

Y 2015 Earnings Call

Company Participants

- Andre Luis Rodrigues, Managing Director Financial Superintendent
- Luis Fernando Oliveira, Investor Relations Manager
- Paulo Polezi, Finance and Investor Relations Officer

Other Participants

- Alexandre Falcao, Analyst
- Cristina Garcia, Analyst
- Daniel Magalhaes, Analyst
- Fernando Cunha, Analyst
- Fernando Guerreiro, Analyst
- Joao Noronha, Analyst
- Juan Tavaréz, Analyst
- Lucas Marquiori, Analyst
- Marcella Recchia, Analyst

Presentation

Operator

Good morning and welcome to WEG's Conference Call about Earnings of 2015 and the Fourth Quarter 2015. We would like to inform you that this conference call is being recorded and that at this point all participants are in listen-only mode. Later on, we are going to start the Q&A session, when new instructions will be provided. (Operator Instructions)

To obtain the release of the quarterly earnings or the presentation that we are going to use during this conference call, please visit WEG's Investors Relations page at www.weg.net/ri. Forward-looking statements and any statements made during this conference call about future events, business outlook, projections and operating goals and the potential growth of WEG are based on the company's management expectations and assumptions based on information currently available.

Forward-looking statements involve risk 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 affect the WEG's future performance and lead to results that will materially differ from those expressed in forward-looking statements. We would like to remind you that this conference call is being conducted in Portuguese with simultaneous translation into English.

In Jaragua do Sul are Andre Rodrigues, Financial Officer and Superintendent, Paulo Polezi, Finance and Investor Relations Officer; Wilson Watzko, Controller; and Luis Fernando Oliveira, IR Manager of WEG.

Please, Andre you may go on.

Andre Luis Rodrigues {BIO 17964192 <GO>}

FINAL

Bloomberg Transcript

Good morning, everyone. Thanks very much for joining us. It's always a pleasure to be with you for our earnings conference. We are going to start with page three, where I would like to highlight three main points for the fourth quarter 2015. The first is the growth of net revenues of 25.4% over the 4Q '14 and 7.4% over 3Q '15.

This doesn't express that number in the context of the Brazilian market situation. I think that we have to emphasize that to us growth is the key factor to create value, a business that grows is healthy, can react and can correct pathways and react to unfavorable conditions. Those who do not grow disappear.

Growth has to be sustainable, this is what WEG want and the message of our second point is that right now we continue to be affected by factors already mentioned in previous quarters and that continue to affect our operating results.

EBITDA margin was 14% in this unfavorable environment we were 0.3% negative over 4Q '14 and minus 3.3% over 3Q '15. We are going to discuss the effects in further details, especially the difficulty to pass on prices in view of the increase of cost. Despite difficulties we had an expansion in net margin. (Technical Difficulty)

And minus 3.3% over the 3Q '15. We are going to discuss the effects with further details, especially the difficulty to pass on prices in the view of cost increase. Despite difficulties we had an extension of net margin that went to 14% with growth of 14.8% over 4Q '14 and 44.7% over 3Q '15.

Finally, the third point, I'd like to highlight is that we continue to execute our business plan. Investments in organic expense will continue because we are capable of generating cash and have competitive access to the market even in the current adverse scenario. We are going to discuss all this points in more in detail during the presentation now.

I am going to turn it over to Paulo, so that we can continue.

Paulo Polezi {BIO 19468811 <GO>}

Thanks Andre. Good morning everyone. About growth, I'd like to give you a bit more color about what we did in this quarter. In the domestic market, the major factor of growth are our wind energy systems, because we started deliveries. As of the second half of 2014, the trend is our growth rate to decrease in the second half of the year in terms of comparison.

Outside Brazil, we continued to grow in local currency at a pace that was within our expectation, which is about 10%. This growth is still not apparent in American dollar because it is still influenced by the effect of the dollar valuation compared to the other currencies in the places in which we operate.

Going to slide number five, and analyzing the year of 2015, I would like to highlight the annual growth of our net operating revenues of 24.5% [ph]. Basically organic in this year although still strongly concentrated in the foreign market and in Brazil because of our wind generation business. This is a very important point that we have on the slide.

Continuous growth of our business model is very important and also how this model is capable of finding alternative to continue to grow even in frankly unfavorable scenarios. As Andre mentioned, when he started this call, it is worth repeating that for WEG growth is the key factor to create value. A business that grows is healthy. It has the capacity to react to correct the different path to follow and react to unfavorable condition. We continue to find even better opportunities in the foreign market because we offer products with major technological content and having a strong brand, maybe a key factor for people to make their decision.

We would like to repeat all the time, we do not sell commodities.

Going on with our presentation to slide number six. I'm not going to read everything that is in the slides, but I will give you a bit more details about our behavior in our business areas. The industrial electronic equipment, we would like to draw attention to the industrial investment performance in Brazil below expectations that were already low. There was a deceleration of activity in the end of the year. That was a bit more accentuated, but the behavior was weak throughout the year.

In the foreign market, we continue to grow in local currency, despite the changes in the demand mix. However, the so-called engineered products connected to process industry like mining, oil and gas are with a decrease in demand throughout the world.

Now in GTD, we continue to deliver our wind generation portfolio in Brazil and at the same time, we continue to gain productivity. The longest portfolio will enable us to cross the years of weak demand that are to come. In T&D, more specifically transmission and distribution, economic retraction is already present, and our expansion in the foreign market has become a good alternative to that. In domestic use engines all growth in revenue comes from the China operation. In the Brazilian market, it continues to go down without prospects of changes.

In Paints and Varnishes, we know that we are very exposed to the Brazilian industry, but the Argentinean market is a good surprise for 2016.

With that, I'm going to slide number seven. And in the slide we highlight that this deceleration in the domestic market continues to affect our efforts to recover margins. We lost gross margin, especially because of additional increases in the cost of materials, which are very difficult to pass on to sales prices in the economic environment.

The conclusion of this pass through depends on the less volatility in our exchange rate. Other impacts, that affected us along the year were also present. First, the impact of wind generation in Brazil and of acquisitions in foreign markets in the product mix and the additional provisions finally that we have been making along the year. A topic that we have frequently approached with investors.

We also have to say that WEG continues to work to gain productivity and control its G&A expenses, as a way to minimize this effect. Just to give you an example, we were able to have an increase above 23% in revenues currently.

Going to slide number eight, financial results. What is important to highlight, is that these sites of market-to-market in our hedge operation in this quarter was reverse because of the favorable exchange behavior, the DI interest and also the exchange coupon, that are the variables used in the pricing of swaps. Other than that, WEG has access to financing at very competitive costs and market lines. So, much so that we have renewed our main lines of credit at very appealing prices.

Going to slide number nine, we talk about cash flow. We know that there was an impact that was affected the analysis caused by the consolidation of our balance sheet in our controlling companies. This effect was eliminated, and now it is possible for us to see more clearly.

The efficiency of our investments in working capital, with results that already apparently specially in inventory. On the other hand, accounts payment and client delays with Brazil deceleration have contributed less. Cash generation and activities and access to credit lines enabled us to keep investments without pressures on our cash.

Just to close my part of the presentation on slide 10, we show the level of investment and capacity expansion in following quarters. Investments in expansion and modernization reached 468.1 million

in 2015, in line with our budget. The new units of electric engines in Mexico and China already in production, but they should continue to expand in the near future.

Those investments in expansion and modernization of our production capacity and IT, should reach BRL470 million in 2016.

Well, with that, I close my participation, and give the call back to Andre for him to talk about our future outlook.

Well, thanks, Paulo. We are getting to the end of our presentation. I would like to talk a bit about the outlook. We have no questions that the year of 2016 is going to be a challenging year. The microeconomic scenario, political scenario in Brazil is unfavorable and overseas the situation is better, but poses risks.

We had a slow start in Brazil, which reinforces the need to seek more for productivity, efficiency and cash generation. Some of our actions are already showing positive results, opening room for us to absorb additional pressures from Brazil's unfavorable environment.

Basically in this context of adversity, all our focus, WEG's focus is to protect profitability and margins along 2016. And second, we are keeping our strategies and we are going to execute actions that will create new opportunities. Such as, our focus in adding products and services that complement our offer, use the strength of WEG's brand to grow in new market and continue our international expansion and continue innovating.

Okay. We're going to now open for Q&A. Thank you very much. And please operator, you can open for Q&A.

Questions And Answers

Operator

Thank you, ladies and gentlemen. We're now going to start the Q&A. (Operator Instructions) Our first question comes from Daniel Magalhaes from Credit Suisse.

Q - Daniel Magalhaes {BIO 19231638 <GO>}

Well, thank you very much. Thanks for taking my call. I have two questions. The first is with regard to our EBITDA margin, those margin of 14% in the fourth quarter. I'm kind of surprised little bit, it was about 15.5% in the third quarter. I would like to have a bit more color about why we had the drop? And what are the levels we should expect for 2016? Is it 16%, 14%?

And my second question is about provisions, referring the fourth quarter, the provisions went down as a whole and I would also like to have an update of what we should expect for 2016? And if the inventory provisions are going to be stable from now on. Thank you.

A - Paulo Polezi {BIO 19468811 <GO>}

Hi, Daniel. Thanks for your questions. I'm going to start talking about margins and then we talk about provisions. So, the fourth quarter of 2015, once again, this was the problem of cost. We had a continued devaluation of real and that impacted the price of our raw materials, that are priced in dollar copper, steel. So, we still have those affects.

Other prices that are connected to the dollar are also pressuring us and in the scenario and there is a limit of course. But somehow devaluation is turning into inflation, we feel that. And as a complement to that, we had the other effect that we reported.

Provisions, they were less important effect, but still they happened. Some of them will have a lesser impact in 2016 and we can talk about that. As we told you in the first, second and third quarter of 2015, we had a seasonality effect in the fourth quarter that was stronger than usual. The industry generally in the end of the year reduces activity and what we felt that in some cases clients that didn't have collective vacations for instance, it started to have that in the end of the year. Some clients that already adopted the measure started to go from one week, two weeks, those that had two weeks, went to three weeks.

So, we have points that we had already being reporting to you along the years, but they were accentuated by a stronger seasonality than expected and faster than what we expected.

Well, the fourth quarter is gone. I think the major question now, the question that everyone wants us to answer is, what we expect for 2016? And to be quite clear, the fourth quarter is not the basis for our EBITDA margin for 2016. Our basis is the year of '15 as a whole. Quarter-on-quarter margins will oscillate and this will continue in 2016. And in view of the adverse scenario, what we want is to have the focus of keeping the margins that we had in 2015 overall.

We are aware that new pressures are going to come up. There are many factors that impacted the margin negatively in 2015. But these factors have already been addressed. We addressed the past already and so we opened room for new pressures that will come, if any in 2016.

One think that is very important is that the whole WEG's process of growth is happening without increasing our structure. And then we have indicated, as Paulo reported that are very positive for instances revenues per employee and now our level of admin expenses over revenue.

So, we are growing new markets and we are keeping the same levels. We are making adjustments and we are continuing to make them if necessary. Our greatest market is Brazil. We know that, so that's where our brand is stronger and so protection actions are even more difficult to the present scenario.

So, that does not mean that the recoveries not feasible. And why can't we say that. Well, basically because opportunities in the Brazilian market will continue. I'll give you some examples. In the United States, the industry did not perform as we wanted in 2015. It was a bit disappointing below what we expected, but we adopted measure to be more aggressive. And as a counterpart, we believe that the commercial market is going to grow for 2016.

The numbers we have in Mexico continued to grow. In China, we continued to consolidate the market. So, all that gives us expectations of better results overseas. And another point is that, we expect that in 2016, we are not going to have such impact of the devaluation of other currencies before the dollar, as it happened in 2015.

That will help us. So, as a whole this is an outlook of what happens with margins, in the end of 2015 and what we expect for 2016.

And once again, I would like to say that we are here to protect our margins and we are making all adjustments possible in order to accomplish that. Luis, is going to talk about provision.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Hi, Daniel. Specifically about provisions, I'm going to talk about the three main ones. Provisions for inventories of low turnover that we had in the foreign market. This is finished. On December 31, 2015, we had no item of inventory in our units outside of Brazil that had to be provisioned.

That means that for 2016, we are back to just a regular pace. So, these inventories that where provisioned are not scrapped. They can be sold of course and we are making an effort to sell

them. So, we can even reverse some of these provisions. But, so this is a provision that we don't have to continue. It ended on December 31, 2015.

Our labor provision, so they continue. We depend on the opinions of our legal advisors, our lawyers, we might have to have additional provisions as the lawsuits move on probably at lower pace that we did last year, but they continue.

And client provisions, well we are reacting to market conditions. We have been very transparent. Well, credit is -- a good credit granting processes -- protect us in the end of the day. We are very cautious in the granting of credit. Sometimes we really give up a possible revenues that would not turn into cash for us to avoid problems in the future. And we don't think that is going to decrease, but we are working very hard for it, not to go up, even with the market deterioration.

Q - Daniel Magalhaes {BIO 19231638 <GO>}

Okay. Thank you very much.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, thank you, Daniel.

Operator

Our next question comes from Alexandre Falcao from HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning. Thank you. I have two questions. The first is about your tax rate. I would like to know this tax rate of 10%, is not sustainable as you talked about margins. And I would like to know, where we should see a normalized tax rate, if you have a margin of 15 in the year and not 14.

And the second question is about Brazil ex-GTD, how can you have a less negative prospect, given the fact that in January you had a various supply than the first quarter. Then how can you pass on costs and reallocate cost, if a business line dropped by 30%, how can you adjust that, so that you are going to have a margin recovery for the year?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Hi, Falcao. This is Luis Fernando. Well, when you're talking about the effective rate, you have to consider the whole of the year because quarter-on-quarter, you have many adjustments, IR, income tax, these are things that we have to always see on an annual basis.

What we did as of June last year and the changes that we had, made the quarter not to be a very good base. So, we want to have a tax rate closer to 15 and another 20 that we had before. There are some issues. We know that there is a provisional measure that suspended some of the benefits that we would have. But it still has to be passed and it seems that they are going to discuss that in the beginning of March. So, this is the point that we have to follow.

And we don't know if that is also going to be valid for the interest on our own capital or not. And then we have to think of our margins that we have a share between the internal and the external market. I would say as a whole that our best expectation is to have margins closer to 15%, then the 10% that we saw in the end of the year, but I think that we always have to consider numbers on an annual basis.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. So talking about the domestic market ex-GTD. Could you give me a bit of color on that?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, the ex-GTD market is something that is hard to tell. Basically, our history says that what we call maintenance markets, retail market, not the markets that is related to expanding capacity.

The markets that companies are continuously recomposing their production capacity is not a market that really dropped. It did not happen in 2015, it was quite a disappointment, but specifically talking about the industry, there was nothing in 2015 that we say, no. This is not going to happen in 2016.

In 2015, we had maintenance investments and in 2016, this is going to happen too. So we know that there was a drop and because we had such a huge drop in 2015, we do not believe we are going to have again a huge drop in 2016. Unless the Brazilian industry just completely disappears, I don't think that we are at the dramatic point yet. So, the reality is that it is below expected, it was below expected in 2015, but we are not expecting a relevant additional drop. And if you think in the fourth quarter, the share of the industrial market in the breakdown of our revenues is very small.

Our major market is outside Brazilian, in the industrial segment, almost at a ratio of 3 to 1, 3 overseas to 1 in Brazil and that is probably going to continue. Brazil does not have a recovery, but it has stabilization at the lower levels.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. And if I can just a last follow-up. You talked about expansion and virtualization in China and Mexico. I would like to know at what stage your project is and what can we expect in terms of margin gains because of that, if it's margin or growth and how much more CapEx you will need?

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

Well, these two projects are basically halfway, both of them perhaps a bit beyond that in these two cases we already started production along 2015, but they are modular processes. Well, just recently we released an article talking about what we have produced in China, but we are about halfway with the investments. The two projects as a whole, we are talking about \$345 million and we have already paid, it's a bit more than half of that. So we will have a 160 million, 170 million in CapEx, a bit more concentrated in Mexico than China, but that's basically what it is like. And of course in the two cases, we are at a pace that is considered expected. We are always looking into the total consolidated capacity.

We have somewhat idle capacity in Brazil, we can adjust the speed, not only of investment that we make in Brazil, but also advanced or delay, if it is the case investments overseas. It's not the case, but we may do that. So, we are looking again of our production capacities in global terms.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Joao Noronha from Santander.

Q - Joao Noronha {BIO 17451608 <GO>}

Good morning, everyone. Thanks for the opportunity. I would like to go back to margin. You'll have an objective of keeping a flat margin vis-a-vis 2015. How dependent are you of an improvement in the second half of the year. Is it something that you're going to escalate in terms of improvement, what do you expect?

A - Paulo Polezi {BIO 19468811 <GO>}

Well, Joao we don't expect margins to be flat, our margins vary from one quarter to the other and we expect the second half of the year should bring more favorable conditions based on everything that we have been doing, that we have addressed and that we have been evolving.

Q - Joao Noronha {BIO 17451608 <GO>}

Okay, thank you very much.

Operator

Our next question is going to be in English. Mr. Juan Tavaréz your line is open, you can ask your question.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi, thanks. Good morning, everyone. And just my first question is on the external market, if you can just -- you've already mentioned that in Brazil specifically, you've seen a slower pace to activity. What are you seeing in the external market and if you can kind of give some visibility on region and product lines --?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, operator, perhaps we can move on to the next question, perhaps Juan has dropped the line. Mr. Juan Tavaréz, could you please. This is Luis Fernando from WEG, let's go to the next question, I don't think Juan Tavaréz is online. Mr. Tavaréz is online, he is asking his question.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hello. Can you hear me?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Yes, now I can.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay, great. Just my first question is on the external market, if you can just give us a sense -- excuse me, of how it's trending into the first quarter? I know you mentioned in Brazil that the activity is much slower, but what are you seeing in the external market, if you can give us some visibility on the region and by product line?

And then my second question is on potential acquisition opportunities. Are you seeing anything interesting locally or externally, like where would you -- if it is in -- if it is a priority for cash flow you just have, where would you look to focus on potential M&A? Thanks.

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

I'm going to answer the question in Portuguese because we have the simultaneous translation and this is better for everyone. So the first question is about the behavior of the external market. In the external market as a whole because we have a major diversity. WEG does not have an external market. The same position it has in Brazil, obviously.

Generally, the markets are much more fragmented, so our perception of external market has to do much more to ourselves than market conditions. As a whole, market follows the trend that we have been witnessing along the Europe 2015. And some markets have a macro scenario that is quite favorable. We have been able to grow in line with the market.

Others are going through a transition like North America, they had growth that was first driven by the industry and now by the consumer market. And there are other markets in which we are gaining market share, consolidating the market. There are many situations, but the year is starting very similar to what we have seen in 2015.

What's the prospect of having less volatility in exchange rates, which will help us to see more of the growth that we had in local currencies turning also into growth in dollars. And therefore, more Brazilian real in the end of the day. As for acquisition and opportunities as you mentioned, I would like to go back to what I mentioned about prospects, again, we are very much sticking to our strategic plans, when we continue to analyze all opportunities, both in domestic market and in the external markets because sometimes crisis bring us very good opportunities and we haven't changed anything with regard to our approach towards acquisitions. We have access to very appealing credit lines as I mentioned, which enables us to move on with our strategy. So we are looking into opportunities and I hope very soon to be successful in releasing and disclosing new opportunities in non-organic growth.

Q - Juan Tavarez {BIO 15083199 <GO>}

Okay. Thank you.

Operator

The next question comes from Fernando Cunha from Hoya Corretora.

Q - Fernando Cunha {BIO 16723010 <GO>}

Gentlemen, good morning. Thanks for the call. Congratulations on your results once again, you talked about the increase of CPV, you said that prices of product that comprised CPV will have an impact on its price, but there was a drop of prices. So, I believe that this drop was not big enough to, in some way offset the impact of devaluation. Is that correct?

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

Yes, Fernando, that's exactly what we mentioned, the price dropped in dollars, but we are paying for the price in Brazilian real and that's precisely it. If we could pass on prices automatically that would be neutral, irrelevant. But in the current economic scenario, we cannot really pass on cost automatically, pass on costs when the economy is up is one thing, but in a situation, we are going through, it's completely different, but it's exactly what you said.

Q - Fernando Cunha {BIO 16723010 <GO>}

Okay. And you also mentioned that you should adopt a more aggressive position in the United States?

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

I suppose that maintaining a profitability is when WEG's focuses in the country.

Q - Fernando Cunha {BIO 16723010 <GO>}

So, how are you going to be more aggressive in the American market?

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

Well, we have already been taking steps for instance the new line in Mexico, we are starting with new products. We have been taking measures for the distribution of products, we changed our product mix because of this changing demand.

So it is a demand that is less industrial, less big-sized products and more consumer products that are smaller. So, all that certain make those change distribution mix and we have been adopting our measures to be able to continue to grow. One important aspect is that the US is one of the few markets that we have consolidated data about the markets. We have NEMA, which is an association of electro-electronic equipment and the American market has stopped the production of industrial electric motors and sales decreased, but not us we had a better performance than NEMA reported, it wasn't as stronger as we expected, but still given the context was a very good performance.

And we are going to continue with our plans and look into opportunities that are coming up because of our change in our product mix.

Q - Fernando Cunha {BIO 16723010 <GO>}

Okay, thank you very much. And my final question, which is a bit less technical. I considered your results, not only in the fourth quarter, but in the whole of the year, you had very good results. So once again, I really congratulate you on that.

Now, the market did not understand that your price growth went down by more than 10%. Do you know why?

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

Well. Yes, we have a quite clear view on that. The market is sovereign, sometimes, I cannot say much about stock valuation or devaluation, we are here to provide the necessary information and investors have to make their own decisions. We think that WEG's business is complex enough for you not to make decisions based in short-term results. You have to have the patience of looking the business into as a whole up or down. And I can say that because we have got results that have been quite above market results, but it happens, sometimes we have a quarter that is quite above, but that is not the basis for you to use for all your decisions.

And the same thing applies for both period now, you'll have to see the longer term to have a clearer understanding of our business. As far as stock prices, that's all we can say, really.

Q - Fernando Cunha {BIO 16723010 <GO>}

Okay. The WEG 20 plan continues?

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

Yes, we are completely sticking to plan and we are very comfortable with that. We are moving forward to accomplish it and it's full.

Q - Fernando Cunha {BIO 16723010 <GO>}

Okay, thank you very much. And once again congratulations.

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

Well, thank you very much, Fernando for your comments.

Operator

The next question comes from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. I have three very brief questions. External markets, first, around the third to fourth quarter, the external market in local currency was almost 10 -- from 7 to 10, any specific reason do you think that we should use for this year, a number close to 10.

The second is the wind energy margins, do you think we are going to have better wind energy margins this year and if you could tell me how far we are from consolidated margins, it will help us to understand the business better.

And third, when we look into the geographic breakdown in the external market, North America, which is a market where you have more market share, grew more than Asia and the profitability remained the same, so I would like to know the different margins in terms of geography, if they vary a lot.

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

Okay. I'm going to start from last to first. Well, first you have to be cautious because the growth in North America includes the motors that are manufacturing in China and selling in North America. This is the group with lower margins. And the greatest market for this product is North America. So we produce in China, it is a lower margin product, but it is directed to the North American market. So, the analysis is not that straightforward, you have different aspects to it.

The second point is that we do have variability from quarter-to-quarter. We have been saying that we are going to have growth in local currency close to low two digits, basically what we saw along the year and we are expecting a market that is very similar to those for next year with some room for us to continue to improve. The mid question about wind energy, well, we are still in the learning curve. We are gaining productivity, prices are getting better and the margin is responding to that, it is still low, but the market is been very competitive. It is quite a strategic information and this is not something that I'm going to disclose, unfortunately. But the difference has been higher in the past and time, as time goes, it kind of narrows.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay, thank you very much.

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

Thank you.

Operator

Our next question comes from (inaudible) from Bank of America. Our next question comes from Cristina Garcia from Fundacao Real Grandeza. Mrs. Garcia, you may go on.

Q - Cristina Garcia {BIO 3876294 <GO>}

Good morning, my question was the same as Lucas and you already answered. I wanted to know about wind energy margin and it had an impact in the fourth quarter?

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

Well, it has been impacted the whole of the year. Good morning, I'm sorry, I'm answering without saying, good morning. But it has been impacting throughout the year. The effect of our mix, wind energy, but also acquisitions that we had. This have an impact on margin because this is very important and we continue to see along the quarter and along the year.

And this is continuing so at a lower pace, but it will continue to impact 2016. The contract is not as much because it is growing, but it's still the case.

Q - Cristina Garcia {BIO 3876294 <GO>}

Well, thank you very much.

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

You're welcome. Thank you.

Operator

Our next question comes from Fernando Guerreiro from Indie Capital.

Q - Fernando Guerreiro {BIO 20349657 <GO>}

Good morning, thanks for your call. My question is about the return on investments. I'm sorry, the return on capital and we see it as your return on capital was basically stable along the year. My question is, what's the pickup of wind energy? Do you think you're going to have a lower number for the ROC, what do you expect?

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

Well, this is the idea. We are being very careful in terms of return on capital investments that were disclosed, were similar to this year. That we have investments outside of Brazil and so we have \$1 impact that is important, but we are still keeping the level of investments that are quite controlled because we want to be very careful to expand our capital because of the ROC.

So we are doing whatever is necessary, what has a demand and this is normal and the idea is that we have to do that, all the time, but in times like this. This is even more important, as we're saying ROC is something that we follow from close and in the scenario with a decrease of EBITDA margins. We were able to keep our ROC and if you consider our ROC in 2015 compared to 2014, in a scenario of adversity, we basically kept the same level. So this is another accomplishment, I think of the company along the year of 2015.

Q - Fernando Guerreiro {BIO 20349657 <GO>}

Okay, thank you very much.

Operator

The next question comes from Marcella Recchia from JPMorgan.

Q - Marcella Recchia {BIO 19113462 <GO>}

Good morning, everyone. I just have one question with regard to the current quarter now. I would like to know what we should expect about this quarter in terms of margin, is there is a margin closer to the fourth quarter 2015 or is it closer to the first quarter of 2015?

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

Marcella, it's too soon yet, we are going to have a bit more visibility later, we started the year basically just now, we are going to have margin variability, even if you think of comparison basis, if you consider all the effects that we had last year, we have the second half of the year that is going to be a bit more favorable in terms of comparison. So we are going to have variability along the year, we are working to keep our margins for the year as a whole. But still too soon, we have to talk about that when we have a bit more visibility about the year as a whole.

Q - Marcella Recchia {BIO 19113462 <GO>}

Okay, thank you very much.

Operator

(Operator Instructions).

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

While we wait for you to see if you have any additional questions, I'm going to answer some of the questions we had on web. Stephen Park asked about in which interests, which sectors, the WEG is interested in working with, automotive for instance?

Well, WEG has a very clear business, we are involved in electric industrial systems and wind and energy generation business, our business, anything that we believe has an appealing return on capital investment and has to do with our expertise in the manufacturing of generators, transmitters and motors.

This is something that we can go to, the automotive business for passenger cars, this is not something that we participate in. But we have traction products that are provided commercially. The business for instance is a consumer of our electric traction system, electric vessels are an alternative. But not passenger cars, but all these other means of transportation are involved.

Marcelo (inaudible) asked the question as well. He wanted to know if the operating margin in the foreign market is below the domestic market.

Well, Marcelo, we always say that our brand is a direct result of the brands that we have in the different markets, when we have a stronger brands, we have a more relevant competitive position.

Generally, our brands follow that and so do margin. So with this regard of course, our brand is the main brand of electric products in Brazil. We have relevant positions in other markets, but it's hard to say that they are at the same level. And that reflects on margins.

It has a reflection on the mix of products that we sell in each of these markets, the level of services that we provide in this market. So, the comparisons are bit more complex than that. And that's why it is important for us to make an effort of building strong brand in those places to have stronger margins.

And finally, Fernando (inaudible) asked if the WEG coverage in Africa is considered satisfactory.

Not yet, we believe Africa is a market full of potential for us in the future. In Africa, some of the expertise that we developed for the Brazilian market are going to be quite interesting.

We can leverage many things that we learned in the Brazilian market to, Africa markets are very similar in industry, energy generation, but this is something that is going to happen throughout the time. We have a base in South Africa and lots of things that are going to come up from there a long time.

Operator

The next question comes from Alexandre Falcao from HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Well, thanks for the follow-up. I would just talk about the working capital and cash, you have the best relevant working capital this year. Almost R\$100 million in the fourth quarter. In a scenario of a stable currency should expect the effects not to happen, was this basically an exchange effect or is there anything structural that should add to this line in 2016?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, quite confidently we did not have an important increase in the level of investment in terms of working capital, quite the opposite physical inventory is decreasing. We are making efforts to decrease that, what to do, is that to have the effect of the valuation when you account for the inventory, if you have currency or exchange stability, this effect just disappears with time.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay, thank you very much.

Operator

Lucas Marquiori from Banco Safra has another question. Mr. Marquiori, you may go on.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Hi, Luis. Just a quick question. Revenues in the foreign market, what is exports and what is local production?

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

Local production, I'm just closing this number now, local, it's probably about 25% of the production outside Brazil, going up compared to last year and 75% local production, I mean in Brazil.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay, thank you very much.

Operator

We are now closing the Q&A session. We are going to turn the call back to Andre for his final considerations. Please, you may go on.

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

Well, once again, thank you very much for joining us and I'll see you next time.

Operator

The conference call is now closed. We thank you very much for joining us. Wish you a good day and thank you for using Chorus Call Brazil.

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