Q1 2022 Earnings Call

Company Participants

- Andre Luis Rodrigues, Chief Financial Officer
- Andre Menegueti Salgueiro, Finance and Investor Relations Officer

Other Participants

- Andre Mansi, Analyst
- Lucas Laghi, Analyst
- Luiz Capistrano, Analyst
- Marcelo Motta, Analyst
- Pedro Fontana, Analyst
- Regis Cardoso, Analyst

Presentation

Operator

Good morning, and welcome to the Conference Call to discuss the Earnings of WEG in the First Quarter of 2022. This call is being webcast with the accompanying slides at our Investor Relations website, ir.weg.net. And after it's finished, the audio file will be available at our Investor Relations website. (Operator Instructions)

Any forecasts included in this document or in forward-looking statements that may be made during the conference call about future events, business prospects, operating and financial forecasts, and goals, as well as the WEG's potential future growth, are simply beliefs and expectations of WEG's management based on information currently available. Such statements involve risks and uncertainties and therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors may influence the future performance of WEG and lead to results that differ materially from those included in such forward-looking statements. We kindly remind you that this conference call is been held in Portuguese with simultaneous translation into English.

Today with -- here with us at Jaragua do Sul are Andre Luis Rodrigues, Financial Administrative, General Manager; Wilson Watzko, Controller; Andre Menegueti Salgueiro, CFO and Investor Relations Officer; and Felipe Scopel Hoffmann, Investor Relations Manager.

Please, Mr. Rodrigues, you may start.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. It's a pleasure to be with you, once again, for the WEG's earning Conference call. We start with the highlights of the quarter, in which the net operating revenue grew 34.5% compared to the first Q of '21. We continue to benefit from structurally favorable conditions in the main markets where we operate, reinforcing our strategic direction of developing products and systems with greater added value for our customers. The strong performance in the domestic market is a consequence of this strategy, where we supplied important products linked to the generation of renewable energy, such as solar and wind generation.

In the foreign[ph] market, we still observed a strong industrial activity, supporting revenue growth in our main markets as a result of our good availability of products and the ability to meet the needs of our customers. Another highlight is -- in the quarter was EBITDA, which increased by 21.3%, reaching BRL1.2 billion. The EBITDA margin ended the quarter at 18.1%, down 1.9 percentage points from last year, a movement that was already expected due to the increase in material costs and also due to the mix of products sold.

During the presentation, Andre Salgueiro will give more details about this performance. Finally, we had another quarter of ROIC evolution compared to the same period of the previous year, as we'll see better on the next slide, which presented a growth of 1.5 percentage points in relation to the first quarter of '21, reaching 29.7%. The improvement in our operating performance supported mainly by revenue growth more than offset the greater need for working capital and the increase in investments in fixed assets in the period.

I will now give the floor to Salgueiro to continue.

Andre Menegueti Salgueiro {BIO 22483393 <GO>}

Thank you, Andre. Good morning, everyone. On Slide 5, I present the development of our business areas in the markets where we operate. Starting with Brazil, where activity in the area of industrial electrical and electronic equipment continued to be positive in this quarter. We had good demand for short-cycle products, such as low voltage electric motors, gearboxes, and serial automation equipment, especially in the agricultural machinery and equipment, pulp and paper, and mining segments.

Sales of long-cycle equipment, such as medium voltage electric motors and automation panels were in line with recent quarters with good performance in the mining, pulp and paper, and water and sanitation segments.

The GTD area was the highlight of this quarter. We had growth in all our businesses, mainly due to the return of sales of wind turbines, the acceleration of sales of distributed solar generation kits and electric generators for other energy sources. The T&D business posted another quarter of revenue growth, driven by large transformers and substations for projects linked to transmission auctions, together with sales of transformers for distribution and industrial networks.

In commercial and appliance motors, the drop in demand especially in motors intended for the appliance segment, such as washing machines and air conditioning, impacted this quarter's performance despite the good sales volume in other segments, such as food and beverage and agribusiness. As we had already anticipated, this movement was expected after the short -- the strong recovery between late 2020 and early 2021.

In paints and varnishes, demand continued to be strong with emphasis on the segments of agricultural implements, road implements, and sanitation. At the external market, the continued industrial investment observed in recent quarters was an important factor for the performance of the industrial electric and electronic equipment area, despite the uncertainties present in the macroeconomic scenario.

Revenue growth was spread across different industrial segments with emphasis on the performance of China and the United States. Long-cycle equipment also showed sales growth as a result of the previously reported good order backlog with an increase in sales in the oil and gas and mining segments. In GTD, revenues showed fluctuations typical of long-cycle businesses, mainly after deliveries of important T&D projects in Colombia and South Africa, and steam turbines in Germany throughout 2021. In the commercial and appliance motors area, we observed the continued growth in demand for our products explained by the acceleration of the economic recovery and market share gains in the United States and Mexico. Applications such as pumps and compressors were the highlights of this quarter. Finally, in the paints and varnishes, we showed sales growth in Latin American countries. The lower growth in the quarter is mainly explained by the drop in sales performance in Argentina, where we have an important operation for this business area.

On Slide 6, we see the evolution of EBITDA in the first Q of '22, where we presented a growth of 21.3% in relation to the same period of the previous year. The EBITDA margin ended the quarter at 18.1%, showing a reduction of 1.9 percentage points in relation to the first quarter of 2021. It is worth noting that EBITDA was positively impacted this quarter by the additional recognition of credits referring to the exclusion of ICMS from the PIS and COFINS calculation basis. Excluding this non-recurring effect, EBITDA would have been BRL1.207 billion with an EBITDA margin of 17.7%. This result was within our expectations.

The challenges in the global supply chain and the consequent increase in raw material costs, together with a change in the product mix, mainly due to higher revenue from wind generation projects, continue to put pressure on margins, but we continue to work on several fronts to preserve the company's level of profitability.

Finally, on Slide 7, we show the evolution of our investments. In the first quarter of 2022, investments reached BRL209.6 million, 52% of which went to Brazil with a greater concentration on projects to increase capacity, process improvements, and productivity gains at the Jaragua do Sul plant, and 48% of the units located abroad, continuing the investments in our factories in India, Mexico, China and the United States.

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

Andre Luis Rodrigues {BIO 17964192 <GO>}

Thank you. Before we move on to the Q&A session, I would like to talk about some of our latest accomplishments and comment on our outlook for the remainder of the year. Regarding the achievements, I would like to highlight the following events. We received from the National Confederation of Industry, the title of the Most Innovative Company in Brazil, an achievement that reinforces how important innovation is for the company, always looking for increasingly efficient and sustainable solutions. We also announced some news related to electric mobility, such as the new partnership for the supply of charging stations for JEEP in Brazil, and the beginning of the supply of battery packs for electric vehicles.

Finally, on the outlook for the rest of the year, we will continue to follow our strategic plan, investing in the company solutions; continuous and sustainable growth, such as in the key areas of motion drives with motors, gearboxes, and inverters; renewable energy, whether solar, wind, hydro or thermo through biomass; transmission, distribution with our transformers and substations connecting power generation to consumers. At the same time, we're managing to deliver healthy margins within the company's expectations, always focusing on the long term.

For 2022, it is necessary to be aware of possible increases in cost that could put pressure on the results for the year. In addition to the change in the mix of products sold as the wind and solar generation businesses should gain more relevance. In any case, we'll continue to work to deliver margins above the market average. And we understand that our competitive advantages help a lot in this regard. We believe that our business model based on verticalization, long-term vision, and diversification of products and solutions combined with our global presence helps us not only to expand our range of opportunities, but also to mitigate risks and uncertainties in times of political and economic turmoil, like the one we are experiencing now.

This concludes my presentation. Operator, we can proceed to the Q&A session, please.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) The first question comes from Lucas Laghi from XP Investments.

Q - Lucas Laghi {BIO 20757425 <GO>}

Good morning, Andre Salgueiro, Felipe, Rodrigues -- Andre Rodrigues. I have two questions that I'll -- two subjects that I would like to explore. First the impact of exchange rates. There has been a lot of volatility. The exchange rate, it was -- has been -- has appreciated throughout April. So, I would like to understand from you, how you deal with the impact of exchange rate on two fronts. First, if you see any negative impact on profitability, given the expected lower revenue on exports, that decrease is the costs in Brazil. And also, if you view any pressure to reduce prices in some short-cycle products in Brazil, such as solar and distributed generation projects -- products? We understand but any color you could give on the exchange impact would be helpful. And regarding T&D, we saw strong demand in the domestic markets. Mainly driven by solar and wind energies and we saw a drop in revenues in the external market in GPD. We understand that it's much longer the cycle here than in the external market, but I would like to understand from you, what has led to this drop? And if it will be stabilized at this level of revenue for this year, or if you believe it will continue to grow during 2022? So these are my two questions. Thank you.

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

Hello, Lucas. Good morning. Thank you for the question. This is Andre Salgueiro speaking. I'll answer the first question regarding exchange rate, and then Andre Rodrigues will answer the other about international GTD.

As for exchange rate, you mentioned in your question that we are in a volatile environment, it was at 5.30[ph], now 4.60, now it's back to 5. So if we compare to what it used to be and now, there has not been such a high fluctuation. Although it did went back to 4.60 and is now back to close to 5. So in a scenario, such as this, there are no major differences. Of course, we should see where exchange rate will stabilize, but if we're talking about a variation of some decimal points, that doesn't change for us too much.

When we see the actual exchange rate appreciating, there is an impact on conversion from the external market, especially when you look at revenue in reals, we always try to make the analysis in local currencies but the fact is, that the revenue in reals has a negative impact in this scenario. And there is also the cost issue. The cost is adjusted but it's never adjusted at the same speed that we adjust revenue. So there is always some lag, some difference and we don't like to look at volatility in a short period, because revenues has -- is quickly adjusted but the cost structure takes a bit longer to be adjusted or updated.

As for the second point of your question, if I understood it correctly about prices in Brazil, obviously, the cost structure of products that are in dollars, especially for short-circle, are -- will be priced according to market dynamics. So this is why it's important going back to the beginning, to keep track of where exchange rates will stabilize and then adopt a commercial (inaudible) that makes sense.

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

Lucas, this is Andre Rodrigues speaking now. As for the performance of GTD abroad, as you said, we made the calculation in reals, a small reduction in dollars, a small growth. So -- but something important that we always like to convey is that revenues may fluctuate quarter-on-quarter and this is very typical on long-cycle businesses. And what happened, especially last year is that we had important deliveries of T&D in Colombia and South Africa, as well as of steam turbine in Germany, during this period. So it's worth highlighting that in the North America, we are in the process of increasing the capacity of the new plant in the United States for transformers. So we are at the initial stage after the opening that happened at the end of last year. But basically, I would like to reinforce something we've been saying for some time now. The long-cycle portfolio is very positive both in Brazil and abroad, but these fluctuations, quarter-on-quarter, may happen during the period.

Q - Lucas Laghi {BIO 20757425 <GO>}

Perfect. Thank you. This is very clear. Congratulations on your results, again.

Operator

The next question comes from Marcelo Motta from JPMorgan Bank.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I would like to ask about the margins dynamic. We do understand that depends on the mix. Solar and wind puts pressure on the margins. But I would like to understand whether recent political events, such as lockdown in China, conflict in Europe that's taking longer than expected, could put pressure -- more pressure on the margin that may be something that would influence also the cost of raw materials in addition to the mix of products?

And also about the working capital, if you could comment on. I mean the idea is to work with enough[ph] inventory to prevent any type of disruption in the future. I would like to understand from you whether inventory level should be higher this year or should we expect the working capital to be reduced when we think about medium-term inventory levels? Thank you.

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

Hi, Marcelo. Thank you for the questions. Well, when we speak about the quarter margin, what we can state is that the recurring margin stayed according to our expectations. Also, it's no news that the margins continue to be impacted by costs, higher costs of raw materials as well as the mix of products, which was more significant this quarter due to the growth of GTD and the domestic market, especially solar and wind. But what helped to offset these costs cost increases in the quarter was the improved margins in our external operations or operations in other countries, something we've been working a lot to improve, as well as price adjustments, both in the domestic and external market that usually happen in the first quarter.

As for the question about all the external conflicts that are happening, not only the war between Ukrainian and Russia as well as the lockdown in China, it's a bit too early to assess how much additional risk this could pose. Given the exposure of WEG, we're much more exposed to China than to the war issue. While there is a zero-COVID policy in China, the supply chain will always be influenced and there may be complications in times that could lead to scarcity of raw materials and increase in prices. So far, we have not felt that -- those consequences, but it doesn't mean that they could not come later. So we have to keep a close eye on that.

As for working capital, the increase in our working capital for our operation is concentrated on the increase of inventory levels. This is due to inflation on inventory, all the price increases that happened in raw material along the quarters, as well as the increase in inventories of strategic raw materials, given the uncertainties in the global supply chain. This was a strategic decision we made to guarantee the continuity of our operations, which was a right decision.

Some raw material supplies are atypical or rather, we have atypical inventory levels for some raw materials, but they are necessary. And the decisions we made in the first quarter were necessary and proved to be right. Because with the China lockdown, again, we have enough raw materials to guarantee the -- our operations. The consequence is the worse indicators in cash flow. And the trend for this year is when things go back to normal, the inventory levels tend to be reduced.

Our indicators in 2022, we will reach the same situation we had pre-pandemic, that's not very likely, but the trend is to be better than the end of 2021. It's worth remembering that this is concentrated on inventories, our indicators of average payment terms and receiving terms have improvements or at good levels.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay. Thank you very much for your answers.

Operator

The next question comes from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Andre Rodrigues, Salgueiro, Felipe. Thank you for the questions. I would like to quickly go over to the main segments and focusing on two of them. In solar, we saw there has been a significant increase in renewables activities, especially solar for GD, and solar in general. And this business can be seen this leap in the amount of imported solar panels. How can we interpret this from the point of view of WEG? Is this only cost inflation or is just -- it means really -- it's just the COGS increase, or can WEG also increase its unit margins or volume? Maybe the increase in imports also means an increase in the EBITDA generated and as well as increase in market share. Have you captured this increase? This is on solar.

From guide -- the guide, some aspects I would like to address is that the operators receive -- oil and gas, I'm sorry, operators are receiving from Petrobras onshore. Is this segment relevant for WEG? I know they use WEG's pumps and motors on the onshore fields as well, I would like to understand whether the onshore projects have the same significance of large offshore projects. Could this mean a favorable trend for you?

And within oil and gas, now more of an international focus is to meet the needs of Europe with gas. Do you have -- do you plan to invest on gas plants in the United States and Europe, in liquefied gas? And also, if you could comment on the fruit of -- or the consequences of the investments in sanitation markets. Thank you.

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

Hello, Regis. Good morning. Thank you for the questions. I'll cover the solar part, renewables and then we speak of all on the oil and gas. What's happening in the solar area is that, there is an expectation that after the change in the regulation, it became clear that starting next year, part of the existing benefit to use. The field infrastructure will be gradually removed and the projects that we're -- are implemented during this year will continue with the 100% benefit until 2045. So the market is really hot, in terms of volume, number of projects, and megawatts installed.

Obviously, there is a price issue, the cost of panels and inverters ended up increasing, especially during last year given the impact on the commodities prices. And that is obviously reflected on costs and our revenue as well. But I would tell you that most of the increased performance is related to increased demand and increase in volume coming from such projects. And we expect 2022 to be a very positive year in the solar generation business in Brazil.

This is the main factor for this good performance. And I know, you can -- you keep track of number of panels, imports -- solar panels imported, and that reflects the GTD performance in Brazil. GTD more than doubled its revenue when compared to the first quarter of 2021, this quarter 2022. As for wind generation, just to complete the renewables area, we now have wind generation projects start, again, in the last quarter of last year, generating revenue. And we are in the ramp-up. The third, fourth, and the first quarter this year is better, so it's a growing trend. And now we have a backlog of wind generation that will be in 2024. So the backlog of wind projects is healthy and positive. So, we do expect that this year and next year will be positive years in terms of demand for wind generation.

Of course, as we move closer to the second half of the year, and last year in the second half, we -- there was some revenue growth decreases in terms of compare -- on a comparison basis. But the prospects are -- the outlook is very good.

As for oil and gas, it is the main business or market for our products in industrial electric and electronic equipment. If I remember correctly, in 2019, when we made a presentation about business segments, we said that oil and gas, for the industry as a whole, accounted for 18% to 20% of the total demand of the segment. And here, we are speaking about exposure to offshore/onshore projects, refineries, there is also an exposure to LNG terminals. So for liquefaction or gasification. So these investments are increasing in the United States and Europe. This is a market that could be addressed by WEG, there may be opportunities for us in that market. So this is a market that, in the end of last year, we already said it showed a positive trend. And now with the conflict in Europe, it could unlock some new projects. And -- so we -- the trend is for the oil and gas market to continue in a heated manner, growing for the next quarters.

Q - Regis Cardoso {BIO 20098524 <GO>}

If I -- understood. Thank you. If you could give us a follow-up just to conclude. I understand that there is a trend for growing revenues with may be decreasing margins, given the ramp-up of wind and GTD. But the ROIC, I believe in the second quarter, should have a substantial drop. Because last year was two months comparison, should we expect a higher drop for the next quarter and maintenance at a more intermediary level at 20 something of ROIC? How could that dynamic be translated into financial metrics?

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

Well, it's hard to give a target or guidance for ROIC. But yes, considering that the second quarter of last year was a very positive one. When we had that high increase, and now it will be the basis for calculating the second quarter of 2022, we do expect some accommodation. The ROIC started a trend of settlement since the third quarter of last year, that happens quarter -- every quarter-on-quarter, so it will continue. But the level at which it will stabilize or reach is hard to tell you right now.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay, understood. Thank you.

Operator

Next question comes from Andre Mansi[ph] from Citibank.

Q - Andre Mansi {BIO 20010670 <GO>}

Hello, everyone. Thank you for the question. My question is about competition in the external market. When we look at Siemens and ABB results, their backlog has increased, but revenues are not increasing so much. So we wondered whether the peers -- your peers could have any reduction in capacity since the global chains are quite broken? And there is a lockdown in China. This added to the fact that you have a small market share abroad, could this be good wins[ph] and a good sign for you, given that your peers could be at their full capacity? And you are more vertically integrated than them and you have plants all over the world. So you would be able to serve all during 2022 with fewer suppliers and capacity problems when compared to these peers that I mentioned. Thank you.

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

This is Andre Rodrigues speaking, Andre. About the competitors, everybody's keeping track and seeing that the demand is positive in several areas of the world. This is positive for WEG as well as for WEG's competitors. The main issue here is the capacity that a company must have to differentiate itself and seize the opportunities generated by the world, and WEG is doing that very well.

It started to benefit from those opportunities in the beginning of the pandemic. During the lockdown in areas, I'm talking about North America, Mexico, and Europe, WEG's[ph], thanks to its verticalized production model, which is an advantage we have and the situation of a good inventory levels in some branches, we benefit from that. And given the growth rate of -- in the external market that you have seen every quarter, and we know how much markets are growing. WEG is really been successful to capture market share during this last quarters. This is a result of the constant development of the company in the technology area. If you're not -- we are not able to compete with our competitors if we don't keep up to date in technology terms, as well as a result of investments to increase capacity we're making in several regions, as well as to our capacity to enter new segments and markets.

For example, in the past, WEG was very highly exposed to oil and gas and mining in the external market, and we made several efforts in the company to also operate in water and sanitation segments abroad. So we opened a new opportunity for the company. So in the speech of Salgueiro, one of the highlights of this quarter in the industrial electro-electronic equipment is also paper pulp and paper segments. This is another segment in which we're working to create new opportunities for the company as well as new geographies. As reported earlier, Kazakhstan, Poland, Turkey, investment in low voltage in India, that unit will be finished soon. So the world has -- the demand for our products is creating opportunities for all companies, but WEG, in my opinion, is making the most of it's opportunity.

As for the global supply chain, if I understood your second question correctly, I don't believe there has been a lot of change in terms of what has happened lately. Yes, there is a verticalization of our process and production is a competitive advantage that makes our lives a bit easier. We have things solved regarding global supply chain. The world depends on Asia for electronic equipment, we cannot reach that level of verticalization, but in other products, we have that advantage.

Q - Andre Mansi {BIO 20010670 <GO>}

Okay. Perfect, Rodrigues. Very clear. Just one follow-up on the question you answered before. Europe, soon after the war, there was a REPowerEU plan and the idea of that plan was to be zero dependent on Russia for energy source. Germany is too highly dependent on Russia and do you believe that this plan, with this new branding, will make a difference? I mean, you are already important in Europe, could we expect a higher growth? Do this plan will result in more investments from Europe in order to become independent from Russia in terms of energy?

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

This is Salgueiro speaking, Masini[ph]. Well, we have to separate the opportunities a bit. If we are speaking purely of investment in renewable energies, wind and solar, we are not exposed to the European market. So there are no clear opportunities in this area. We do have a business in Europe, which is a joint venture of TGM, that's focused on steam turbines. So for thermal generation, yes. And if there is investment in that area, it could bring an opportunity for us and we could also address some projects with the production from Brazil.

In addition to that, there is opportunities from demand for other products such as industrial motors, either medium or low voltage, and automation equipment for projects, such as LNG terminals and oil and gas investments in Europe, Middle East, North of Africa. That is a market which we're highly exposed to. So depending on the investment and where it's concentrated, I believe, yes, it could become an opportunity. But not 100% given that we are not exposed to the renewable market, oil and gas -- rather solar and wind in Europe.

Operator

The next question comes from Luiz Capistrano from ItauBBA.

Q - Luiz Capistrano

Good morning, everyone. Thank you for taking my questions. I would like to go a bit more into detail when we talk about domestic GTD. Naturally, the demand is very strong in the first quarter and will continue to be favored in the next quarters. The question is about how much this is structural with some longevity and more predictable? And how much it derives from these context of changes in the legislation that is boosting the solar industry? And the second part of this question would be, for how long this positive impact on solar energy will continue for you, one year, two years? This movement of pre-buy will favor you for how long?

And the second question is a bit more open to all segments of the company. We know that the long-cycle portfolio or backlog is good and ensures good performance for 2022. But thinking about new orders, how has this development or -- been in 2022, I mean the new orders flow?

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

Okay. This is Salgueiro speaking. Thank you for the question. GTD -- domestic GTD, especially focused on solar, but also giving you a broad overview. In the release and also in my presentation, we mentioned that the strong performance of GTD in Brazil happened because all the businesses in the area had a significant performance, and that is true for all the areas. Obviously, some businesses grew more, such as wind generation because there was no comparison basis from last year, then came solar with a strong growth. But if we look at other businesses, even water, our hydro, our thermal generation also performed well, as well as T&D in Brazil.

Looking forward, trying to answer your question about whether -- what is short-term and long-term. We have the wind energy coming back strong. Since the second quarter of last year, we are making the plant flow[ph] and there will be a time when -- there won't be much more growth, but our backlog goes to the beginning of 2024. So in terms of recurring events, this is the GTD business with the highest longevity, almost two years in backlog.

When we move to solar. Solar is highly concentrated in solar distribution -- distributed generation. In GD[ph], there is backlog visibility of one, two -- three months at the most. So solar is expected to have a very positive year in 2022 and there is expected changes in regulations. So how will the business be for 2023? We believe that since the benefit will be given, solar business continues to make chain -- makes sense in the medium and long-term, obviously keeping the level of revenue and growth level will increasingly be -- be increasingly difficult. So we expect growth to become more stable as of next year, and to be more of a recurring growth level.

The other businesses, such as T&D and generation, we can see a backlog that goes up to the end of this year, beginning of next year. For the visibility, we have and Rodrigues explained in the last questions, we have a good positive backlog.

Given the prospects of generation auctions and transmission lines auctions, we see good news for projects for next year. The trend is for these projects to continue to happen. So summarizing, the first message is that the year will be positive. But as we -- as the revenue grows, the comparison basis become --becomes higher, so the growth pace decreases. We have a good -- positive trends for long-cycle projects, we expect positive year for short-cycle, and we don't know how solar will develop next year. So far, we believe it will maintain a revenue level close to what it was in 2022, but let's see how it will develop.

Q - Luiz Capistrano

Thank you for your answer. It was a very thorough one. But for GTD, the most part of the demand derives from long-cycle, right? If we think about 100% of revenue, we're speaking of more than half of long-cycle GTD, is that right?

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

Well, solar distributed generation we consider to be a short cycle. so within GTD, short-cycle is GD, distributed generation, and transformers -- small transformers for distribution and poles which are short-cycle. The rest within GTD is classified as long-cycle.

Q - Luiz Capistrano

Perfect. And the rest -- and the remainder adds up to more than 50%?

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

Yeah. We don't break down by business. If I tell you the percentage, you would have the breakdown of solar. So I cannot disclose that information, unfortunately.

Q - Luiz Capistrano

Okay. Thank you, Andre. Thank you for the answer.

Operator

The next question comes from Pedro Fontana from Bradesco BBI.

Q - Pedro Fontana {BIO 22068688 <GO>}

Good morning, everyone. Thank you for taking my question. Congratulation on the results. If you could please comment on WEG's -- how WEG is doing to benefit from the trend? And how do you expect us to gain relevance in results? And what are the avenues for growth that you are studying?

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

Hello, Pedro. If I understood correctly, you're talking[ph] about electrification for the electric mobility business?

Q - Pedro Fontana {BIO 22068688 <GO>}

Yes. That's it.

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

Okay. I think WEG is very well positioned. We are ready have the Powertrain technology with (inaudible) and have a partnership that's going very well with (inaudible) and other projects that we are developing with other potential customers.

We didn't stop at powertrain, there is a WEG MOB, the recharge -- the charging stations. With these opportunities, we are developing partnerships with some OEM manufacturers. We're giving you an update as they happen. The most recent one was with JEEP in Brazil. And then the battery segment, which would be complementary alternative for this segment. So this is an area that's growing in the company and when we talk about electric mobility, of course, there are specific opportunities that I mentioned. But the infrastructure complex to made this business happen in the world, as well as in Brazil is very important, because we will need more energy generation and the trend is for this to come through renewable energy.

We are very well positioned because we produce solutions for the source -- four sources of renewable energy in Brazil: hydro, solar, wind, and thermal through biomass. If there is more generation, more transmission lines would be required, so the T&D business, transformers and substations, more panels, automation equipment. So then, we have the automation business at WEG. So when we look at the mobility industry, the company is well-positioned. It's growing. It's developing new solutions, joining solutions. And when we look at the macro level, it's also a very good opportunity for the company in the future.

Q - Pedro Fontana {BIO 22068688 <GO>}

Perfect. Very clear. Thank you.

Operator

This ends the Q&A session. I would like to turn the floor over to Mr. Andre Rodrigues for his final remarks.

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

Hello. Once again, thank you very much for attending this call, and we'll see you all in the next call for the earnings of the second quarter, very soon.

Operator

The conference call of WEG has now ended. We thank you all for attending and have a good day.