

Q3 2020 Earnings Call

Company Participants

- Andre Luis Rodrigues, Chief Administrative Officer and Financial Officer, Member of the Executive Board
- Andre Salgueiro, IR Manager
- Paulo Geraldo Polezi, Chief Financial and Investor Relations Officer
- Unidentified Speaker
- WEG3

Other Participants

- Alexandre Falcao
- Catherine Kiselar
- Lucas Marquiori
- Marcelo Garaldi Motta
- Pedro Bresser
- Rogerio Araujo
- Victor Mizusaki

Presentation

Operator

Good morning, and welcome to the conference call of WEG to announce the results of the third quarter of 2020. We are broadcasting this conference call along with the slides on our Investor Relations website at ri.weg.net. And upon completion, the audio recording will be available on our IR website. (Operator Instructions). Any forecasts contain here in or any statements that may be made during this conference call regarding future events, business outlook, operational and financial projections and targets and WEG's future growth potential constitute mere beliefs and expectations of WEG's management, and are based on information currently available.

These 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 affect WEG's future performers and may lead to results that will differ from such forward-looking statements.

We would like to remind you that this conference call is being conducted in Portuguese, and you are listening to the simultaneous translation into English. Today with us in Jaragua do Sul, we have Mr. Andre Luis Rodrigues, Managing Director of Finance, and

Investor Relations; Paulo Polezi, Finance Director; Wilson Watzko, Controller; and Andre Meneguetti Salgueiro, Investor Relations Manager at WEG.

Mr. Andre Rodrigues, please you may start.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. It's a pleasure to be with you once again for the conference call of WEG. We are going to start with a highlights of the quarter. The first one being the net operating revenue, which grew 43.3% compared to 3Q '19. This performance is the result of the resumption of demand for our short cycle equipment mainly in the domestic market together with a good portfolio of long cycle businesses as reported in recent quarters. This improvement in short cycle business in a domestic market occurred directly in no business areas though with different basis.

The highlight highlight is the recovery of commercial engines and appliances, coatings and distributed solar generation businesses, reaching at the end of the quarter, levels similar to those of the period before the pandemic. In the foreign market in spite of the gradual improvement, we have not yet had the same recovery observed in Brazil. Another highlight of the third quarter was the EBITDA, which grew 61.5% to BRL935 million. The EBITDA margin grew 2.2 percentage points to 19.5%. Throughout the presentation, Paulo will give you more details about this variation.

Finally, we had another quarter of evolution of the ROIC as we will see on the next slide, which had the growth of 4.1 percentage points in relation to 3Q '19, reaching 23.3%. The consistency of this indicator in recent quarters is a reflection of the improvement of our operating performance as demonstrated by the combination of revenue growth and EBITDA margin expansion, exceeding investments made, and requiring less working capital this year.

Now, I will give the floor to Paulo Polezi to continue. Mr. Polezi, please.

Paulo Geraldo Polezi {BIO 19468811 <GO>}

Good morning, everyone. On Slide number 5, I present the evolution of our business areas in the markets where we operate.

Starting with electronic equipment in Brazil, where we represented an important recovery in demand for short-cycle equipment, especially serial automation products and low voltage engines. A movement that can be associated with high demand in the construction and agro industry sectors in a period.

We also kept the base of deliveries for important long cycle projects with emphasis on projects related to mining, oil and gas, pulp and paper. GTD was again the highlight of the quarter, where much of the revenue is linked to long cycle equipment. In Brazil, we had deliveries for important projects mainly related to the transmission auctions held in recent years.

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In addition to those good performance that distributed solar generation business, GD similar to other short-cycle businesses of the company in Brazil, showed an important recovery in the quarter, reaching an activity level above backup 1Q '20. In commercial engines and appliances, the recovery movement observed at the end of 2Q '20, continued throughout this quarter showing rapid improvement in activity, especially in engines for home appliances, motor pumps and commercial compressors.

In coatings, there was also a rapid resumption in business supported by the recovery of important segments, such as road supplies, agricultural machinery, home appliances and civil construction. In a foreign market, it's important to highlight the variation in FX rates played an important role in the growth of 37.8% of revenue measured in BRL.

In local currencies, according to the weight of each market net operating[ph] revenue grew 4.5% compared to 3Q '19. In the area of industrial electro-electronic equipment, especially low voltage engines, we observed the continuity of the gradual resumption of the global economic activity after the initial impact of the pandemic.

At a lower level, however, when compared to the same period last year for long cycle equipment, we maintained the good performance observed in last quarters. With orders being delivered to relevant segments, such as oil and gas, water and sanitation. In GTD, we present another quarter of good results with the continuity of relevant deliveries being made in U.S. and Mexico with an important contribution of the synergy between our operations in North America.

In Commercial Engines and Appliances, our sales showed good recovery, especially in our operations in North America, where we continue to increase our market share in the U.S. and Mexico. In Coatings, the good performance was driven by the improvement in our operations in Argentina after bad months because of the pandemic as well as the advents of sales in other Latin American countries both in industrial and automotive coatings.

On Slide 6, you can see the evolution of EBITDA in 3Q '20 where we showed the growth of 61.5% compared to 3Q '19. The EBITDA margin closed the quarter at 19.5%, an increase of 2 percentage points compared to 3Q '19. We highlight the margin gain with a rationalization of cost and expenses, improvement of the margin of long cycle operations in addition to the improvement of margin of some important operations abroad. It's important to highlight that this quarter we had a non-recurring impact of credits related to the IT law amounting to BRL29 million. Normalizing by this effect, the EBITDA margin of the quarter would have been 18.9%.

Finally on Slide 7, we show the evolution of investment in CapEx. In 3Q '20 investments reached BRL148.7 million, 49% of which are located in Brazil and 51% in foreign units already showing investments going back to normal levels of the company after a moment of suspension due to the uncertainties caused by the pandemics. It's always worth remembering that our production system is based on what we call modular expansion, which permits suggesting the CapEx to demand, thus maximizing the return on the capital invested.

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

Andre Luis Rodrigues {BIO 17964192 <GO>}

Thank you very much, Paulo. Before we move to the Q&A session, I would like to reinforce some recent achievements, and to make a few comments about our prospects for the rest of 2020. As to our recent achievements, we have recently received the Global Supplier Of The Year award from Electrolux. We're now the world's leading home appliance manufacturers. This award is the recognition for WEG's commitment to always add value to our customers, especially in the aspects of innovation, quality customer service and sustainability.

We consider this proximity to customers, one of WEG's great differentials, and this recognition by such an important customer demonstrates that we are on the right track.

We continue with the development of our global water and sanitation businesses, supporting the needs of key players in this important market segment, generating new businesses for the company, such as the recent announcements of important projects being carried out in India and in the Middle East.

As a prospects for the rest of the year, we can mention the following, despite all difficulties and uncertainties imposed by the COVID-19 pandemic, the year of 2020 will be positive for WEG. During this period, we have taken all the necessary measures to prevent and protect our employees and to make the necessary adjustments with speed in our operations. The dynamics of our businesses always helped us deal with an eight typical year like this, where the portfolio of long-cycle products built throughout 2019 and 2020 continues to bring stability to our businesses.

One of the demand for short-cycle equipment seems to have already returned to normal levels in Brazil. Abroad is still in the process of recovery, despite the improvements shown in the company's margins, we remind you that they may present volatility due to the uncertainties present in the market and to the dynamics of WEG's businesses.

It's important to highlight that we still have some specific impacts this quarter, such as reduction of work hours and expenses that will not be recurrent in an environment of normality. I close our presentation. And please, operator, we may move to our Q&A session.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions) Our first question comes from Mr.Alex Falcao from HSBC. Please Mr.Falcao.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. Good morning, Andre, Paulo. I would like to hear from you a little bit about the prospects for 2021. Could you share with us a little bit about short-cycle and long-cycle? Do you see the same pace being kept next here? But it sounds like a short-cycle. We here, it's still very warmed up. So I would like to hear how do you see orders being place for long-cycle?

A - Unidentified Speaker

Hi, Falcao. Thank you for your question, and before answering it, I'm going to take the opportunity to clarify a few points about Paulo Polezi, leaving the company, especially because some rumors on the social networks. Number one, Paulo decided to accept a proposition for his career. He's going -- he will be leaving soon and he is the one who decided to leave the company. The other thing is that he has been with us for almost seven years in a recognition for what he did. This is what provided him this opportunity to advance in his career. We announce this to the market before release the results because Paulo's resignation was formalized in the Board of Directors meeting which took place on that day.

I would like to recognize and thank Paulo for his contributions to WEG along the time he worked with us, and I wish him all the success in his new challenges, and Paulo is here with us respecting all social distancing protocols because of the pandemic. And at the end of the Q&A session, I'm going to give the floor to him if he wants to say something about this subject.

So I took the opportunity to make this clarification and I'm going to answer your question more specifically in terms of prospects for 2021. When we deal with the moments of crisis and because of our business dynamics in which short-cycle and long-cycle, we have different dynamics. Usually short-cycle is the first to suffer and also the first to recover as we highlighted this before. Long-cycle in contrast as we have the leader is there are more into the future. We only feel -- it takes longer for us to feel what happened. Now in terms of short-cycle, I also had the chance of talking to some of you. The impact of the pandemic had different behaviors depending on the geography and evolution of the pandemic.

So it started in China. China was impacted in Q1 and then recover in Q2, then in Europe and into the Americas. In this quarter we reported that Brazilian practically all short-cycle business lines had the pre-pandemic recovery and that are some highlights depending on the segment. For example, commercial engines for appliances had a very sharp drop. In the beginning of 2Q and then we covered with very good performance. But this behavior was in agreement with Brazil there was a very good recovery for WEG businesses in Brazil in Q3.

And now in international market, we were expecting recovery to be slightly slower and it's gradual. We don't expect short-cycles, especially in the EU and U.S. will recover this year. We're not expecting it to go back to pre-pandemic level this year. Maybe in 2021 we will be able to do that. So the message here is for short-cycle, we have a good development overall. Brazil doing very well.

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It's good to remember that before the pandemic, we already expected a good performance for the Brazilian economy and a good year, and epidemic got in the way and international market, there's a gradual recovery. When we see a long-cycle, it's not different from what we've reported in terms of this year's performance.

What we said that in our report and in our press release is that in Industrial Electro-Electronic Equipment, with felt that in 3Q, there was a drop in the placement of orders. I think this is normal, but we felt much more a volatility in the placement of orders and this represents very well what happened? And for 2020 no surprises this portfolio started robust and we are going to deliver it in 2020. And what we see for 2021 is -- well, we have a healthy portfolio for 2021 for a long-cycle. Portfolio for transmission and distribution that was built long last year's auctions. And you should also be reminded that long-cycle this is in on WEG's are not concentrated in Brazil. We have a very good performance in T&D North America, which land us to have an earlier expansion in our project for North America.

And in spite of the volatility that I mentioned that we might have to deal with in long-cycle orders, you should always remember that as WEG is exposed to many different segments, it's an advantage that we can modulate and adapt what is happening in each segment and find opportunities for growth.

For example in 2021, wind businesses are going to come back to our portfolio we have already -- we already have an order that we are going to deliver in 2021, 2022, so helping us to have a healthier portfolio. So what we see today is a scenario of recovery of short-cycle which is sharper in Brazil and more gradual overseas and acceleration of Industrial Electric-Electronic Equipment because the portfolio suffered from the volatility. And we need to see how this is going to behave before the end of the year and we are going to report this to you. But for 2021 our portfolio remains healthy.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Great. And if I may, you have reached a level of ROIC this quarter, that it might be the best ever. How sustainable is that? And how do you see the long-term sustainable ROIC?

A - Unidentified Speaker

So we expect to deliver consistent ROIC levels as we've been doing. And we do not talk about or give an outlook about ROIC prospects. In the last quarters, we have been trying to deliver growth in revenue margin expansion and this benefit they're always here, we have had some specific actions such as reduction of work shifts which will not have permanent effects and because of that we cannot say that we -- this trend of growth in revenue of a margin expansion will continue. We cannot assure that it will continue as it happened this year, not to mention that the effects evaluation. And we might give up some of that return to continue our long-term growth strategy gradually increasing investments that we had planned for this year an epidemic made us hold back on that a little bit to promote the growth of our operations.

Our focus Falcao, is to be faithful to our mission of seeking continuing sustainable growth, and this includes delivering good operating margins and ROIC, a differentiated levels as we have been doing.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thank you very much.

Operator

(Operator Instructions) Our next question comes through Mr.Lucas Marquiori from BTG Pactual. Please, Mr.Marquiori

Q - Lucas Marquiori {BIO 17907247 <GO>}

Hello. Good morning, Andre and team thank you very much for your good performance this quarter. Congratulations to the whole company. And in addition to asking the question, I would like to express my gratitude to Paulo for your work. Thank you very much and success on your new challenges. I have a short-term and a long-term question.

In the short term, is this effective tax rate this year, which is slightly up. It was around 10% and 11% and was slightly above that this quarter. And I would like to understand what happened there? Well, it's the IT law, but please tell us how that -- how do you see that going into the future and what is the best quote that we should use?

In terms of long-cycle, could you give us an idea of how much more or less will be the share of WEG in the sanitation CapEx in Brazil and overseas? So maybe there's another type of equipment involvement. So it's just the share in a CapEx. So in Brazil and in international market this type of investment, so that I can calculate market potential? Thank you very much.

A - Andre Salgueiro

This is Andre Salgueiro to answering your question about the effective and tax rate. And then Paulo will talk about sanitation. As you mentioned in your question, we had the reclassification of our credits in the -- of the IT law. So it went from the text line and went to the EBITDA line and effective is higher this quarter. And if you adjust, you will see that we have an effective tax rate that is very similar to what we had before which is a level that we believe that is normal. We don't see any indication that will -- it will change in a short-term. So that's all that happened, the only different thing that happened this quarter.

A - Paulo Geraldo Polezi {BIO 19468811 <GO>}

Lucas, good morning. Thank you for the message. So in terms of sanitation, we've been following up the news. It's been published in the last quarter and in April, that the prospects for business potential for future decades, this amount was -- has been adjusted recently. But in any way it's a quite relevant and significant investment. In the case of that year, the water and sanitation segment is one of the -- our main market segments and we talked a lot about this last time we met. And so we've been supplying equipment for this

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industry for many years, not just engines and other automation equipment and even coatings for water and sewage pipes. We should also highlight that 4.0 Industry solutions, it cannot be applied in these projects to. And Lucas, it's difficult for us to quantify in terms of revenue, because it depends very much on the features of each project. But overall we can see that it is a quite addressable market by our businesses and the bench that we work with is 4% to 5% of the total CapEx of the projects.

So we can work with these factors. And I would like to highlight that each project may vary and depending on size, complexity, product mix and also our capacity to capture new potentials. And we believe that the approval this new landmark was very important for business and may bring the opportunities for WEG in future years.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Paulo. Just to clarify in international market, could we use the same estimates 2%, 4%, 5%. It's not too different, is it?

A - Paulo Geraldo Polezi {BIO 19468811 <GO>}

Yes, you can work with these numbers to Lucas, these are specific projects and you can work with them, too.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Great, Paulo. Thank you very much.

Operator

Our next question comes from Mr.Mizusaki from the Bradesco BBI. Mr.Mizusaki, please you may ask your question.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hello. Good morning. Congratulations on your results. I have two questions to ask. The first one, Andre, you mentioned, your foreign operations, but when we get the Q3 results, so the growth of revenue in Europe where it got my attention. Can you give us more details about the main drivers for this revenue growth in foreign currency in Europe? And question number two more related to electrical engine for home appliances. We see that once the government allowance that is being given to the people in Brazil. This might go down. What do you see the prospects in this area?

A - Andre Salgueiro

Hi, Victor. Good morning. This is Andre Salgueiro, I'll answer about Europe, and then I'll give the floor to my colleague to talk about appliances.

As to Europe, yes, we have been having a good performance. It's been so for a few quarters in spite of the pandemic. And in Europe, we see the concentration especially related to oil and gas, and water and sanitation, and sanitation is very strong. And then with the long cycle offers is good both in Brazil and in international market because of the

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large projects that we've been gaining and delivering this year. Our revenues in Europe is still good because of the long-cycle dynamics. For short-cycle in Europe, more or less followed the trends that we observed for short-cycle in other regions. The only thing that didn't happen as Andre mentioned is that this set the speed of recovery since the worst time of the pandemic in April and May. It's not going back as fast as we have seen Brazil. Yes, there is a recovery for short-cycle since the beginning of the pandemic, but the main factor justifying this good performance and growth is the long-cycle demands related to oil and gas projects and water and sanitation projects, too.

A - Unidentified Speaker

Victor, as to the performance and future prospects for appliance engines. First of all, it's a business that grew very fast in 3Q because we had a very sharp drop in the second quarter. So we need to take into consideration the behavior, the average of the year. Second appliance engines is more limited in terms of our portfolio. The visibility that we had today according to what we can fix doing very well. The other factor that should be considered at then will never stop developing new solutions and we were very happy with recognition of this global supplier war that we got from an electro looks demonstrating that the company, no matter how strong it is in Brazil, it has global exposure. And yes, and right now, we can practice a lower revenue levels because of the emergency salary that Brazilians are getting.

That's why we're having a good market performance. But we are prepared to seek other opportunities with the factories that we have in China, Argentina, another domestic engines, especially in the U.S. and in Mexico that also have a good performance.

Operator

(Operator Instructions) Our next question comes from Mr.Catherine Kiselar from Banco do Brasil.

Q - Catherine Kiselar {BIO 20979709 <GO>}

Good morning, everyone. Congratulations on the results. Good luck on your new challenge Mr.Polezi. I have two questions. It's -- the first one is about the impact on long-cycle businesses. So what do you see the behavior in the future? What we can expect and you have already indicated that the impact would be felt as of 2021? What kind of behavior can we expect and what strategies have you implemented to mitigate the impact to reduce the window of impact? And question number two is related to digital business initiatives. Can you give us a follow-up about your portfolio? How has this been contributing for you to build your product portfolio and innovation? And what results can we expect on that front? Thank you very much.

A - Unidentified Speaker

Hi, Catherine. I'm sorry, your audio was not so clear to us. But let's see if I can answer your question. In term of long-cycles slightly more into the future, as I said before, we will be monitoring. But the company has been working on new front to capture all opportunities. But one very important action that has been very important for WEG that we've recently announced is that we were able to be the supplier of high-voltage engines in the largest

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irrigation project in the world that is being done today in India and WEG is going to be the supply of high-voltage engines, and we're talking about big machines, 22 gigantic engines for this project, which shows that the company seeking opportunities to reinforce the long-cycle portfolio, thinking more into the future in U.S. too and Mexico.

Today, what we see that there are opportunities, in fact, and we will continue monitoring those opportunities. As to one of your questions and update on WEG Digital, I have the chance of describing a little bit our strategy in our last conference call, what we call the short-term strategy and the opportunity that we call of WEG digital solutions and how much it can add two adjacent solutions? Meaning it can complement the portfolios of products and solutions that are traditional to the company and trying to add value to this market.

Also, I said last conference call that this process of company joining digital businesses is a journey that we are building step by step within WEG's work philosophy. After the acquisition of the four companies and now internal movements that we had already started at WEG today. What I can tell you as we discussed last conference call. We already had three solutions that are ready and being offered to the market.

One that manages in real time all the fleet in actuation of a company through automation drives, including even the PCs of equipment that are and turned on. And then the other one we called a WEG Energy Management which gives the opportunity of managing electric energy consumption in any kinds of production line plants, machines. And number three is WEG smart machine in our platform based on cloud computing which makes it possible for industry to monitor the performance and operations of each machines in real time, thereby optimizing productivity.

Additionally, we're also working to integrate our recent acquisitions of artificial intelligence, such as Mvisia and BirminD enabling us to add new layers of artificial intelligence and to offer new solutions to our customers. Without forgetting other acquisitions that we made in 2019 that have been helping in our market stress strategy.

The first one in terms of intelligent energy management through telemetry solutions and production and floor management through the under system of PPI. Well, I can tell you is that WEG's expertise up large to the development of more effective technologies for the growth for 4.0 Industry. So this is all I can tell you about what the company is doing in that area.

Q - Catherine Kiselar {BIO 20979709 <GO>}

Thank you very much for your answers, and for the updates.

Operator

Our next question comes from Mr.Rogério Araujo from UBS. Please Mr.Araujo, you may start.

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Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning, Andre and Paulo. Congratulations on very strong results in every division and with all aspects. I have three very quick follow ups on the questions that have already been asked. Number one is the backlog of long-cycle product. I would like to hear in the end of September and maybe in October to how are sales going on? Is the backlog stable? Has it been going down or up? And if you could tell us how much the long-cycle represents in your revenues today, the share of long-cycle in your total revenues?

A - Unidentified Speaker

Rogerio, as I said, well now, in Industrial Electro-Electronic Equipment, we have been seeing some volatility recently and we will need to monitor that until the end of this year. Our T&D business as we said before, it's healthy this year, very robust for this and next year. What may impact this is that the world to transmission industry distribution auctions are scheduled for this year, there was one in June and December. June, the one in June was canceled. There's another one in December, but this was only have an impact more in the future. I think that we have good prospects for the end of the year auction. We have had some discussions with possible customers, and we will give you an update next time we meet.

A - Andre Salgueiro

Rogerio, just complementing with the end of your question, in the quarter that finished, it was about -- long-cycle was about 37% of X total consolidated revenue, it slightly below the third quarter. This is more related to short-cycle. So we have better short-cycle, but it's still a significant share of our businesses.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you very much, Andre. The second follow-up very quick regards the market share that you think that you have in this niche of sanitation. So you said 4%, 5% of total CapEx. What is today's market -- WEG's market share in the segment?

A - Unidentified Speaker

Well, Rogerio, it's difficult to tell you what our market share is in this segment. Our basis WEG's market share in each one of the businesses that are related to this business. So industrial engines for the pumps, frequency, inverters for the pumping system and control systems, we have automation panels. So it depends more or less on where the demand comes from and what is the product and what is WEG's market share in each one of these segments. It's always good to comment that actually considering the investment level and the size of the market, maybe the players that will be part of this investment, market our players that are foreign and they may consider buying the equipment overseas to. So we need to observe everything. That's why it's very hard for us to give you a precise market share estimate for you. We need to wait for what happens. We need to see who are the players that will be responsible for executing those project, if product contracting will be in Brazil or international market and then we can have a more accurate outlook of the future market. So today you can take the market as it is, it's quite relevant, right?

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Q - Rogerio Araujo {BIO 17308156 <GO>}

Yes. If we take industrial engines, we have a significant market share its sales are in Brazil. We may have an important opportunity in that area. The last follow-up regarding tax rate. There is a discussion for the Brazilian government to adapt to the rules of what we see. Have you considered if that is accepted if it would affect your transfer price model, if it can affect the tax rate or not?

A - Unidentified Speaker

Well, Rogerio, we have conducted some studies. It wouldn't have a significant impact today. We have rooms that is determined by the Brazilian government. But it -- we don't expect it to be very relevant. And if it happens, it would not take place in the short-term.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you very much, Paulo. Thank you very much for your contribution along all these years, and good luck in your new balance sheets.

A - Paulo Geraldo Polezi {BIO 19468811 <GO>}

Thank you, Rogerio.

Operator

Our next question comes from Mr.Marcelo Motta from JP Morgan. Please Mr.Motta.

Q - Marcelo Garaldi Motta {BIO 16438725 <GO>}

Good morning. I have two questions. Number one, could you comment on margins? How much of that is structural and how much that is something that is occasional? It is like a one-off. It won't repeat again, but there is an impact that economists think that things will remain at these levels and in terms of the FX rate in Brazil and the ratio BRL and dollar. So what do you see, is there any relevant impact for us to see in the future of COVID measures that are impacting?

And also your international market share, we imagine that with the weaker BRL that strengthen some product lines and make it more interesting to be purchased internationally. In terms of prices of raw materials you have an impact, but what is exported from Brazil with the current effects rate that are benefit? And it's easier to sell our products in international market.

A - Andre Salgueiro

So let's talk a little bit about margins in the quarter an improvement in margins. Number one, all factors that have contributed for margins in Q2 have continued, such as for example a better margin in long-cycle operations with a growth and participation significant in a consolidated numbers.

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Where a demand for this product along this year we can mention a few highlights. So the highlight businesses that have contributed to demand such as for example in the area of T&D with the transformers and substations being delivered to projects related to the auctions here in Brazil. And the growing demands for these demands in renewable power plants, such as wind and solar in Brazil and in North America where WEG is a leader in a supply of transformers, and distribution for renewable power.

Engines and automation have also contributed and with a growing demand in the segment with automation panels for long-term projects in important segments in industry -- manufacturing industry as we highlighted pulp and paper mining. Agro and oil and gas have also contributed. Another point, important operations internationally such as Industrial Engines in China and transformers in U.S. have been showing a continuing improvement in margins over the past few quarters and undoubtedly making operational adjustments before --because of the pandemic due to the reduction of expenses with travel and reduction of work shifts.

This has an impact in short-cycle businesses in these two quarters. We mustn't forget the impact of the strong FX rate devaluation this year in Brazil. And so the relationship between FX rate and margin is strong, but with a short FX rate evaluation in Brazil with more exposure in the businesses that have more exposure in the international market -- have a benefit when there is initial benefit. And then gradually they're normalized. Along the quarter we saw an improvement in short-cycle in the end of operational limitations imposed by the pandemic in our main operations and this has improved significantly. The operations in our manufacturing units also contributing to margins.

A - Paulo Geraldo Polezi {BIO 19468811 <GO>}

Motta, good morning. This is Polezi speaking. So about international market share and also making a correlation with FX rates that we've been having recently in Brazil. Your question is very opportune because there are few points for us to clarify. WEG has a position of leadership and market share leadership in the Americas and it has a smaller market share in other continents. So we've been gaining market gradually. And this word gradually is important because in spite of a favorable FX rate, the decisions of our customers is not something that takes place in a short-term. Customers to designed a product that is so relevant as our products and our competitive stood longer. It takes longer years of investments before you reach and meet all their requirements. And this period of FX rate varies many times both in our favor or against us. But the most important thing is to highlight that the favorable FX rate helps us to expand our share in the businesses where we export and we are going to make the most of this time to gain new customers and expedite slightly and gain market share. But on the other side, it also effects cost, Paulo. Our cost metrics is very much related to metal items or supplies that is very much bent by the dollar. So we believe that it is positive for us to gain market share. But in this short period of time, we can't yet see any gains. We're just monitoring. We need time before we see any impact.

Q - Marcelo Garaldi Motta {BIO 16438725 <GO>}

Thank you very much, Polezi. Good luck in your new challenges.

Operator

Thank you, Motta. Our next question comes from Mr. Pedro Bresser from Levante Investimento. Please Mr. Bresser.

Q - Pedro Bresser

Good morning, everyone. Congratulations on your results. My question regards your capital structure. You have BRL2.2 billion in terms of net cash, what do you think into the future in terms of capital structure? And do you see any relevant acquisition in a near future? Or is the strategy going to be of small strategies as you've been doing? So could you give us some more color in terms of your capital structure, please?

A - WEG3

Hello Pedro. Good morning. So I'll be talking about cash and everything else. I'm going to start with the answer and thing that the way WEG sees its capital structure. Actually, we focus very much on what we call the company's competitive advantage, which is our financial flexibility.

It's something that we don't give up and the flexibility is very important to us. It has demonstrated to be very important along WEG's history for us to keep our focus on our strategy and in a long-term. I'm going to give you a few examples. So you asked your question, first M&A activities. We are going to keep our M&A plans. We're still focusing on that whenever any opportunity for M&A arises, whether it's a small, medium, or large sized opportunity, while we try to make the most of it to leverage it and we want to focus on the transaction. This is very positive in the countless operations as WEG has conducted over the years. It also allows us to keep our focus on our fixed assets, which is very important, as you know. The investments we made in Mexico and China, it gives us advantages to continue operational improvements to keep our high productivity and the cash that we use and we will continue using it for that. And WEG has a history of investing about 3% of this. And the company has a very healthy cash. All of this to say that we have no plans to change the company's capital structure because we focus very much on the growth opportunities and we are going to keep our financial health as our priority.

Q - Pedro Bresser

Thank you very much.

Operator

Our next question comes from Mr. Alex Falcao from HSBC. Please, Mr. Falcao?

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thank you for the follow-up, and we just like to understand your solar panel cycle and looking the exports in the comex [ph] website. And you have had a significant come back recovery, you almost doubled your exports in September as compared to July. How long does it take to sell the solar panels? And how long does it take until we see it converting

into revenue? The product cycle once it's been ordered, how long does it take? So you buy, it goes into the kit and until it effectively turns into revenue?

A - Andre Salgueiro

Hi Falcao, this is Andre Salgueiro. Well, actually the indicator that you were looking at is the indicator of imports of solar panels. And there's timing for clearance of the merchandise it gets to our distribution center and then we sell. We have an inventory in distribution state center and as a turnover. Well, we've been measuring, it's how long it takes for us between the order is placed and how long it takes for us to deliver this to the customer. So it's hard for us to tell. Once the panel arrived in Brazil and turns into revenue, we can't tell how long it takes. It depends very much on inventory and delivery times for each one of the players. In our case, I could tell you that the times, it's about one-month, maybe a little bit longer, but it may vary depending on the player in the market. And so once this goes into your DC, it doesn't take another month. So it's one or two months between it gets to the country and it turns into revenue, right? Pretty reasonable, right? Yes more or less that because there is a turnover in a DC inventory, but if you calculate with one, two months.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Would you say that in solar specifically there's has been a rush because of the possibility of changes in law and everybody wants to install precisely because from what we've been leading there might be a possibility that it would go back and you wouldn't pay for the use of the infrastructure. Do you see that?

A - Andre Salgueiro

Yes, it helps. I think, especially for specific type of project, the middle sized projects where people do the project to sell energy. Yes, there has been a large demand. This is one of the things that is helping. We think that the solar generation market makes sense in the Brazil as a possible change in regulation. So this is a market that will continue demanding in the medium and long-term, and as we always say Brazil has good conditions of the sun, energy prices are high and it really makes sense when we invest in solar generation.

The change in regulation may reduce investment based slightly in the industry when it happens, but it's not something that will impact the growth trend in the segment. And it's difficult to estimate how much --when the regulation change will take place and while we await we have good growth prospects after the change there may be a slowdown, but the market will continue developing, but just at the lower base.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thank you very much.

Operator

(Operator Instructions) We're now ending our Q&A session. I would like to give the floor to Mr.Andre Rodrigues for his final remarks. Mr.Rodrigues, please.

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

So before my final considerations, I would like to give the floor to Paulo for him to say a few words.

A - Paulo Geraldo Polezi {BIO 19468811 <GO>}

Thank you, Andre for the opportunity of saying goodbye to so many colleagues and the listening [ph] investors, with whom I had the satisfaction of dealing with them almost seven years in WEG. I always wanted -- went after my objectives, one of them was to seek a leadership position even if it's another company. This was a very difficult decision to make, it's very hard for me to talk about WEG, I made many friends. I learned to value cultural aspects and respect to people here. I'm really proud of having been part of the big trajectory of WEG teamwork that we do. Investor Relations always a fast and good quality services to you. That helps so much the company.

Lastly, I would like to thank your partnership Andre Rodrigues, Andre Salgueiro, and special thanks to the Investor Relations team that is not here in the team. Eduardo, Andre, Rafael and especially (inaudible). Thank you very much.

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

Thank you, Paulo. And before we close, I would like to remind you that on November 12, we are going to have our WEG Day this year because of the limitations imposed by the pandemic in a smaller virtual format. And in this meeting, we are going to give you updates about the future prospects of the company and what we've been doing. Thank you all very much. And see you on November 12 for the 2020 WEG Day. Thank you very much.

Operator

The conference call of WEG has now ended. Thank you very much for your participation, and have a have a very good day. Thank you.

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