

# Q3 2021 Earnings Call

## Company Participants

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

## Other Participants

- Daniel Gasparete, Analyst
- Igor Araujo, Analyst
- Lucas Barbosa, Analyst
- Lucas Laghi, Analyst
- Marcelo Mota, Analyst
- Renata Cabral, Analyst
- Rogerio Araujo, Analyst
- Victor Mizusaki, Analyst

## Presentation

### Operator

Good morning and welcome to WEG's Conference Call and the results of the Third quarter 2021. We inform you that we are broadcasting this conference call, accompanied by the slides on our Investor Relations website at [ri.weg.net](http://ri.weg.net) and after its conclusion the audio will be available on our IR website.

(Operator instructions) Any estimates contained in this document or any forward-looking statements that may be made during this conference call about future events, the business perspectives, the operational and financial projections and goals and the potential for future growth of WEG constitute mere beliefs and expectations from the management based on the information currently available. These involve risks, uncertainties as they refer to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors could affect WEG's future performance and could lead to results that differ materially from those expressed in such forward-looking statements. We would like to remind you that this conference call is being conducted in Portuguese with simultaneous translation into English.

With us today in Jaragua do Sul, Andre Luis Rodrigues, Chief Financial Administrative Officer and Investor Relations Officer; Wilson Watzko, Controlling Officer and Andre Salgueiro, Investor Relations Manager at WEG. I would like to turn the call over to Mr. Andre Rodrigues who will start the presentation. You may proceed, sir.

### Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. It's a pleasure to be with you once again in this earnings call to discuss WEG's results. We start with the highlights for the quarter, with the first being net operating revenue, which grew 29.1% compared to the third quarter 2020. The positive performance in all business areas was key to this result. Reflecting the improvement in industrial activity and the positive demand for our products and services in the markets where we operate. In Brazil, we see

continued good demand in all business areas. In the foreign market we have posted revenue growth in the main markets where we operate.

Another highlight in the quarter was our EBITDA, which grew by 23.3% and reached BRL1.1 billion. EBITDA margins closed the quarter at 18.5% down 1 percentage point compared to last year. In movement that is already expected to the increases in material costs and also due to the mix of products sold.

Throughout the presentation Andre Salgueiro will give more detail about this performance. Finally, we had another quarter of ROIC evolution when compared to the same period of last year as we will see in detail on the next slide which grew by a 8 percentage points over Q3, '20 reaching 31.3%. The consistency of this indicator in the recent quarters, reflects the improvement in our operating performance demonstrated by the combination of revenue growth and expansion of EBITDA margin, together with a good management of the working capital in the past 12 months.

I now turn the floor over to Mr. Salgueiro to continue this presentation.

### **Andre Salgueiro** {BIO 22483393 <GO>}

Thank you, Andre. Good morning, everyone. On Slide 5, I show the evolution of our business areas in the markets where we operate. Starting with Brazil where demand in the area of industrial electro electronic equipment showed another quarter of evolution. We had growth in sales of short cycle product such as low voltage Electric Motors, gearboxes and serial automation equipment. Especially in the agricultural machinery and equipment and water & wastewater segments. Sales of long cycle equipment such as medium voltage electric motors and automation panels also grew mainly in the oil and gas, mining, and water & wastewater segment and the GTT area we posted growth in all our businesses highlighting the good demand for this distributed solar generation, which has picked up again in recent months.

And the growth in sales of wind turbines and alternators the TD business presented another quarter of evolution driven by the deliveries of transformers and substations for projects linked to the transmission auctions together with sales of distribution transformers and transformers for renewable energy generation forms.

In Commercial and Appliance Motors sales volumes have remained high with the Food and Beverage segments agribusiness and durable consumer goods contributed to this quarter's growth. Demand in Coatings and varnishes also continue to be strong, especially in the segments of road implements, aluminum profiles and agricultural implements. As to the international market in the Industrial Electro Electronic Equipment area we observed an acceleration in the pace of economic recovery in all regions where we operate relevant segments such as mining, oil and gas and water and wastewater are among those that most amended our products.

Long cycle equipment presented an evolution in sales confirming the signs of recovery reported in the previous quarter with an improvement in sales and also in order entry. In GTD we posted another quarter of evolution in the T&D business with relevant projects being delivered in Mexico, Colombia, and also in South Africa. In the area of commercial and appliance motors we saw significant growth in demand for products and moves explained by the acceleration of economic recovery and gain in market share, especially in the United States and Mexico. Applications such as pumps and compressors were the highlights for the quarter. Finally in Coatings and varnishes represented an advanced in sales in Latin American countries driven by exports from Brazil and from Mexico, where we started the operations of our new plant at the end of 2020.

Slide 6, shows the evolution of EBITDA in Q3 2021 where we presented rolls off 22.3% in relation to the same period of the previous year. EBITDA margin closed the quarter at 18.5% down, 1 percentage point compared to the third quarter 2020 confirming our expectations.

The challenges in the global supply chain and the resulting increase in raw material costs together with the change in the product mix mainly due to the resumption of revenues from wind generation projects lead to a small reduction in operating margins this quarter.

Finally, on Slide 7, we show the evolution of our investments. In the third quarter 2021 investments reached to BRL125 million of which 59% were earmarked for Brazil and 48% for units abroad. Proceeding with the investments in our factories in Brazil, China, US and India thus confirming the increase in investments expected for the second half of the year.

With this I finish my part and give the floor back to Andre.

## **Andre Luis Rodrigues** {BIO 17964192 <GO>}

Thank you Andre Salgueiro. Before moving on to the question-and-answer session. I would like to mention some of our recent achievements and comment on our aspects for the remainder of the year. Regarding our achievements, I would like to highlight three events this quarter we completed the construction of our fifth transformer plant in North America the third in United States in the city of Washington, Missouri.

The new plant is part of our strategy to break into the industrial transformer market as well as increase our capacity to serve the markets of large-sized utility companies and transformers for renewable energy generation plants. We also announced the acquisition of Balteau Produtos Eletricos in the City of Itajuba, state of Minas Gerais, a traditional manufacturer of equipment for measuring and protecting low, medium and high-voltage electrical systems.

We remind you that this transaction is still subject to the Brazilian Antitrust authorities approval and as highlight exclusive partnership for the supply of EV charging stations for large of makers in Brazil, such as Renault, Fiat and --. Finally, about the prospects for the year improved or entry in important segments such as oil and gas, mining and water and wastewater. Signals continued growth in the foreign market. In Brazil, the good long cycle order backlog, especially in GTD is likely to continue supporting our growth. On the other hand, the combination of the increase in raw material costs and the change in the mix of products sold, especially due to the higher sales from wind projects as of the fourth quarter of 2020.

We should continue to pressure operating margin. Finally, the impact of the pandemic on the global supply chain are still of concern and do not signal normalization. However, we believe that our business model based on vertical integration allows us to have greater flexibility and availability of product.

Taking advantage of revenue growth opportunities with a gain in the market share across all regions. I end our presentation here. Please operator we can proceed the question-and-answer session.

## **Questions And Answers**

### **Operator**

(Operator instructions) Our first question comes from Mr. Lucas Barbosa with Santander.

### **Q - Lucas Barbosa** {BIO 20835372 <GO>}

Hello, good morning Andre. Congratulations on the, your results. I have two questions. The first is related to CapEx you had BRL25 million of CapEx we saw reasonable acceleration I know that you expected something after sort, could you make some comments on the dynamics of the investments?

I know that there was a little delay deliveries because of the pandemic and some of the things were pushed to the future. Okay. So this is my first question.

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

Hello, Lucas. Thank you very much for the question. This is Andre Rodrigues speaking. Okay. Here we go. Let's talk about the CapEx performance we have already told you that we have the expectation of an increase in the CapEx in the second half of the year. In the first half we also shared that we had some delays and some of them were continued in the second half of the year because of the pandemic so there were some delays in the equipment that have been purchased.

And also the plan to that was being built in India that was affected by lockdowns and the number of people at the plant that was restricted and so we had some delays in the process the expectation of CapEx was about BRL1 billion and we're seeing now is that for the fourth quarter, we are going to just have some figure close to what we had in the third quarter and we will deliver this year investments of BRL750 million and the remainder would be carried over for the following year. We have no plans to cancel the investments.

We have made to make adjustments to the execution due to the pandemic, so part of the investment is going to be used next year. Most investments only to complete for the third quarter, we had some investments in China where we expanded the plant of electric motors in United States.

We completed that industrial transformers plant and we have already started expanding one of the plants where we have in the United States in the T&D area and in Brazil, we have investments connected to gains in productivity and improvements in processes, basically.

**Q - Lucas Barbosa** {BIO 20835372 <GO>}

Okay, perfect Andre, it was so clear. Thank you very much. Can I ask another question related to working capital. When we look at days you had there you had a substantial decrease in days for the receivables. I would like to understand if there was any change in the policies of deliveries for the payment of the deadlines for payments.

Anything related to working capital that the capital that would help help us a lot.

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

Lucas is talking about working capital, I think it's important for also to remind you that long this year the working capital reached the best levels, when we compare working capital over revenues may be the best ratio happened in the second quarter of this year. So we had told you that the expectation was that along this half of the year, we would have an increase in the working capital.

I think the main reasons for that is that first the level is related to the level of activity. When we talk about working capital, we have to understand the level of activity increased and this influences the working capital, that we also had a drop of some of the performance indicators basically this increase has been happening in the part of receivables from clients and inventories as to inventories.

For example, the turnover of inventories was about five times it dropped to 4.8 so we have to consider that along the year, we had something important related to inflation effect in the inventories and we also recompose some of the inventory levels, which were lower compared to some other months, when we look at our branches, where the demand from our products from abroad was stronger. So we need to recompose the inventories and we also had an anticipation of purchases of some of the component. So to provide some more comfort in terms of inventory

volumes, especially related to raw materials and we have to consider the volatility of the supply chain.

And when we talk about receivables, we understand that this is Mark to the mix of products this half of the year, we have an increase of transformers, smaller equipment which are transformers that are used in the grid of boats. And in some cases are even serial equipment and the deadline for the receiving the amounts is a bit longer.

So it was something related to the mix of products when we talk about receivables and also the inventory levels that are influenced by inflation and we increase or inventories in order to provide some guarantees and also when we needed to refurbish the levels of inventories.

**Q - Lucas Barbosa** {BIO 20835372 <GO>}

Okay, thank you. Just another question is a follow-up question, I know that the third quarter we saw some worse indication in relation to the previous quarter, but we saw that there has been an increase in working capital. When compared to last year, was there any change in your policy in your strategies.

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

Lucas this is a little bit about of what I mentioned, we had suffered some degradation in some of the indicators and the life cycle business help to reduce the working capital, but once again, I would like to point out that the amounts that were announced, especially in the first quarter were the best ones when compared to the last 10 years.

So it's just natural that we are would you expect to literally increase in for the future.

**Q - Lucas Barbosa** {BIO 20835372 <GO>}

Okay, thank you. That was very clear have a good day.

**Operator**

Our next question comes from Lucas Laghi with XP Investimentos.

**Q - Lucas Laghi** {BIO 20757425 <GO>}

Good morning Andre Rodrigues, Salgueiro. Congratulations on the result. I have two questions. First is just a follow-up on the previous question, thinking about CapEx? It Clear when you mentioned the working capital when the inventories and the increase in raw materials cost, but when we look at CapEx, especially when we saw in the third quarter, we can see that delays also influenced, but there was an increase in prices that we see in industry in general.

And the second question, it's more specific thinking about taxes, we saw that there was an increase relevant increase in terms of taxes paid. We had a difference in the rate due to the international market. I would like to understand those four factors in relation to the third quarter just to understand, if it was, this was something specific.

And do you think we're going to see changes in the tax rates that were applied. So these are the two part. So, one is about the CapEx and the other ones is about the taxes. Okay, thank you.

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

Hi, Lucas. As I started talking about CapEx, I will continue. So this year we had some effect on the FX, when we look at the investment plans. The expected expectations were different. So large part of investments is in the international market. So we also see some impact there.

So a let little bit lower when we talk about prices because many of the pieces of equipment were contracted in periods before the global crisis, that we still see some impact due to those effect, but I do not consider this to be so relevant.

**A - Andre Salgueiro** {BIO 22483393 <GO>}

Lucas this is Andre Salgueiro speaking. I'm going to answer the questions about the income tax. In fact, we had no changes to the benefits that the company has been granted in the first quarters. So basically what happened this quarter is that there was a growth especially in Brazil, because there was a change in the mix and the generation was different from Brazil and what happened abroad. So we saw some differences. But in terms of expectation, there is no change that happened will make the future the more different. We're much more different in there in the other quarters.

**Q - Lucas Laghi** {BIO 20757425 <GO>}

Okay. This is it. Thank you very much. And have a good day everyone.

**Operator**

Our next question comes from Renata Cabral with Citi.

**Q - Renata Cabral** {BIO 21901583 <GO>}

Good morning thank you very much for the opportunity. My question is related to the dynamics of the local market in Brazil. Last quarter the performance was very positive. There was a rebound of the effects that we had last year. So we see that it continued. We saw the sector is helped mining, machinery, oil and gas, these are sectors that are doing very well. At the same time we have an economic scenario for 2022 which is quite challenging for Brazil, I would like to understand how you see it in terms of growth of the local market. For the quarters to come, including 2022. And then I ask my other question, okay thank you.

**A - Andre Salgueiro** {BIO 22483393 <GO>}

Hello Renata, good morning this is Andre Salgueiro speaking. In fact, it was, as I said the domestic market was the main highlight. The growth was very strong and first in the GTD segment that grew 59.1% in relation of last year and we have a growth of all the businesses, some businesses growing at the pace of two digits and we had the resumption of wind generation projects that also been -- do this performance.

And as for the industrial area, we saw positive dynamics for short cycle, that has been going on since the second half of last year and we have noticed an improvement in the entry order especially in oil and gas and mining and water and wastewater. So we are working on the budget for next year.

We did not have the precise numbers yet. And we also have to separate the two businesses, the short-cycle business provides us not very long visibility for the portfolio and we can say that this is positive and we can have some changes, all of a sudden, but we do not expect that as for long cycle or portfolio has been built longer the past few months, providing a good visibility, depending on the business.

Such as Industrial Electro Electronic Equipment we see, we can see for portfolio and also wind generation that we can look ahead, up to 2023 and based on the long cycle portfolio, we can say that we have good perspectives for the second half. So for the short cycle, we do not have this flexibility we need some confirmation that will be given along the next month's -- and what was the consolidated dynamics for the domestic market.

**Q - Renata Cabral** {BIO 21901583 <GO>}

Okay, perfect. Thank you very much for the answer. And my second question is in relation to what even related to the lack of raw materials in the global chain and because you're very verticalized, it may be of influence, but I would like to understand how would you see this dynamics, because it helps you on the one hand, but on the other hand it may affect the consumers those who develop the project.

And since you have many local plans abroad, I would like to know how the lack of raw materials would affect your business, because we have seen some more for example in the freight operations and how this is going to be affected in the short term.

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

Renata this is Andre Rodrigues. Let's talk about this lack of material prices that is generation this crisis globally. Along this year and even last year we said that we had all the raw material we needed, we just have some specific problems related to some specific operations that did not affect the deliveries.

But everything was manageable and part of this is result of verticalization process, we can be a bit more conservative in terms of inventory, we decided to increase some inventories as a strategic measure that contributed for us to go through those periods without any relevant effect on our operations.

I think the global crisis of supply is not over yet, so let's see what's happening to electronic components. Those who didn't place an order for next year they place orders now, they're likely to receive those components only at the end of the year or even in 2023 only. But in our case what we see demand for the manufacturing of our product we have all the demands are ready seen and for the short term. We have this solved but the company has been preparing for the future. And it's just natural that things will start to improve, they are not going to be normalized in 2022.

But the situation is going to improve, because we are verticalized in, we have this availability and the mobility to produce here and send it to Mexico and from Mexico to China is a good protection for us. So what happened in the beginning of the pandemic, especially in Europe, those companies that didn't have this level of verticalization and will depend on other manufacturers of components have to stop their production, because they didn't have production and this did not happen to us.

We understand that today rights model is a model, that brings us some advantage I've always said that one of the reasons why we are so successful is that we have an industrial strategy, which is very solid and very sound, not only in Brazil but in other regions as well. But of course this can cause a problem for high-end, as Salgueiro mentioned. We do not see this reflected on the orders placed with us.

This is something that we have been monitoring when we consider long cycle equipment business and the deliveries are in the long term and this says up to WEG to have there raw materials. Then to the client because the client is the final receiver and the risk is lessened.

**Q - Renata Cabral** {BIO 21901583 <GO>}

Okay. This is so clear have a good day. Thank you.

**Operator**

Our next question comes from the Daniel Gasparete with Credit Suisse.

**Q - Daniel Gasparete** {BIO 17999254 <GO>}

Good morning, everyone. Thank you for the call. I have two questions as well. I would like to talk about the ROIC behavior, what's your expectations for the next year. In view of the increasing CapEx and also the working capital and the second question would be to pass through prices.

How do you see that point in the market. Both in the Brazilian market. And the international market. What's the accepted self this increase. Thank you. Good morning.

**A - Andre Salgueiro** {BIO 22483393 <GO>}

Hello, Daniel. Good morning. This is Andre Salgueiro speaking, in relation to the ROIC what we have been saying in the last quarters is that this indicator grew in the past years. If we look at a longer horizon and more recently when we look at the beginning of last year, up to now it even accelerated in terms of growth.

So we have a very strong growth from the viewpoint of results of the company. We had very good improvement of the working capital as Andre mentioned in the first answer he gave and we have the FX effect that the valuation of the real helped us to improve this indicator more recently since last quarter or even the quarter before that, we said that it was possible to see some stabilization of the ROIC.

For different factors, one is related to investment, we accelerated the investments in the third quarter and the expectation is to continue with this trend in the future and we also have the working capital and also that effects that can interfere. We do not provide official guidance for ROIC or any other indicator. But we are going to be working to deliver healthy ROIC and higher than the average of our peers. So as to say. So this is the idea we have in mind and these are the factors that may impact the ROIC in the future. In relation to the increase in prices, we have already been approaching this. And in order to minimize the impact of raw materials we needed to recompose the prices and whenever possible we were recomposing the prices is now the markets where we operate in international markets. We've made some adjustments this year in order to offset to the increases of raw materials.

But I would like to remind you that all those adjustments have been especially in short cycle product, low voltage product, paint and varnishes and may change depending on the line of products and this is something important to consider, because sometimes there is a mismatch between the increase of raw material prices and the recomposition of prices, and this recomposition in industrial in the industry took everyone by surprise. And this has taken WEG and also our suppliers clients and even competitors to follow the same trend.

**Q - Daniel Gasparete** {BIO 17999254 <GO>}

Okay, thank you. Have a good day.

**Operator**

Our next question comes from Victor Mizusaki with Bradesco BBI.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Hello. Good morning, congratulations on the results. I have two questions. The first one in 2019 WEG made a very relevant agreement with the French group Arkema and the discussion at the time was focused on the electric motors for the improvement of energy efficiency and the estimate at the time was the consumption of 8%.

And we have seen this discussion of energy aspects and I would like to understand, we can expect large agreements or electrical motors for the industrial sector that would involve the replacement of engines or is this a trend that we are likely to expect for the next years and also in relation to growth WEG in the best months seeing the M&As have been concentrated in Brazil.



And growth has been more organic. So my question is are you looking at possible M&As abroad. Can we expect that niche staying out of this, what was the increase in capacity abroad considering the investments in China and in the US?

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

Victor. Okay. Here we go. So let's talk about the trend. And this is something that WEG has been working on related to the efficiency of engine electrical motors. So this is a from that we have, we want to bring more opportunities for investments, because our clients are willing to have more efficient project. And the company has been investing in research and development and innovation so that we can offer better solutions to our clients. In 2010 the first company in the world that presented the highest level of efficiency in motors was WEG. We are prepared for that. We understand that this is a trend. And we understand that there is a growing demand for those products as you said you had agreement with our --. And we are doing the same approach with other companies as well. So this is a demand from the industries at large, especially at moments where you need to reduce energy consumption, considering the energy crisis, supply crisis. So it's very important to have complex industrial complex with optimized machines.

So this is a way we are taking, and all the strategy related to renewables that take WEG to the position of continuing growth due to those demand.

**A - Andre Salgueiro** {BIO 22483393 <GO>}

Hi, Victor. This is Salgueiro speaking. In relation to your second question from the viewpoint of growth. I especially, the international market, which was the focus you raised we have some information that was provided on WEG's Day last year when we showed where, which are the regions where we have presence.

And we showed the size of the markets and our market share in our main priorities is also in the regions where we operate. So there we show the message that there is a lot of room, a lot of opportunities from the viewpoint growth by gaining market and then international markets.

So this is our main objective and the investments are always focused on this long-term growth. This sustainable continued growth and the investments are going to depend on each business. Specifically, we have some examples of M&A and investments as you mentioned, for example as to transformers in United States. We acquired WTU and now we decided to increase the capacity with the new plant. Our third plant in the United States in China, which is another example.

You mentioned the plant of a low voltage industrial motors in China is increasing its capacity year on year. So we have been investing in that modular expansion model that we have both in Brazil and Mexico. And as we see feel the demand of the market we make investments, so that we can meet that demand.

So the main message here is that we believe in this long-term vision. The growth opportunities and we are going to make all the necessary investments so that we can meet all this growth. Interesting example would be the operations in India and when we talk on investments and M&A. This has a lot to do with this, it was a decision that we made, we looked at potential acquisition, but we decided to have a greenfield project to break into the segment of low voltage industrial equipment and from there, we are going to develop that market. Yes, we are always looking at CapEx and M&A and we have this view of opportunity growing in the international market.

**Q - Daniel Gasparete** {BIO 17999254 <GO>}

Okay, thank you.

**Operator**

Our next question comes from Marcelo Mota, JP Morgan.

## Q - Marcelo Mota

Good morning, everyone. I have two questions. On the margin so it's going to migrate the same margin of last year close to 19 or 18.5 however when we look at -- first months of 2021 of EBITDA margin we see that there is a gap, if we could see there in the fourth quarter of 2021.

So do you think there is going to be an additional reduction in the fourth quarter of 2021 or may be related to the mix or is there anything related to raw material costs. The supply chain that discussed so this is the first question related to EBITDA margin and the second question is related to M&A.

You have been focusing on industries 4.0 capacity increases. So I would like to understand what is your is in your mind in terms of M&A. And also maybe including mobility and everything that you have been considering?

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

Mota, thank you very much for the questions. Let's talk about the margin. It was everybody's concern, the main concern the main questions that we hear in our meetings. This period as we have anticipated both the EBITDA margin and the gross margin were impacted by the cost of raw materials.

And also the product mixes, it's obvious that all the global supply chain has been impacted in the in this last period. And we have observed an increase of raw materials in the past orders. At first, last year we felt this increase in reserves especially the raw material is connected to the foreign exchange rate.

And we observed that the price increases, especially in the most relevant segments such as iron and copper we always say that costs can cause a mismatch which is temporary in the short-term. Another point is to remember that materials cost structure is very similar to our competitors as well. As the main commodities they also suffer all those impacts mix of products in addition to what's happening in the world. We also have changes to our mix and we say that when business as of the third quarter became more important. It's a business where the margin is lower than the average margins of the company and this also impacts the margin in this third quarter, when we look at the fourth quarter, the expectation if nothing different happens and if the projections continue our margin of an expectation of margins we're not change for the year. We understood the beginning of the year that the company would deliver EBITDA margins operational margins very close to what we reported last year, 18.7% obviously, excluding the non-recurring effect of the ICMS tax in the calculation basis of PIS and COFINS taxes. So we do not see anything different now, so we are going to be focused on going after the margin that we posted last year. Of course, it's not going to be our margin, similar to what we recorded in the first quarter and as to M&A, the Company has not changed its strategy. We always on the look out for the new opportunities that can bring us access to the market and or a new technology what happened in the past quarters or as of 2020. Is that a pandemic affected this process. So looking for opportunities, in the international market and prevented us from doing complete due diligence process for example or own integration process, which is well conducted, which is so important for us to implement our culture. This all prevented us from the opportunities outside, but the company has always been on the lookout for opportunities and of course there are no preferential areas each business has it's own strategy. And if the automation business is not focused on electrical mobility, but would bring opportunities for growth in other segments where which may not be so relevant as it is in Brazil, but we are okay to go after the growth opportunities and it's connected to the strategic development of work. So the message is that all business areas has its own strategic planning. They know what are their growth objectives and the growth objectives can come from organic or inorganic growth depending on the acquisition.

**Q - Marcelo Mota**

Okay, perfect. Thank you. Good morning.

## Operator

Our next question comes from Rogerio Araujo with UBS.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Yes. good morning Andre Rodrigues, congratulations on the results. I have two questions on my side. The first, you mentioned on the first page of your release, that there was long cycle into order abroad, so could you provide more information about it?

So is likely to be accelerating, the gaining of revenues as we have seen in the past quarters? So this is my first question, and then I can ask my second question.

**A - Andre Salgueiro** {BIO 22483393 <GO>}

Rogerio good morning. This is Salgueiro speaking. In fact, what we said in the release is related to long cycle portfolio. So, especially in the industrial side, we have seen at the global level important industries such as oil and gas, mining, water and wastewater segments. We see that level of entry of orders, it has been increasing since the end of the second quarter and the beginning of the third quarters. So we have seen this now being consolidated in the third quarter. So in this business, we can say that the portfolio is very positive indicating growth in the future.

But also there is the mix that provides less visibility for the business, our visibility is positive for short cycle, but changes can happen depending on some thing happen to the economy and it's not some anything that we can foreseeing now, but we understand that this is something that's going to happen. So, but what I meant to say is that for the consolidated view we have to consider the short cycle aspect.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Could you provide some information about this mix related to long and short cycle segments.

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

Yes. For this quarter, we reached the quarter of 66% short cycle and 34% for long cycle. I don't know if you remember but last year and the worst moment of the pandemic in the second quarter of 2020 the long cycle was 40% of the revenues. And from then on the short cycle has been improving and we are looking at the short cycle because of its improvement and the slight drop that we had in long cycles for the industrial aspect.

So it's more likely 34 long and 66 short.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

My other questions in relation to the domestic market. It's a follow-up on the question that you have already answered in fact related to the uncertainties and slowdown the economy we saw the Mexico had some problems were so relevant to drop in the GDP. So what I would like to hear from you is what is the situation now considering all the uncertainties what can -- what we have to follow. To understand what is the trigger for the companies to invest, what are the triggers. So could you compare those periods of crisis with what we are going on now. So when orders start to come in.

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

Rogerio this is Andre Rodrigues, I was not even in the company at the time. So ask him, ask him to answer. So what happened when we compare 2016 and today in 2016 we experienced a very a

typical situation where we started the year with the expectation that it would be, bit more difficult, but we the growth was 25.4 in our revenues in 2015. And then we expected 2016 to be difficult, but not how difficult it was and the revenues of WEG decreased by 4%, which is something rare to happen for the company. And one of the advantages of our company is because we are exposed to different segments, different sectors of the economy.

It's very difficult to have everything up, you have the ups, downs and then this is where we are looking for opportunities, but at that time, nearly all sectors are down. So we had crunch, as slow down in Brazil for the short cycle products. And at that time, we didn't have long cycle portfolio, which was so solid that would ensure performance that would amortize the drop of the short-cycle business that happened in 2016.

So we built long cycle portfolio, which is different from that we had in the past and considering the T&D history. So we had the plant in Betim, we are working at full speed and this is a reflection of what happen to the long cycle portfolio and then the wind energy businesses is also resuming and in 2020, we already have delivers plant throughout the year. And at that time, we didn't have solar businesses and this is a business that has been growing a lot. And that expectations is that these are segments that are going to bring opportunities to WEG considering the potential that Brazil has for solar radiation.

So we have a combination of a better portfolio of long cycle equipment and we started to be exposed to do the new businesses. So we are in a different situation that faced in 2016. So, but we expect that this possibility acceleration or slowdown in Brazil that may happen in 2022 is just an expectation. And we hope that new opportunities continue to be generated for WEG and this is what we have been preparing for. So it's too early for us to imagine as best situation for 2022.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

So clear thank you.

**Operator**

Our next question comes from Igor Araujo with Genial Investimentos.

**Q - Igor Araujo**

Hello, everyone. First of all good morning. Congratulation on your results only to complement what everybody has already said in relation to wind-related machineries. What's your capacity today and what can we expect for the end of 2023 or end of 2023 or beginning of 2023. And the other question related to M&A recently you have expanded the products related to smart aspects and do you think you have an expectations to have any M&A in the domestic market.

**A - Andre Salgueiro** {BIO 22483393 <GO>}

Hi Igor. Good morning. This is Andre Salgueiro speaking in relation to wind energy. This is something that is coming back. We started to generate revenues from the wind energy businesses. We had some revenue in the third quarter and it's going to be is going to grow ever more relevant in the fourth quarter.

Our current capacity is about eight to 10 machines a month and what we have been saying to the market that we have a portfolio of projects of wind generation who's visibility is going as far as 2023 the first agreement was announced with MVISIA, in the beginning of last year.

And this agreement has been delivered now and we have other agreements in the portfolio in the pipeline with this visibility of in the beginning of 2023 and we have a good perspective going forward. Some negotiations, some conversations that we've been having just to increase this portfolio when we expect to have an investment cycle in wind energy in Brazil, in the next two or

three years, which will be quite relevant. So we are very competitive in terms of size, we have 4.2 megawatt machine that is bringing opportunities to us. So this is our vision in relation to wind energy in relation to MMA I think the Andre Rodrigues has already mentioned, the drivers, the access to the market into technology.

So if we think of those drivers, we understand we are looking at the opportunities we do not like to talk business on business but specifically WEG with home is something that is growing now out of the need and some clients requested demanded this so we brought this product to complement our portfolio in term of construction structures and we have sales of switchboards in electrical panels. And we have this portfolio of equipment, such as cameras, sensors movement sensors, and sensors for opening and closing curtains too. Complement of that our portfolio, it's an effort to complement the first portfolio for us to sell products for the residential, residential structures or duties.

## Q - Igor Araujo

Okay, thank you.

## Operator

We have now close the question-and-answer session. We will -- I'll give the floor back to Mr. Andre Rodrigues for his final remarks.

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

Once again, I would like to thank you for attending the call and I'm going to give you some important information. Most of you have already received invitations for our WEG Day that is going to be held on the November the 11th in a virtual mode, it will be a very important moment to give you some update on WEG and talk about the future and the strategy of the company.

So it will be a pleasure to see you on your next WEG Day. Thank you very much.

## Operator

WEG's conference call is now closed, we would like to thank you for your participation and have a nice day.

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