then I'll comment on our perspectives for 2021.

As for margins, we did show a slide, where we showed the margins dynamics for short-cycle products, vis-a-vis long-cycle products and we tried to make clear that the margin variations for short cycle products is slow -- has a slow or a low variation, irrespective of the cycle, irrespective of the demand for that cycle.

So having said that, we did have some improvements when you look at the consolidated numbers, in terms of margins for short cycle, but they're not as relevant as the improvements that we see for long cycle operations and also on some other operations abroad, but that's happening because of efficiency issues. That's the first thing to highlight.

In addition, we had an impact coming from raw materials, that went up as you said, last year we had an impact coming from the foreign exchange variations and we passed that on. There might be some mismatch in the short run, but as a whole, that is offset the mid run, so short cycle margins in Brazil have improved, but within a level, which is not that considerable.

As for the external market. We can really say that short-cycle margins have been improving, but that will emerge in the mid to the long run because we want to bring those margins abroad close as the ones we have here. It seems to remind you that our manufacturing execution program is used to increase our efficiency levels and lead to productivity gains. That's a continuous ongoing work that we concentrate on every year and in the mid to the long run we see, we can reap the results.

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

Hi, Lucas, I'll address your first question. That's a complex Panorama of growth for next year, not only for short cycle, but for long cycle as well. The company is complex as you know, when you have different dynamics, according to the different markets, different industries that we serve.

So based on what we can see looking forward, early in the year still feeling the effects from the COVID-19 and the difficulty in recovering short-cycle product results, after the recovery saw in the third quarter in 2020, which was more intense in Brazil, all of that makes it difficult to predict if we are going to sustain that level of growth. So that's why we were very prudent and said, we do have an expectation of continued growth, but maybe not at the same level, it will be difficult to maintain that 31% level of growth that we saw last year, because we had an impact of the devaluation along the way. We also report volatility levels as you saw, in terms of long cycle orders, but again even in light of that scenario in the internal market, we expect to continue to grow because we understand that there is a possibility of seeing the Brazilian economy improving and that's key for the development of our more mature businesses. If that comes to be, we will have the necessary conditions to improve our short-cycle projects by renewing our plants and so on and then after that, we'll be able to create a more favorable, more sustainable scenario for new plants, thus meeting higher demand for long-cycle products. Some industry, such as agriculture, infrastructure, have been showing positive signs for this year. In 2021, we will also continue to deliver T&D products coming from the past years auctions. The solar generation business will not have the same growth we saw in the past two years, very strong growth, but it will still continue to be an opportunity business for WEG and we do believe in that business, we're going to be working to explore that further.

It's also worth mentioning the startup delivery of the new turbines of 4.2 gigawatts placing WEG back in that market and we cannot forget the continuous development of new products and new segments as well, example digital businesses which will create additional growth opportunities, but of course we also will be monitoring very closely the pandemic situation and the improvement of the Brazilian economy. Variations on that scenario might affect those expectations.

As for the external market, we have started the year in a different manner than we had last year. What is new? The vaccination processes are being deployed across some countries, not everywhere, but across some countries, but that of course brings about an expectation of economic recovery and we have been saying that the expectation for 2021 is to review the same revenue levels we had in 2019. Even amidst all those uncertainties, we do believe that number one T&D operations performance in North America, where we have a leading position and we are now starting new segments such as renewables and industrial and with this good portfolio of orders in Mexico, will help us out on that respect.

We also have an opportunity to grow through access to new markets, gaining market share as we have already mentioned before and new geographies, where we can also operate. China is doing really well, I have a very positive expectation. We have increased capacity over there recently and we now have an opportunity to develop not only Electric Motors, but also automation solutions, our low voltage motor units in India also sees growth opportunities and also segments such as water and sanitation, which brought about good alternatives last year and we should be keeping a close eye on mining.

Mining, last year started to recover, so when we combine all of that, WEG does believe that the company might grow this year, but not at the same levels we grew last year.

Q - Lucas Marquiori Banco

Okay. It became -- now it's much clear. Thank you, Andre. Thank you, Rodrigues. Thank you. Have a nice day everyone.

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

(Technical Difficulty)

We seem to be having a technical glitch in communication. I'm trying to reach the operator. Just standby for a second, please. Well, everyone. We're now in contact with the operator to resume our connection. Just standby for a second, please.

Operator

Our next question comes from Mr. Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning. Thank you, Andre. Congratulations on the results. Two topics I would like to address. Number one, about sustainability of the current return levels. That's something we have in mind and about the renewable business growth? As far as sustainability, I understand that 2020 saw these exchange rate variations, which affected and benefited the US dollar revenue and some of course domestic products because of the passing on of those foreign exchange variations. Does that make sense? Would we expect the ROIC to drop in the coming years? And if you have an expectation of seeing that drop, but stay at the levels that you had in 2019.

Along with the return on invested capital question, could we see a longer hiatus for the long cycle products because of the pandemic? It seems to be a more mitigated risk by now or if there was an isolated effect on the operating side. Again because of the foreign exchange, so that's the first question about how to sustain that level of ROIC?

Number 2, about your solar businesses, especially in the US, if you could give us more color on how much that accounts for today, accounts for your total result? That seems to be experiencing a growth level, which is above the average. If you could give us some more color on the growth of that business line specifically and if you expect that to continue to grow at the same pace going forward? Thank you.

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

Hello, Regis. Thank you for your questions. We'll try to address. Let's see if we can address all your points. Start with the question about return on invested capital. So the question would be, what are the factors that drove that performance in 2020 and if those drivers are sustainable?

Well, 2020 is combination of growth in revenues and an expansion in margins. That of course drove the growth we've seen for the past quarters. We also have to highlight the investment strategy around new investments with attractive returns, that was also important and a lower need for working capital and also a drop in investments in fixed assets for the past 12 months. With the combination of all of that led to that final numbers, along with a good management of working capital and the capex level kept at the same level, all of that helped our margins.

The margins were better than we expected earlier in the year. Now 2021 came, and the question is, can we sustain that level of 25.9%? I think that will be difficult. We are not likely to maintain that level in 2021, not so much because of the results themselves because we always work to deliver attractive margins of course. But because of the fact that we need to increase investments to support growth, we start new business areas, so we expect returns to drop when compared to 2020, but we are in a position to remain at a very attractive level anyway.

From the point of view of what we have done in terms of improving results, in terms of recovering external market conditions, that will help maintain good levels of return. Also in 2021, several of the gains we had last year, such as reductions in work shapes, reduction in travel, expenses that of course had a positive impact and we'll have had an impact going forward, thus reducing our OEC.

As you mentioned, also there could be a gap in the long cycle portfolio. We have been updating well on the following. For the long cycle, we need to have a good split at WEG and I'll take the opportunity posed by your question and say that because we are involved in several different businesses with very specific characteristics, how does that dynamic play out across different businesses to address your point?

When we talk about wind generation projects, we have a long backlog, which might be of two, three, or even four years for that product category. When we go to T&D businesses, that timeline might range from one to three years depending on the contracts. The hydro generation business works around one to two years. Solar plants usually have lower timelines, less than a year. Industrial projects have timelines of six months to a year. So, provided the gains we saw last year, we closed last year and started 2021 with good revenue expectations. The comparison basis also needs to be taken into account.

Once we were in a moment, where we had high demand for long-cycle products in Brazil, we've talked about pulp and paper, mining, oil and gas in the foreign market and as for electronic and electric equipment for the industry, we can still feel some volatility as we have reported in the call for the previous quarter. The current portfolio sits slightly below the expectations. As we mentioned since the beginning of the crisis, it's only natural that happens in a scenario like this and we started hitting those signs by the third quarter of 2020.

Some relevant sectors such as oil and gas, mining, sanitation, they decreased the investment basis because of the pandemic, of course, on the other hand and now I touch upon what you mentioned, when you say that we have tried to mitigate those risk. In terms of GTD, we have another portfolio which is quite healthy, which was put together throughout the past quarters with deliveries program scheduled for 2021, 2023, and as I also mentioned the wind generation projects which are also in our portfolio of orders that will contribute to the revenues of the year. So when we combine all that, even with that high level of volatility and some factors, especially in Industrial Electronic and Electric Equipment for long-cycle, where people are still working on that portfolio. As I said, for industrial segments, if we manage to gain some orders until May, we could feasibly deliver that this year. We have no evidence that will see some drop in long cycle as we saw in 2020 are compared, rather we did in 2020, now that we have wind products back in our portfolio for 2021. So with the visibility you have today, we have no concern around that for 2021, concerning long cycle to be sure.

A - Andre Salgueiro

Regis, this is Salgueiro, as to your second question, you asked about solar, but with a focus on WTU in the US, that's an operation which is focused on renewables. Unfortunately, we cannot disclose those numbers, we cannot give you that information around how much the company has grown on that front, but what we can simply state is that, that is one of the companies which is growing way above the average growth. It is leading, there is a strong growth in GTD for the company for the past years. especially in the international market in North America, the US and Mexico specifically. So it's doing really well. Since the acquisition in 2017, revenues more than doubled, so again, it's doing really well and so that's why we continue to maintain our investment plans. We're expanding capacity. We're building a third plant to make room to address that renewables market, which is also doing really well. And also to start in the market for generators for the industrial market, where do not have a footprint in the US yet, so it's a very promising business, especially with this new administration taking office -- the administration has a higher -- more intense focus on renewables than the previous administration.

Operator

Next question comes from Mr. Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning and congratulations on the results, Andrea. My question follows up on your final comment about the US. US now resuming the Paris agreement, we should see an acceleration in renewables. Do you think WEG would have to make a greater effort to capture a higher market share in North America and also about the wind energy? We have the regulatory framework being discussed in congress for wind energy generation, do you expect any change in technology in the framework for you to really answer that market? Thank you.

A - Andre Salgueiro

Hi, Victor. Good morning. Thank you for your questions. I'll start with the US question and Andrea will address the second question. Just to be sure, today's position in the US is centralizing T&D transformers and substations where WEG leads the market in the US. So we've been selling solutions both for wind generation and also for solar generation, and those are businesses which have seen considerable growth in the past years.

The new administration has a very positive stance, in terms of continuing to invest that the very resumption of the Paris agreement is a sign of that, but the US has been investing and renewables considerably for the last year. Last time I looked, last year for wind, but added 20 gigs of energy, that's a very strong robust number. So the country had been investing already and the trend is that it will continue to do so and we are well positioned, as I said we have a very good footprint and we're investing to increase our capacity to continue to meet the demands from that segment, both in the US and in Mexico, where we also have a very good penetration and have had opportunities to make some sales.

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

Victor, this is Rodrigues speaking now. Just to update you on the wind question and the change in technology that you mentioned in your question, 2021. For 2021, we have a contract with (inaudible) you know, which will bring revenue in 2021, most of it and then in 2022 as well. We have been also saying that we are making efforts to develop this new machine for 4.2 gigawatts, which you we're now selling out. We have signed two other contracts recently, which now leads us to have a portfolio for 2022 and wind advancing a little bit over 2023.

And we should have an important investment cycle coming forward in wind investments. If that materializes, it will reflect in our order portfolio. So we're not going to work to capture those opportunities in that segment. In terms of the technological change, WEG is quite well updated through our permanent magnet turbine. We're developing products based on that technology of course, a new piece of machinery which almost twice as much power, when compared to what we had, of course requires new investments across all components, especially the automation bit and that's where we are focusing on right now and we'll continue to use that same technology of permanent (inaudible). Okay, thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Marcelo Motta from JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning, Rodrigues. Two quick questions. First, if you could comment on the revenue performance in Europe. It was the international market that saw the highest drop for you. Is that a one-off situation or not? And also during the start of the presentation, you did mention that would contribute to revenues in 2021? You did mention the 4.0 Industry, I know we do not always give expectations, but if you could share your initiatives that will generate your results. Just to give us some color in terms of deliveries, what we can expect. You know that you have a partnership (inaudible) what you can expect coming from there, again about the 4.0 Industry, what kind of growth had you been seeing in the company's you have acquired? What kind of cross-selling opportunities you see going forward. Thank you.

A - Andre Salgueiro

Motta, good morning. This is Salgueiro. Thank you for your question. As for sales in Europe and some important to highlight that the fourth quarter of 2019 had been a very strong quarter, where we started off by recognizing some important projects. The refinery project in Oman, which were factored into Europe sales, that level of revenues for projects came on strong for the first three quarters of 2020.

For the third quarter, we started seeing a slowdown in terms of long-cycle deliveries. We saw some new orders coming in, but that did not lead to an increase in revenue, but in the fourth quarter, we saw a stronger reduction, which affected the revenues from long-cycle products or projects, both for oil and gas, also for water and sanitation. It's worth reminding that some O&Ms, which were important and that were servicing those markets and even though engineering companies, they are low created in Europe and countries such as Spain, Italy, Germany and the United Kingdom, so the drop in those projects and then, of course, comes from the beginning of the pandemic back in March, that has an impact down the road and that has affected demand for long-cycle products. So that the main factor, the main driver was a drop and long-cycle product deliveries. Combined with that, and also had late in the year in some important countries, Germany being the most eloquent, we had higher restrictions put in place because of the COVID situation. We didn't get to the point of having a lockdown, but they had restrictions put in place and that affected demand for short-cycle equipment, so we had a combination of long cycle products, which were coming at a lower level since the third quarter, along with higher restrictions, especially closer to the end of the year and that of course eventually impacted some specific countries in terms of short cycle.

If we remove that impact, as I said, short-cycle products have been resuming the base gradually. We have not reached pre-pandemic level, so there is room for us to improve, but we do expect to see that happen throughout 2021.

As for your second question, Motta, about the electric mobility, we have this partnership in place and the e-delivery, which is a product, which was developed along with WEG and we expect to deliver the first trucks by Volkswagen in the second quarter of 2021. So that's what we have in terms of concrete information. And other partnerships we are developing, we are not authorized by the clients to announce yet.

But, we do have the re-charging station business, we are able to replicate projects of public partnerships in some places in Brazil and we also trying to meet private demand. We have developed new recharging stations and that's a business that will create good opportunities for the company in the future.

As for the digital business, where are we now? Digital business within the company should be seen as a journey, so after the acquisitions, we are thriving on that journey step by step, we're combining the technologies. We have acquired the example I gave in the past call of three products, WEG's Mark Machine, energy management and other management tools emerged from those partnerships from that combination of different technologies.

So again, it is a journey and it is also a journey that should be complementary to solutions, which we already have in place at WEG. They are adjacent solutions to the existing portfolio. Also important to say is that at the first stages of that journey, we have low comparison basis. So we see considerable growth on a month-by-month basis through those combinations that I just mentioned, but a very low margin, yes, but we do see a very promising outlook.

In terms of the open lab, V2COM was one of the companies that we acquired. When we acquired V2COM late in 2019, we knew why we were acquiring V2COM because their technology had to develop 5G products. We also announced the agreement of the Technical Corporation, which we signed in November with the Brazilian agency of Industrial Development and the National Agency of Telecommunications, Anatel, to test 5G technology across private networks for industrial use. We conducted those staff in one of the most automated plants, that we had -- that we have.

If you were present our WEG Day, last year, you had a chance to take this tour at our plant with robots, automation, the highest automation level as I said that we have in the shop floor, that is located in Jaragua do Sul region and with that we will be able to assess the performance of this environment -- this production environment with all those devices and antennas in place and connected via 5G. As we move from that experiment from the pilot is to offer the Brazilian market productivity solutions based on 5G technology as soon as possible and of course, that makes sense from an economic and technical point of view from our end, so what we are developing is in line with the expectations, but substantial increase in revenue will come in time.

Operator

Our next question comes from Mr. Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning, Andre, Salgueiro. Congrats on the results. Two questions. Is there any segment where you work that is seeing disruption from suppliers, either now or in 2020? And what are the -- where are the main bottlenecks that you see now that you could be selling more if you had more capacity now? Right. If you could list the units where you have higher pressure in terms of supplier disruption.

And also, I'd like to understand your long cycle or their portfolio?. Salgueiro mentioned that you like this environment, where commodities are priced at a high level. I would like to understand two things, I would imagine because of the COVID that portfolio is not as strong, but at the same time you have an environment where this will turn your way. So what would be the timeline that you expect to have new orders coming into your portfolio? How can you expect the behavior of your portfolio? We see high points, low points, what's the timing for that? Thank you.

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

Rogerio, as for your first question throughout 2020, we faced many challenges with the supply chain across different businesses and as the pandemic evolved, we faced different situations. When the pandemic first hit, our main concern was solar panels. We expected to have a good year in solar. We did not want to see that chain being disrupted, we were ready for that. So we did not feel the impact because we weren't kind of pessimistic before we sort of anticipated bad things that didn't happen, so we are ready for a worst scenario. We were ready to seek alternative solutions to protect ourselves in terms of imported components. So some bearings we're developing in Brazil as an alternative and that worked really well.

And when things started to resume normal levels, we now face new challenges early in the year and as of late last year. Up until now, we did not see any disruption to answer your question, but as you can see on the news, all the international transit, which involved China, vessels and freight prices are high. We see a lack of certain components, certain raw materials in the market. For example, electronic components coming from China, the automotive industry has been talking about delays in production because of a lack in those made in China components.

Again we increased our inventory early in the year for those components and today we are not facing a disruption. We do have some delay in deliveries, but we have built the necessary inventory for us to operate without compromising delivery times in March. Back in March, we reinforced our inventory, so that we wouldn't suffer impacts earlier this year.

Also in terms of paints, the petrochemical industry also suffers to some extent because of that -- because of the lack of some raw materials for that industry, but at no time did we have a major issue. We have managed to adjust to this new reality so far without compromising deliveries and also being able to meet new orders.

A - Andre Salgueiro

Rogerio, this is Salgueiro. As for your question about the long-cycle portfolio, it's difficult to give an exact answer, because we're going through dialectical situation. We have been experiencing a good long cycle process and as Andre mentioned, in terms of GTD, we do have a relatively healthy portfolio. Our main concern sits on the industrial front. Industry had been recovering and then the pandemic hits and in the post-pandemic process, of course people are holding off on the investment decisions. But there were projects on the verge of materialize, so we can only imagine that as the economy recovers, that will happen relatively fast as Andre had mentioned and industrial projects usually has a lead time of six to eight months between the order, all the way down to delivery, so we are not seeing that happening now, no new orders. Our commercial team has reported to us, that there was a recent increase in the level of quoting, that's a first evidence of a recovery.

Quoting comes right before ordering of course and right before production, so we do have a good expectation that this will happen throughout the year, but it's nothing that has already reflected in our numbers so far. As a reminder, the mining industry has not suffered that much. We still have mining projects in place, even throughout the crisis. But we do have other segments, such as pulp and paper, oil and gas or in sanitation, where we did feel some impact, but they might resume activity throughout '21, that's our expectation.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Okay. Thank you for your answers.

Operator

We now close the Q&A session. I'd like to turn the conference over to Mr. Andre Rodrigues for his final remarks. Please Mr. Rodrigues, you may carry on.

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

Hello, once again, thank you very much for participating in our audio conference. I wish you all a nice week, nice day and see you next time for our next conference call to discuss our results. Bye-bye.

WEGs audio conference is now over. Thank you all for participating and have a nice day, everyone.