

## Q1 2021 Earnings Call

### Company Participants

- Andre Luis Rodrigues, CFO, IR Officer & Member of Executive Board
- Andre Meneguetti Salgueiro, IR Manager

### Other Participants

- Catherine Kiselar, Analyst
- Murilo Freiburger, Analyst
- Rogerio Araujo, Analyst
- Thiago Casseb, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning. Welcome to WEG's Teleconference about the Results of the First Quarter of 2021.

This conference call is being transmitted, together with a deck of slides, in our Investor Relations website at [ri.weg.net](http://ri.weg.net). After the conclusion of this call, this will be available in our IR website. (Operator Instructions)

Any forward-looking statements contained within this document or statements that might be made throughout this conference call about future events, business perspectives, forecasts and operational and financial targets and about the future growth potential at WEG are just premises and expectations from WEG's management based on information that's currently available.

These statements involve risks and uncertainties, and therefore, they depend on circumstances that might or might not take place.

Investors should understand that general economic conditions, industry conditions and other operational factors can have an impact in WEG's future performance and lead to results that differ materially from those that are expressed in forward-looking statements.

We would like to remind you that this conference is being held in Portuguese with simultaneous interpretation into English.

Today this morning we have Mr. Andre Lu's Rodrigues, Managing and Finance Director of the company and also CRIO; Wilson Watzko, Controlling Director; and Andre Meneguetti Salgueiro, who is our Manager of Investor Relations.

Mr. Andre, you may begin.

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

Good morning, everyone. It is a pleasure to be here with you once again for this conference results.

We start with the highlights of this quarter. The first one the operational -- net operational revenue that grew by 36.7% when compared to the first Q of 2020. This good commercial development that has been observed in most of our businesses has been key to reach these results, with positive performance in the internal market and sustaining elevated levels of revenue in short-cycle equipments and also in the transmission, or T&D, business.

As for the foreign market, the gradual improvement in demand shows sign of recovery in the global economy. This movement is reflected in the growth of our businesses in local currency when compared to the same period of last year. Another highlight this quarter was our EBITDA, which showed a growth of 64.2% and reached BRL1 billion. The EBITDA margin grew by 3.3 percentage points, reaching 20%.

Throughout this presentation, my colleague, Andre Salgueiro, will give you further details about this variation. Finally, we've had another quarter of evolution in ROIC, as we will see in the next slide. ROIC had a growth of 7.5 percentage points versus Q1 of 2020 and reached 28.2%. The consistency of this indicator in the last quarters reflects an improvement in our operational performance, showed in the EBITDA margin, together with good capital administration in the last 12 months.

I now give the floor to Andre Salgueiro to go on.

## **Andre Meneguetti Salgueiro**

Thank you, Andre. Good morning, everyone. We show the evolution of business in our markets. We start with Brazil. In the Electro-Electronic Equipment, the sales of short-cycle equipment are still bullish, mostly for segments such as mining and infrastructure. We've had good demand for low-tension electric engines and also serial equipment for automation where we have increased our market presence. We've also had important supply contracts for long-cycle equipment, such as electro centers and automation panels for industries such as mining, oil and gas.

In generation, transmission and distribution, T&D, the transmission and distribution business has been a highlight in the last quarters and contributes to our growth. Large-sized transformers and substations are being delivered for projects connected to the latest distribution transmission lines bidding processes in recent years. Another important

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area, which is solar generation, has also showed good demand contributing positively for a good performance of this business area.

As for Commercial Appliance and Appliance Motors, demand is still positive, with durable consumer goods, such as air conditioning and washing machines, motor pumps and machinery for food industry being a highlight. In short-cycle equipment, we have highlighted for electro domestics or household appliances and sanitation. As for the external market in the Industrial Equipment and Electronic, we still observed the recovery of economic activity in the main regions around the world.

The volatility in the orders in long-cycle equipments that we saw in the last few months still has an impact on the growth of these businesses and it's worth mentioning the course earlier this year. And in the late quarters, this finalized for a recovery of the industrial activity in segments such as oil and gas and pulp and paper show recovery. We've had another good results for Paints and Varnishes. We've had good results in North America, where the synergies and participation in the market in the U.S. and Mexico still bring contribution for this business area.

In Commercial and Appliance Engines, commercial appliances and household goods, we've had important growth, a movement that is explained by an increase in our market participation, together with signs of improvement in the economic activity in countries where we concentrate our operations. Finally, in Paints and Varnishes, we've registered advancement in the sales in countries of Latin America, especially in Mexico, where we started our operations of our new plant of paints in late 2020.

In Slide 6, we see the evolution of EBITDA in Q1 2021, where we show a growth of 64.2% when compared to the same period of last year. The EBITDA margin has finished the quarter with 20%, showing an evolution of 3.3 percentage points when compared to Q1 2020. We highlight a gain of margin in some important operations abroad, together with the rationalization of costs and expenses and a better occupation of factories this quarter.

Finally, in Slide 7, we show the evolution of our investments. In the Q1 of 2021, investments reached BRL132,7 million, 57% of those are for Brazil and 43% to our units abroad. This gives continuity to the investments of our plants in Brazil, China, Mexico and the U.S.

We highlight that our investment plan for 2021 goes on according to plan in order to ensure the manufacturing capacity that will lead to a continuous and sustainable growth of our company.

That's the end of my part. I'll give the floor to my colleague, Andre Rodrigues.

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

Thank you. Before we move to the Q&A session, I'd like to comment on some of our latest achievements and comment on the perspectives for this year.

Regarding our achievements.

In March, we received a Supplier of the Year Award from World Brazil, one of the major manufacturer of household goods in Brazil and in the world in the categories of paints and electric engines. This award acknowledges WEG's commitment and adding value to the products of our client work, mostly in terms of innovation, quality, customer support and sustainability.

We recently publicized a new investment in the state of Mina Gerais, factory of electro centers in the city of Betim. They will produce central for solar generation and industrial electro centers. This new unit has 5,000 square meters and will generate 100 new jobs.

Finally about the perspectives of the year, we are still facing a typical market situations due to the COVID-19 pandemic, mostly in Brazil.

Even with the recovery in demand that we see in Q3 2020, it's still difficult to forecast whether this process will go on until the end of this year.

At the same time, we've seen an improvement in the entry of requests or orders later this quarter, which finalizes to a possible recovery in the external market.

It's also worth highlighting that we have positive perspectives for Q2 2021, mostly when it comes to the comparison base, which was weaker in Q2 2020. That was a quarter when we felt the biggest impacts of COVID-19 in our businesses.

Finally, we remind you that the second quarter should continue to present challenges -- most of all regarding the long-cycle portfolio for the industry in Brazil.

So that's how we finalize our presentation.

Please, Operator, we can move on to the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Mr. Rogerio Araujo from UBS.

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

I have two questions from my side, actually. First one is regarding our revenue abroad, which had important acceleration between cycles. And we see Asia going strong, Latin America, too. And it looks that Europe and U.S. are still a bit behind. When you talk a bit about increase in orders placed late this quarter or last quarter, can you talk a bit about where do they come from and give us a bit of perspective about what do you see coming regarding this increase in revenue coming from abroad, will this go on? It seems that this

is connected to short-cycle commodities are at a higher price. And this probably will give a long-cycle further growth, I would say. So if you could give us some more detail about what's been going on to our revenue abroad? That's my first question.

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

Rogério, this is Andre Rodrigues. Thank you for your question. Let's separate generation, transmission and distribution from electronic equipment. We had good results, mostly for GT&D. It's important to highlight the contribution of synergy between operations in the U.S. and Mexico. In the generation businesses, we can highlight the good performance that we had in the quarter of our India operations, in spite of the difficulties that we face due to the pandemic in that country.

As for Electro-Electronic Equipment for the industry, in spite of the volatility in the demand for this equipment that we've seen in recent quarters, as we mentioned, it is important to say that we did see earlier this year an increase in the volume of orders received. And mostly late this quarter, there was an improvement in the entry of orders for long-cycle equipment. So we are starting to see probably signs of recovery in industrial activity. This is already seen in important industries, oil, gas, water, sanitation, pulp and paper. So that shows a bit of the performance of long-cycle in the foreign market.

When we look at our portfolio and looking forward, that's I understand it's the second part of your question. Let's try to separate. We have to divide this between transmission, distribution and Electro-Electronic Equipment. We see that the behavior is also similar in the foreign and domestic markets for these two businesses. But let's look at the foreign market for GTD transmission and distribution. We have a good portfolio of orders that we built throughout recent quarters with deliveries that are programmed for 2021 and 2022.

And in North America, as I had already mentioned, this was a result of Q1 and good synergy and businesses between Mexico and Brazil. This has been a good highlight. I'm looking at the markets where we are working for full capacity, and we are thinking about increasing our capacity in the U.S. Talking a bit about Brazil and the domestic market, I think this is important. We have some wind generation projects for Q2 or the second semester. And that might contribute to our revenue starting in the second semester.

When we look at Industrial Electro-Electronic Equipment, we might feel still some volatility. However, this volatility, as we said in our presentation, has maybe a positive aspect because we are feeling an increase in the volume of orders, which shows a general recovery, I would say, in the industrial or manufacturing sector of these areas that I've mentioned. So for Electro-Electronic Equipment, we have to work harder, I think, to make sure that we will be able to improve our portfolio. But looking at wind generation in Brazil and its increase, this shows a perspective of growth in long-cycle equipment as well.

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

Thank you, Andre. Your answer is quite clear. Now I wanted to talk a bit about ROIC. Your ROIC has had a trend, an increasing trend for a while. And we have been receiving a lot of questions from our clients as to your industrial capacity. How is your capacity at your

plants? Maybe what's behind these questions is an attempt to understand what is your CapEx looking forward? We are looking at a very high marginal ROIC for your company. So I'm trying to understand whether there is a need of investment and this capacity to use your plans?

And also, if you could tell us a bit what are the main drivers for this -- for such a high marginal ROIC? Is it connected to a gain of scale? You were filling your additional manufacturing capacity. Or is it a mix of products that you have been offering? You're growing and products with higher ROIC. You guys usually give an example of solar energy. Part of what you sell, you are not producing. There's some added CapEx to it, and that leads to higher ROIC.

So if you could give us some more detail about ROIC and how does ROIC? How does it look for the future?

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

Okay. Rogerio. Let's start with the beginning of your question regarding our capacity at WEG. We've had operational activity that's close to normal and most are Brazilian operations and in some important plants abroad as well. We are at the ideal optimum levels of capacity, I would say. In Q1 2021, we are indeed close to full capacity. For other operations, mostly connected to long cycle, in the foreign market, we are close to 70% of capacity, which I believe it's quite a reasonable volume connected to everything that has happened.

If we look at the pandemic situation, this would be a positive result. Regarding our ability to invest to support this increase in demand that we have seen and we'll keep on seeing in the future, that's why WEG is investing in acquiring this Betim plant as an example of that also expanding to a third transformer plant in the U.S. which is now our focus. We have a position of leadership in renewable energies, and we also want to focus on utilities in the U.S. So we are investing in transmission and distribution capacity, which leads us to increase our capacity in Mexico because there's synergy between the two countries.

As for China, as we've mentioned in other conference calls, since Q2 2020, good operation increased. We have increased our capacity, and we are reaching full capacity there as well. So yes, we forecast some investments there to increase our capacity for appliance, motors in China and also to increase our appliance capacity, both in Brazil and China, expanding our frequency plant and also for automation equipment.

We also want to have low tension in India parallel to the construction of this plant. We want to take part in the motors or engine market there. So to support these investments, yes, there is a forecast to increase CapEx this year. In the last few years, it was around BRL530 million or BRL540 million BRL. And this year, we want to reach BRL1 billion to support part of what was carried over from last year. We wanted to have done more, but the pandemic got in the way, and we want to support this growth process.

Well, looking at ROIC, one of the main factors we believe that is contributing to this positive performance, first, is a combination of growth of revenue with the expansion of

the margin that has been supporting this growth in the last quarters. In Q4 last year, you saw a slide that showed this expansion quarter-by-quarter.

The investment strategy in new businesses with attractive returns, as you mentioned, solar and also wind generation, which will be back in the next semester, these have proved to be important, together with a lower need for working capital fixed assets, intangible assets investments in the last 12 months.

Also, the depreciation of the real has contributed to this process. I will say that these are the main factors we believe that were important to reach the ROIC levels you mentioned.

## Operator

Next question comes from Mr. Murilo from Bank of America.

### Q - Murilo Freiburger {BIO 17385357 <GO>}

Thank you for your presentation. I want to follow-up on a couple of topics that you mentioned when you answered Rogerio's question. You gave us a lot of information about the acceleration of long-cycle equipment globally. This is connected to what we see here in Bank of America, U.S. and Europe are looking at an acceleration of CapEx.

And if you could tell us a bit about the connection of that with the company's margin? The last time we saw WEG with high prices of commodity, I believe, it was between 2005, 2008, WEG had margins above 20%, which is an outlier. Your average is lower, of course. But if you could speak about the correlation between the favorable macro environment for long cycle with the profitability that you would expect for WEG?

And I have a second question. Regarding transmission and distribution, what are you looking at for the next quarters? Can you give us some more details regarding transmission and distribution? I know this is an amazing driver for growth for the company. And I imagine this should keep on happening. If you could give us some more detail about that, it would be great.

### A - Andre Meneguetti Salgueiro

Good morning, Murilo. This is Andre Salgueiro. Let me answer both of your questions. Regarding the first one, global acceleration, a bit connected to what Andre mentioned, we are -- we did report an improvement in the amount of orders received from the foreign market. And late this quarter, we received more orders. This has been evidence for short cycle, but also for some long-cycle projects that are in the horizon, mostly in the industrial area. GTD has been doing great since last year, so the dynamic is positive indeed.

Certainly, this growth in commodities or recovery in the commodity cycle has helped us throughout the process. We are exposed to the mining and oil and gas industries abroad, also pulp and paper. So this is helpful for us. And this is the first sign that we might have consistent recovery, I believe. So that's what we're looking at right now. We cannot be 100% sure, of course. But we are starting to look at the first signs of that.

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From a margin perspective, we know that long cycle looking at the dynamic between short and long cycle, long cycle tends to have better margins when demand is good. And when demand decreases, margin is decreased as well. So for a long cycle, this improvement is positive for margins. But it's interesting to say that we come from a good period of long cycle. Until the third quarter of last year, we delivered important long-cycle projects, both in Brazil and in the foreign market. Starting in Q3, we started to look at volatility in the entry of industrial orders. And in Q4 and Q1 this year, we looked at some volatility in terms of revenue, but it was not a big impact. It was a small decrease in margins.

So we don't have a huge space of margins to be recovered when we compare to the 2015-'16 crisis in Brazil. We had -- after that, good margin recovery structural margin recovery. So of course, this is positive. It tends to be important to improve long-cycle products, but we are at good margin levels, I would say. So an improvement in margins would be marginal and not something important or major as we saw in other recovery moments. That's what we are looking at right now.

Regarding your second question, Murilo, for transmission, distribution in solar, this is a business that did develop in recent years, an accelerated growth pace throughout the last three years. So it's a good business in terms of growth for WEG. Today, we have a sound foundation that is contributing to our results. And we have reported since late last year that we expect this growth to go on but at normal levels, I would say. And this is what's going on. GTD is still growing. We had a positive quarter, but growth levels are similar to other businesses For two reasons.

First, what is this compared to, right? It has grown a lot in recent years. And also because the market is sort of accommodating, there are some regulatory movements going on that have this market keep on growing, but at a lower pace or a slower pace.

So we are still very bullish regarding solar energy. This is a business that makes a lot of sense in Brazil, of course, if we look the incidence of some light in Brazil. And we are very well positioned to address this market in generation. And this is a market that we'll keep on growing, but I would say at a slower pace than what we saw in the last quarters.

## Operator

We have a question now from Mr. Thiago Casseb from Credit Suisse.

## Q - Thiago Casseb {BIO 20503269 <GO>}

There are two topics I would like to comment on. I would like to understand the path of your results. And it's actually surprising if we look at ROI. You've had excellent results in recent quarters. And I'd like to understand, if in Q1 2021, did you see any specific impact that is not bound to repeat itself, maybe the depreciation of the real or any type of revenue concentration in this period? Or if you have any investments plan looking forward? The goal is to understand the recurrency of the results you've just shown, whether there is something that will not be repeated in the next quarters.



And another topic I would kindly ask you to cover is how inflation rates for inputs? Mostly when we look at metal inputs, this type of commodity, what is the impact that this might have in your margins? Because it's hard to transfer these prices, right, to match exactly these prices by transferring this forward.

And finally, if you allow me a third question, in the U.S., President Biden has announced some stimulus programs for the economy. Most of them connected to infrastructure projects to modernize infrastructure projects and renewable energies that might lead to investments in GT&D. Do you expect an acceleration in that area? Do you have any forecast on the impact that this might have both for short-cycle and long-cycle products?

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

Good morning, Thiago. Thank you for your questions. I'm going to answer part of it and then Salgueiro will go on. As for the path of results, this is a trend that we had already observed in our recovery process that we went through in Brazil, starting Q3 last year. Well, since then, some factors has been leading to results, and they have not changed. And the T&D portfolio in Q1 2021 and what we're looking at for the rest of the year, it's not different from what we have reported previously. The performance of short-cycle business in Brazil, we've gone through a recovery in Q3.

And connected to your first question, the fact that we are operating at full capacity. As I told your colleague just a while ago, allows us, of course, to optimize our cost structure. Of course, that's benefits that in terms of cost reductions and expense reductions with travel and so forth. We are looking at that, of course, but the company is always looking at ways to preserve these gains and develop other ways to reduce costs.

From a perspective of changes, well, there are no nonrecurring impacts that could change the numbers you just saw. We are looking at the same standards that we delivered late last year, Q4 2020, because the dynamics of the business is quite similar. Well, the behavior from now on, of course, the expectation for this year is to have a value of margins closer to what we've had late last year. Of course, we always highlight the fact that between quarters, we might face some volatility depending on the mix of products.

In the second semester, we will have wind having more strong impacts in revenue with attractive returns. With WEG's competitive advantage, we operate in different industries with different products. And this allows us to adjust to these business impacts and focus on the ones with better margins. This is part of the company's strategy, and we have been implementing this and using this to our favor in recent years. We do have a perspective of recovery in Brazil, that looks okay. Let's see if this is consistent for the second semester.

However, abroad, you know what vaccines moving forward, the perspective is that things will pick up. We are looking at an increase in the volume of orders for short and long cycles. We look at an improvement already. So that also leads to a feeling of an expectation of attractive and positive margins.

### **A - Andre Meneguetti Salgueiro**

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Hello, Thiago, good morning, this is Andre Salgueiro. Regarding inflation of inputs, which was your question, we are feeling the impacts in the increase of costs of some inputs, mostly metal inputs.

As you mentioned, we had an increase last year due to exchange rate FX impacts. And we are also seeing now an increase in commodity prices that are sold in dollars. Yes, this does have an impact. We have a hedging mechanism for some relevant inputs. And we also have large scale, so we can anticipate some purchases so in order to have some ability to forecast.

So we do feel the impacts. But I think that in general terms, we have some hedging mechanisms, and we also can anticipate purchases, forecast of volumes, and we have this with our suppliers.

As these impacts happen, we try to go back or to look at prices for short cycle, increasing our prices. And for long cycle, when we send quotes for new products. From a practical perspective, yes, we might face some impact in the short term. But I would say that the trend is to reach normal levels at the medium and long term. So if we do feel these impacts, they will reach normal levels with time.

Regarding the third question you asked, to Biden's -- to Biden's announcement of investments in infrastructure, I would say this is positive, not just for WEG, but for the market as a whole. These are major investments for the next couple of years. There is huge focus in renewable energies.

And yes, we might be benefited by that. I just wanted to correct something you said, not necessarily in generation and distribution in the U.S., we don't have this in the U.S. In the U.S. for renewables, we are focusing on transformers for wind and sun generation. So that would be one of the windows of opportunities that we might have for the next few years.

But of course, these investments in infrastructure will have an impact in different industries and sectors that also have demand for our products. So the forecast is positive. It's an outlook that will bring us opportunities for investments in the next few years in the U.S.

## Operator

Next question comes from Mr. Fernando [ph] from (Inaudible).

## Q - Unidentified Participant

I would like to talk a bit about renewable energies. You mentioned this favorable outlook in Brazil for solar energy. It seems to me that as for wind energy, the outlook is also positive. What are the perspectives you see in terms of developing these two sources of energy in Brazil? That's my first question.

Second question is regarding these new energy options, mainly in businesses that you have developed recently, you have a partnership with Volkswagen, Embraer, connected

to mobility, electric mobility projects. I know that you're looking at some specific niches that are still not major, I would say, for your company. What is your goal as a company by acting specifically and this -- in these areas that are still under development for new technologies?

## A - Andre Meneguetti Salgueiro

Good morning, Fernando. This is Andre Salgueiro. I'm going to ask -- answer your question about renewables, and then my colleague is going to talk about electric mobility. Regarding renewable energies, we firmly believe in the development of this market, not only in Brazil, but around the world, I would say we are looking at a trend of investments in renewable sources of energy. And WEG is very well positioned in that sense.

In our product portfolio, we have wind and solar energy, but also thermal, biomass, hybrid, generation of power. So we have a full portfolio of products to support all these energy sources. Specifically, about wind and solar, as to your question, solar energy, I have mentioned in my previous answer that we really believe that Brazil will be great for that, distributed solar energy and also centralized solar energy.

So for generation and distribution, this is a market that really developed in recent years, and it will go on developing. Of course, there are this regulatory frameworks under debate right now, and we are following up closely on that. But we believe that whatever the design of the regulation, our investments will go on and investments in general will go on. This is an interesting market anyway.

For centralized generation, we can provide complete solutions of what we call turnkey solutions like we have done before, but we have been positioning ourselves to sell equipment, transformers, substations. And recently, we signed some contracts to supply electro centers. These are central inverters for solar energy projects in Brazil. So we do have this portfolio and the market is developing. The outlook is positive.

When we look at wind, wind has gone through a period of low investments in Brazil. And what we've seen, starting 2020, is a recovery of these projects, mostly when connected to the free market, together with the development of the new aerogenerator of 4.2 megawatts capacity, which is under development.

We've been managing to bring more competitiveness to our products. And we've managed also to have an important number of orders. We have three contracts that should be delivered until late 2022, early 2023. So for the next couple of years, we have a nice portfolio of aerogenerators. This is a market under development, and Brazil has wind generation power. And this is very competitive to WEG.

We managed to sign contracts, and we are looking at nice perspectives for the next few years.

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

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Hello, Fernando. This is Andre Rodrigues, and I will answer your second question about electric mobility. You mentioned the Embraer. And let me tell you about this partnership. The partnership with Embraer is a partnership to develop long-term technology, R&D projects. When we talk about electric mobility and we think about WEG, we always think about the powertrain, I believe, which is a corresponding to an electric engine for cars. Precisely because a while ago, we did announce a partnership with which is the truck division at VW, and we will have the second part of this partnership starting production in the second semester.

Electric mobility at WEG is not limited to these partnerships. WEG is constantly looking at new partnerships, new projects. And the company already has solutions for many years now for vessels, for trains. And the development of these businesses will go on. We also should remember that electric mobility is connected to charging stations, robust distribution lines that require transformers energy storage facilities, batteries for these vehicles because these batteries lose effectiveness for cars. But after that, they can still be used for storage purposes.

What I'm trying to tell you here is that, for WEG, electric mobility is not just about powertrains. Just last week, we've announced a partnership with Renault, the automaker, and we will supply charging infrastructure for customers who acquire new renewal electric car that will be sold in Brazil. This agreement also includes semi-quick charging stations and some dealers and some dealers.

So we are increasing this structure to charge electric cars in public streets. WEG has developed for that purpose these charging stations to support local markets. And in the future, also, we can think about the external market. And we have fast -- semi-fast chargers in slower charging systems, of course. So this is the tip of the iceberg.

The powertrain is the tip of the iceberg. But our company through time has invested in developing more and more solutions for this environment. And yes, our expectation is to keep on developing that area for the future.

## Operator

Our next question comes from Pedro Fontana [ph].

## Q - Unidentified Participant

Thank you for your presentation. Could you please quickly comment about sanitation and the auctions, the public auctions that we've had in this area. When do you expect to receive the first orders regarding sanitation public auctions?

## A - Andre Meneguetti Salgueiro

Pedro, Good morning. This is Andre Salgueiro. Well, for the sanitation market, this is very important for us. As we constantly say, we're going to have a legal framework for basic sanitation in Brazil, and this is going to bring opportunities for WEG. We are looking at a first movement regarding a concession of services to the private initiative. We have in the

state of and this is a stronger movement that we are looking at right now projects that are undergoing concession or public bidding processes. This is the first part of the process.

From a practical perspective in terms of orders, we have not yet seen a pickup in that sense. We are looking at normal levels because the concession is the first part. Then we have the projects being designed, licenses being granted. And as the projects evolve, that's when the purchase of equipment will start, and that's when the opportunities will reach us.

So although concessions are taking place, the impact on us will take a while, I would say, in terms of orders or price quotes requests coming for customers. The positives, our perspective, the outlook is positive, and we are looking at an increase for the next few years. But this is -- these are still the early stages of the process. We are not looking at some relevant impacts right now.

### **Q - Unidentified Participant**

One additional question, please. Recently during the recent Climate Summit, India says that they want to increase their renewable energy capacity. What is your opinion on that when you look at WEG's portfolio?

### **A - Andre Meneguetti Salgueiro**

Pedro, India is a very promising market for renewable sources. In wind energy, they are the third or fourth market around the world. I don't have the updated numbers here. And that has led us to a decision, which we took a while ago to consider India country where we would keep on providing aero generations, and we want to produce this equipment there in the ground. They have a high-tension network that is prepared. We have engineers. We have skilled workers. And two years ago, we had announced already that we would take part in this market in India.

However, there was a change in legislation. Previously, you did not have to accredit your aerogenerator in the country. You could sell it even if it was accredited in a different country. And now they have a new legislation that asks for accreditation in India. So it would not make sense to accredit the older models or the previous aerogenerators model, we are developing a new 4.2 megawatts aerogenerator. The prototype is ready. It's about to be shipped to India in the next few years to be assembled over there. And we want to start this accreditation process in 2021, I hope the pandemic does not get in the way.

So that, in 2022, we will be able to receive the first orders. Of course, we're still learning how to operate in that country. We depend on partners for towers. And we would like to start with a smaller portfolio and move forward with this business with time. That's what we are looking at for India right now. We firmly believe that India is going to be a good market. We are investing to join low tension motor business and also generators in India.

### **Operator**

Next question comes from Catherine from Banco do Brasil.

**Q - Catherine Kiselar** {BIO 20979709 <GO>}

I have two. First one is looking at orders for long cycle. How are you looking at the competitive landscape in that sense? There were some negative impacts in the margin for a long cycle. And that is connected to my second question, but I'll ask it later. If you could please answer the first question.

**A - Andre Meneguetti Salgueiro**

Catherine, this is Andre Salgueiro. Thank you for your question. Regarding long cycle, we had said where we were talking about different perspectives between GT&D and industrial equipment. In GTD, we don't have any problems. Portfolio is positive. We have investments forcing for T&D, now with wind energy products for the second semester.

As for Industrial Electro-Electronic Equipment, I think this is the focus of your question, I would say. We've had a good year until mid-2020, then we started to fuel volatility in new orders.

And late in Q1 2021, we are looking at a gradual pick up, but still with some volatility in terms of orders. That's what we're looking at right now. We still don't have a visibility for the whole of the year, if this recovery is consistent. But yes, we are looking at first signs of recovery. I guess this is connected to the commodity cycle investments in mining, oil and gas, pulp and paper, water and sanitation. These projects are now in the recovery. So the first signs are here. We can see them, but we have to keep on observing to see the evolution of that for the next few months.

**Q - Catherine Kiselar** {BIO 20979709 <GO>}

Can you give us any idea of how the competitive landscape looks?

**A - Andre Meneguetti Salgueiro**

Well, the competitive landscape is quite -- we don't see any major changes, I would say. We have the main market players, depending on the country and the region. We did not see any major movement or the entry or the exit of important players. And for long cycle, we have demand at the end of the supply chain. Now demand is increasing. This includes profitability, and this increases margin. When demand is lower, competition is higher, I would say. And we are in between these two extremes. From a competition perspective and the players of the market, we had no major changes.

From a cycle perspective, we are at the early stages of a recovery cycle, I would say.

**Q - Catherine Kiselar** {BIO 20979709 <GO>}

My second question, WEG has had an improved -- an improvement in the order portfolio. You've had some positive impacts. And I would like to know if this specific event has

avored your trajectory with emerging countries? I know that you mentioned India, but I wanted to have a general overview about emerging countries?

## A - Andre Meneguetti Salgueiro

Well, Catherine, these larger orders that we have every once in a while, they gained some repercussion as per the transformer market. We've generated the two largest transformers of our history, and we supply them to the -- to Africa. But this is normal in a business.

And I would say, from a foreign market perspective and market share perspective abroad, yes, we do believe this is happening indeed, but this is not a recent process. This is something that has been happening throughout WEG's history.

And in recent years, I believe our visibility increased in some industries and for some specific products, specific regions, we've had a very important example for an Oman refinery, an important supply that we had for the oil and gas industry. Also in terms of we have some important projects in North America, important investments in terms of generation and large motors for India. These things happen.

Regarding Africa, specifically, we have been present in Africa for a while now. We have been working with transforming substations in Africa for a while. Part of transformers are produced there. But when we need larger transformers, we produce them in Brazil and ship them to Africa. And this recognition from customers is reflected in the awards that we win every once in a while.

Andre mentioned the award we just received from in Brazil. And a while ago, we received an award from Electrolux. We are looking at that from some important clients. This is an ongoing process, I would say, throughout WEG's history. And as I said, it's a consistent movement. We haven't seen any major changes in that sense.

## Q - Catherine Kiselar {BIO 20979709 <GO>}

So this is how we finalize this Q&A session.

I would like to give the floor now to Mr. Andre Rodrigues for his final remarks. Please, Mr. Andre Rodrigues, the floor is yours.

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

Well, once again, thank you very much for joining this conference call. I hope you are well. I hope to see you again in the Q2 conference call.

Thank you very much. See you soon.

## Operator

WEG's conference call is finished. We thank you all for joining. Have a nice day.

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