

Q2 2018 Earnings Call

Company Participants

- Andre Luis Rodrigues, Chief Financial & Administrative Officer
- Andre Salgueiro, Investor Relations Manager
- Paulo Geraldo Polezi, Finance and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Alexandre Falcao, Analyst
- Daniel Griffiths, Analyst
- Felipe Vinagre, Analyst
- Murilo Freiburger, Analyst
- Ricardo Alves, Analyst
- Rogerio Araujo, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to WEG's Conference Call to discuss results of the Second Quarter 2018. We would like to inform you that we are webcasting this conference call accompanied by the slides on our Investor Relations website at ri.weg.net. And upon completion, the audio will be available on our IR website. (Operator Instructions)

Any forward-looking statements contained in this document or any statements that may be made during this conference call regarding future events, business prospects, operating and financial projections and goals, and WEG's future growth potential, constitute mere beliefs and expectations of management based on the 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 performance and lead to results that differ materially from those expressed in such forward-looking segments.

We would like to remind you that this conference call is being conducted in Portuguese with simultaneous translation into English.

With us today in Jaragua do Sul are Andre Luis Rodrigues, Chief Financial & Administrative Officer; Paulo Polezi, Finance and Investor Relations Officer; Wilson Watzko, Controller; and Andre Salgueiro, Investor Relations Manager at WEG.

Please, Mr. Andre Rodrigues, you may proceed.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. It's a pleasure to be with you again for the conference call to discuss the results of the second quarter of 2018. I would like to start by highlighting that in this quarter we

observed the continuity of the business dynamics that occurred in the first quarter of the year highlighting the following points.

The first point is the strong revenue growth, 34% in consolidated terms, 35.6% in the domestic market, and 32.8% (sic) abroad. In the domestic market this growth was driven mainly by the economic recovery by the greater share of the solar generation plants businesses and by the recent acquisition of the steam turbine business, TGM, which we've started to consolidate as of March 2018. And the foreign market growth is still concentrated on the sales of short-cycle equipment, but we have already identified some opportunities in major industrial projects that require long cycle equipment. In addition, the consolidation of the new transformers business in United States has helped drive revenue growth.

The second point. Capital margin was within our expectation, showing a slight improvement over the first quarter 2018, but standing below the margin of the second quarter 2017, impacted by the rapid growth of the solar business -- solar generation business during maturation and with the lower operating margins and by the acquisition of the transformers operation in United States.

Finally, I would like to highlight again the generation of operating cash, which reached 643.5 million in the first half of 2018 and the growth of return on equity in the annual comparison, which is WEG's main performance indicator.

Then going now to slide four, we have more details of ROIC which presented growth of 1.6 percentage point in relation to the second quarter 2017, reaching 16.8%. The growth in the after-tax operating income, income as a result of revenue growth improved operating performance. This growth more than offset the growth in the capital employed, which is necessary to support business growth, both from recent acquisitions and working capital investments, fixed assets and intangible assets as it made over the last 12 months.

I would like to remind you that on the last WEG Day, we announced a small adjustment in ROIC methodology, and in this slide we will present the new calculation formula. For basis of comparisons, we also made the same adjustment in previous quarters. Our IR team is available, should you have any questions about this process.

I now turn the call over to Paulo Polezi to continue the presentation.

Paulo Geraldo Polezi {BIO 19468811 <GO>}

Good morning, everyone.

Turning to slide five, we'll present the evolution of the business areas in the different markets. In the area of industrial electrical and electronic equipment in Brazil, sales are still concentrated on short cycle products, especially low voltage motors and serial automation equipment. The solar generation business was the highlight in GTD, gaining relevance in the recent months, now counting on three important solar projects added to our portfolio. In addition, since March, we have been consolidating the operation of TGM in this business area. As for engines for domestic use, there was a small downturn in revenue, reflecting the dynamics of consumption in Brazil impacted by the truck driver's standstill this quarter. The performance of the paint business reflected the performance of the industrial and consumer goods market, which intensified the recovery process in recent quarters.

The broad issue of revenue growth in all areas with the exception of engines for domestic use where we can observe the specific impact on the operations of China and Argentina. In electronics growth continues to be driven by a short cycle product, and countries in Europe, Asia and Africa posted significant revenue growth this quarter. In addition, project's increased capacity in new plants which also demand the long cycle products continued their growth trajectory, mainly in the

oil and gas industries, infrastructure and pulp and paper production. In GTD area, revenue growth was driven mainly by the consolidation of the new US transformers company. As to date, revenue growth in the foreign market reflects the search for new customers, mainly in Latin America with projects already consolidated in Brazil.

Slide six shows the evolution of EBITDA in the second quarter 2018, in which the main highlights in the quarterly comparison was revenue growth. EBITDA increased 25.5% in relation to the second quarter 2017 with a reduction of the EBITDA margin to 15.2%. As I commented on, this performance was better than the previous quarter and was within our expectation. And the recovery of the EBITDA margin is happening naturally with the integration of the new acquisitions and the maturation of the new business in GTD.

On slide seven, we provide details on the net financial results, which was negative 6.5 million. The decrease in the quarterly comparison is mainly due to the lower interest rates received on our cash position. It's worth mentioning that although they negatively impact our financial results, the interest rate reduction is very positive for the company's business as it reflects a more stable economic environment with a higher consumption trend and consequently a higher level of industrial investment.

On slide eight we have the analysis of the cash flow. Cash generation in operating activities reached 643.5 million. Also in the quarter an increase of 3% when compared to the same period of the previous year, mainly as a result of better operating performance. Investment activities continued 407.6 million in the quarter, reflecting the recent acquisition of TGM and the movement of long-term financial investments. Finally, financing activities consumed BRL724.2 million in the period, reflecting the settlement of loans, the payments, lower interest on equity, and dividends in the quarter.

Finally, on slide nine, this show the investments of the last quarters. In the second quarter 2018 investments reached BRL92.6 million, out of which 47% went to Brazil and 53% to production units abroad. It's worth mentioning that the normalization of the market behavior will require that we gradually increase disbursements in modernization of production capacity and purchase of new machinery and equipment.

With that I wrap up my part and turn the call back to Andre.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Thank you, Paulo.

Before beginning the question-and-answer part, I wanted to reinforce some points. As anticipated in the last -- latest releases, revenue growth and continued focus on ROIC will be the key drivers for 2018. Revenue is expected to grow both organically with improved global industrial investments and the new businesses, such as solar generation and acquisitions that increased our competitive advantages, such as the recent acquisitions of WEG Transformers in the United States and TGM, for example.

The second point is that, in the external market, sales [ph] recovery is already a reality. Industrial production is growing in the main global market, and the improvement in short cycle product continues to be driven by the OEMs. In addition, important industries continue their recovery fast with the emergence of project opportunities involving long-cycle equipment. I must mention that we are watching closely the increase in exchange rate volatility where a weaker Real allows us an additional budget to increase our competitiveness, which we can and will continue to use to grow.

In Brazil the diversification of our business should continue to contribute positively to revenue growth. After the recovery in 2017 in the area of electronic industrial equipment, in 2018 we have

the business of solar generation and acquisition of TGM contributing to the growth of GTD revenue.

We can now start the Q&A session. Operator, please, you may continue.

Questions And Answers

Operator

Excuse me, ladies and gentlemen, we can now begin the question-and-answer session. (Operator Instructions) The first question comes from Mr. Alexandre Falcao, HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. I have two questions. The first one is related to the domestic market. I would like to know if there was any impact due to the truck driver's strike? It could have been even impacted worse, and these are all as a consequence in Brazil. And in terms of GTD, what's the total in terms of solar areas and the rest, and what can we expect for the quarters to come? Thank you.

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

Hi, Falcao. This is Andre speaking. Well, taking about the truck driver's strike, of course there was a specific impact on the week of the strike, but it was not significant considering the nature of our product when the client usually place their orders in advance. We had some (inaudible) or some lines, because there was no raw materials, and at this time once again I would like to say that the best utilization model of WEG was very important, so that we could have a void impact. For example, for electric motors, you have the factory of rotary stator, and we then -- we suffered some problems and we focused on some other areas then.

If we consider only the impact due to the days that were not -- came to a standstill, it affected some inventory levels, but we are recovering this along the year. I believe that this movement may impact the confidence of some entrepreneurs and some analysts, because there was a downturn of the GDP that is projected for the year. WEG is a global company and the foreign market has -- has been having a very good performance regardless of the Brazilian situation. If we were to consider the impact in terms of margin, I would say that, it was 0.3 percentage points on the EBITDA. This was the consequence of this strike, which was not -- due to the idleness at the plants.

Q - Alexandre Falcao {BIO 5515455 <GO>}

What about the GTD?

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

Yes. Paulo will talk about the GTD.

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

Falcao, good morning. This is Paulo speaking. This solar area in its internal image of the market -- markets, about BRL280 million was in addition to what we had, and part of it -- a large part of it was the solar field. We also have the distribution of solar energy included in this amount. Most of it comes from the mills, from the plants, but both has to be considered in the total amount.

You asked about the future prospects about the solar field. As we said in the beginning of the call, today we are delivering three projects, three solar plants, so the three plants are underway, and we also have to consider the distributed generation of energy in different states in Brazil and we want to add something around BRL500 million to BRL600 million for 2018. And in terms of backlog, the delivery of the projects are happening now and they are likely to be happening in a

linear fashion in this year. And three projects that were included in the portfolio will be completed up to the first quarter of 2018.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Wonderful. Can I ask another question in terms of revenues abroad. In terms of Mexico, can you disclose to us in terms of the verticalized project. Thank you.

A - Andre Salgueiro

Falcao, this is Andre Salgueiro speaking. And for this year we approved the CapEx for the markets abroad, which is focused on Mexico, so we expect to continue the project, and according to our schedule we are going to start testing at the end of the year and we plan to start production by -- in the beginning of the year. For China we have completed what we had planned, but China has been performing very well in terms of market and production, so we are evaluating whether or not we will have to make a new investment in China, and we are discussing -- investing an additional \$22 million to increase the capacity of production in China.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Great. Thank you.

Operator

The next question comes from Daniel Griffiths from Santander.

Q - Daniel Griffiths {BIO 20177408 <GO>}

Good morning, everyone. I have two questions. The first one is related to ROIC, which was very strong this quarter. And I would like to understand what is the percentage we spent. If we look three years ahead of that, is that a growth that we intend to reach 20%? And if you give us a breakdown, what would be the ROIC in Brazil and the ROIC abroad where that you can have a clear vision on the ROIC? Then I would like to give -- ask a follow-up on Falcao's question related to solar fields. You mentioned 500 million as an additional revenue. So I would like to understand what's the potential of solar activities as a whole?

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

Hi, Daniel, this is Andre speaking. So let's talk about the ROIC then. First, we cannot disclose the long-term covenant for ROIC, but our expectation is that it will stand around the 16% or 17% and this is what we have always mentioned, and this is our main indicator of performance of our company. In addition to your question related to the breakdown of ROIC in Brazil and abroad, we do not have a goal in relation to this aspect, but it's important to say that at WEG every business unit regardless whether it is production or commercial it has -- it's individual ROIC target, and the value that's established for each unit will depend on the level of verticalization, as we mentioned in Falcao's question. The point is that, the more matured units have a certain level which is already established and will have opportunities of improvement in the unit that are under development.

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

Daniel, this is Paulo speaking. For GTD and solar, to provide more details on that, for 2019 as far as solar mills, we do not have anything contracted, of course, we are working on that. At this time what we can talk about is the distributed generation. For example, in 2017, this area did BRL60 million in our sales and this is likely to double in 2018, and we expect that this is going to continue to grow rapidly in the years to come in Brazil.

What I would also like to point out, still talking about solar energy. The latest project that we are providing on delivery is still related to the energy auction of 2015. So we have the visibility to implement project of other auctions that were much stronger. And our perspective is that this

business is going to continue to be positive in the future and orders are likely to be captured as well. So this is the visibility that we can share with you in terms of solar energy.

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

And to complement -- this is Andre speaking. Solar may vary from six to eight months, so there's still the possibility of being part of projects and include them in our portfolio for next year, we still do not have this visibility now, but as Paulo said, there are many opportunities out there in the market.

Q - Daniel Griffiths {BIO 20177408 <GO>}

Okay, great. Thank you.

Operator

The next question comes from Ricardo Alves, Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Good morning, everyone. Thank you very much for the opportunity. My question is not going to be related to GTD. I would like to talk about industrial equipment. We are trying to understand a little bit better its good performance in Brazil. We saw that there was a very strong evolution in the annual growth when compared to the growth in the first quarter. And if we consider the rupture or the disruption due to the truck driver's strike, and also in terms of pricing, has there been any relevant changes in pricing or maybe a better mix -- I don't know, maybe for the long cycle product being more relevant, I would like to understand the good evolution for this area.

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

Ricardo, this is Paulo Polezi speaking now. To answer your question, I'm going to step back and look at the first quarter of this year, where the performance in the business area, motors and automation more specifically, it was a little bit flat in relation to last year, and in this semester we can see a growth. Automation was more stable, because there is a balance in terms of serial products and engineered products of the long cycle. And the first quarter was weaker, and this is something that did not happen in the second quarter. Automation continues to perform well in terms of serial products and also for panels and other equipment that we refer to as engineered products, and motors performed quite well with the growth of 14%. So we can see that this is a process in a year when the economies still had changes, it's not very solid, but in our current base, we haven't felt any changes, so we can see that we have some stability, and this quarter automation the engineered part is the part that made the difference.

Q - Ricardo Alves {BIO 16840901 <GO>}

It was so clear. Thank you, Paulo.

Operator

The next question comes from Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hello, everyone. Good morning. Congratulations on the results. My first question is related to GTD in Brazil. We know that the portfolio of wind [ph] products will be seen the end of the year. Can you give us a breakdown what you have planned for the year in terms of portfolio?

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

Rogério, this is Polezi speaking. Okay. For the wind power we have already announced in other moments, our portfolio is very similar to what we had in 2017, about BRL700 million. For this quarter, it was a bit stronger in terms of delivery. If you derived its value in equivalent quarters, you can see that the second quarter was over 200 million and this is due to the high concentration of deliveries and some improvements in some plants. This is the portfolio, there is nothing new -- what's new that we concentrated a little bit more on the second quarter in relation to the previous quarters.

Q - Rogério Araujo {BIO 17308156 <GO>}

Okay, perfect. Thank you, Paulo. My second question is relating -- related to the markets abroad. WEG has been watching closely the markets outside or do you have some share in some other regions? Have you been gaining shares abroad, if you could disclose to us in which segments and where are the markets you have entered into?

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

WEG's share in the foreign markets -- market, we shared the information on WEG Day. We have -- we delivered materials with important details, and this is a process of evolution. Of course we have a strong share everywhere we operate, in the United States, the region outside Brazil where we have the greatest share. We stand as the second position competing with the Lloyd, and depending on the country we stand -- we rank as the third or fourth. In Asia, as to motors, we can see a very fragmented market and we have been working on this market. We are still in the beginning of this product -- in this process. And in China, we would have a share around 2%, so we are working on recovering the share. And this improvement that we have reported this year will improve to increase the share -- our shares outside Brazil as well.

Q - Rogério Araujo {BIO 17308156 <GO>}

And the last point in relation to the raw materials. I would like to know when are we going to see the COGS of the raw materials impacted at WEG, and what are the negotiations for the -- to passing through the prices to clients? Is there a time when the price is going to be pass through the client and how are we going to handle this price passing through?

A - Andre Salgueiro

Rogério, this is Andre Salgueiro speaking. In relation to the hedge, we always look at a one-year horizon, and we may divide them in scales. The copper price is going to be updated as the agreements are matured. So we do this to have a prediction of the prices then to make settlements in the price of commodities, but we understand that this is something we cannot control. We can see that copper prices, for example, linked to the second question which is related to price. We made a new recomposition of prices in the beginning of the year as we always do, of course, the raw material cost increased since then, but always expect until we make any decisions because we have the hedge mechanism that allows us to have this predictability and we always want to understand how stable the foreign exchange rate is going to be, because we -- otherwise we run the risk of increasing the prices more than necessary. So this is the decision that we are waiting to be made and we can see that the prices are adequate considering the raw material prices that we have at present.

Q - Rogério Araujo {BIO 17308156 <GO>}

Thank you very much. Good morning, everyone.

Operator

Next question comes from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hello, good morning. Congratulations on the results. I have two questions. The first question, in the results release you said that impact of the Transformers and TGM, the new businesses in relation to the revenue. Could you provide more details on which was the impact and the margin when you made the consolidation of those companies. And the second question, you were talking about GTD on WEG Day, you mentioned in relation to transition that you have lots of projects that could be implemented or they are under the phase as contracted, do you have any update in relation to those negotiations? And thinking about solar mill [ph], can we have an idea of values? When we talk about market, what are the projects that need to be contracted in the next years?

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

Hi, Victor, this is Andre Rodrigues speaking. Let's talk about TGM WTU. TGM comes from level one revenue and margin, and according to our expectation, margin close to what we have been using in our consolidated terms. We can see that the opportunities for expansions are great using all the structure that WEG has outside Brazil, not only in Latin America but across the world. We have some initiatives in South Africa to bring this business, taking our structure there. And as we said on WEG Day, the United States is a market where we want to operate more strongly, so all fares well. And WTU is at the speed that we expected. Their margin is lower when compared to our Transformers line. We are working on improving those margins, and this is going to continue along the year, so that we can present better margins than those recorded this year. We expect that the margins for this year is better than last years, and in 2019 the margins will be even better.

Q - Victor Mizusaki {BIO 4087162 <GO>}

And considering this expansion on margins and operation, and as you mentioned in the beginning in relation to the increase of inventory because of the strike, after this is normalized and the margins are expanded, can we expect that ROIC should continue this expansion trend?

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

Victor, let's imagine the following. In the situation of normal temperature and pressure, this would be correct to say, you have this end distribution of sales, the products are improving, the units ROIC will improve. But at WEG things are a little bit more complex considering all those segments. For example, solar had no relevance last year, but now it's more important to GTD now. So we have to understand what's going to be the product mix, what are the markets we're going to continue to grow and everything else, that's why we say that the ROIC is -- operate at a range of 15% to 16%.

Victor, the second part of your question if we understood well is related to the distribution auctions. So let me talk about the history and what we have said about this topic. WEG has the pre-agreement of BRL250 million that has already being signed with GTD, this is a public information. Our business unit is working on different negotiations, so we expect similar value in other agreements which are less relevant related to the sales of equipment. And what's important to understand is that, this is with slow negotiation process. They are also working on the sales of equipment for the winners -- winning bidders, and also to suppliers of all with the loss. More recently, in June, there was another auction, BRL6 billion in new project. As a standard, WEG had some agreements, and our client won a lot, but we still have some other agreements -- pending agreements and WEG is trying to negotiate with other clients. So this is a process which is underway. It's low and gradual and we will provide updates as we have more clarity on them.

And I think there is another part of the question, I think the last part is related to the solar energy, and the potential of the project in the market. In terms of value, it's basically to provide information because it will depend a lot on the location, the characteristics of the project. But what we can share with you is that, if we consider the auction of December 2017, we had 670 mega of energy for solar, and 800 for solar later on. So the process that we are delivering at present would be something around 30 to 60 megawatt. So you can understand the market potential of the latest auctions considering what we have in the portfolio nowadays.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, great. Thank you.

Operator

The next question comes from Murilo Freiberger, Bank of America Merrill Lynch.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Good morning. Thank you very much for the call. I would like to understand the recovery of long-cycle products which have ROIC and margins greater when the market is better. So how do you see this? Is there anything related to long-cycle products that are starting to be included in your backlog? So what are the turnaround of CG Power, which is very important to the margin and profitability of the company. So I would like to know what is the long-cycle product profile and the turnaround as well? These are the two questions I would like to ask.

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

Hi, Murilo. So here we go. As for our long-cycle product sector, we had seen some signs of recovery in the market, and what can I say about it was we have seen in the Asia Pacific or India which our markets which are performing well. Our unit of long-cycle has been receiving orders. And what we see in terms of sectors is what we have been announcing, especially oil and gas, which is also picking up, and also mining among other -- other areas which are also having very positive trend. And so the orders are being received so we can see some recovery. And whenever we have more concentrated presence, we can see that the recovery is very positive, and this is what we can say in terms of what we have measured in the sectors.

In terms of WTU turnaround, I can say that it continues, and we consider this process the last two years in terms of improvement and this is moving on, we have seen that. As I said before, in the second half of the year we can present a better result than what we have posted since its acquisition. We have made some synergy works, changes in organization, centralization of the sales areas, used to be divided into areas, now it is unified in a single location, and this is moving according to our action plan.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Thank you Andre for your answer.

Operator

Next question comes from Felipe Vinagre, Credit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Good morning. I have two quick questions, one is about the abroad market. We said that, excluding the effect of acquisition, but I would like to know if this is going to be maintained in the quarters to come? And the second question is related to GTD Brazil and as far as the solar areas. I understood that you are likely to add 500 million up to 2019. However, in the release I understood that there was a higher concentration in the first quarter -- on the first half of the year, I would like to know if I'm making any confusion considering both business information? Thank you.

A - Unidentified Speaker

Hi, Felipe. The international market will have -- will continue with this growth trend. It maybe not as the same basis of the first quarter when the concentration was more on the solar area. And as of August, we have a comparison basis which is not going to be as favorable when we consider the WTU that happened in August. So the basis is going to change but we have the expectation that this is going to continue to be positive. And what we like to say, as you said, the growth and strong

currency and the impact of the acquisition, but we cannot disregard the foreign exchange variations which can have a very strong influence in the domestic market. As I said in the end of my presentation, we have this increase volatility in the currency, and the weaker real allows us to be more competitive, and this will allow us to continue to use to grow in this process. And the second question is going to be answered by Andre.

A - Andre Salgueiro

This is Salgueiro speaking. In relation to the solar, in fact, the two projects that were already included in our portfolio since the end of last year, they are more concentrated on this first half of the year. One of them was delivered in July and we intend to deliver the other project in August. So the revenues are normally concentrated on the first half of the year. On the third quarter there will be a reduction from the solar farms and the third project that entered recently in the portfolio will be more relevant in the future. What is new is the project that has not being defined in terms of how much revenue will be included this year and how much will be left for next year, but we are going to continue providing update in relation to our schedule.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Thank you. And last question in relation to income tax. Is there any update in terms of what's going to happen next year? If you could disclose some information, it would be nice.

A - Unidentified Speaker

We have no expectation in terms of changes as related to the effective rate, because the benefits that we provided with today will continue and these are basically the equity on the interest and equity, and another loss, and we do not expect any changes for next year.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Okay, great.

Operator

(Operator Instructions)

Q - Unidentified Participant

I have a question. There's a question which is going to be asked in English. David. Let me ask that if we can make some comments on the demand movement on short-cycle products in Brazil and in the main countries abroad.

A - Unidentified Speaker

David, short-cycle product, for you to understand clearly, has been recovering quite well in 2017 after very serious crisis -- very big crisis in Brazil. We have always have a balance of short-cycle and long-cycle products, and short -- long-cycle products nearly disappears and the short-cycle products recovered as of 2016, it was -- the recovery was very strong in 2017. We grew more than 20% in Brazil. And in 2018 this recovery process continues in a less intense rate than in 2017, but in a very wide and varied way, there is no concentration on some specific segments, it's very open segments, they used to be very strong before the crisis, especially oil and gas and generations, tenants, pulp and paper industries, they do not have such an important role, but the industry as a whole has been playing this role that the older players used to have. More mature economies at the more advanced pace than we see here in terms of -- comparing what's happening abroad. And my clients recommend a short-cycle, they have started to place orders for long-cycle products and this is the main difference in terms of local market and the markets abroad. Okay, David, thank you.

Operator

Ladies and gentlemen, we now close the question-and-answer session. I would like to turn the floor over to Mr. Andre Rodrigues for his final considerations. Andre, you can proceed.

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

Once again, thank you very much for attending the conference, and I hope to see you next time.

Operator

Today's conference call is now closed. I appreciate everyone's participation. Have a good day.

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