WEG S.A.
Conference Call - Earnings Results 2nd Quarter 2026
July 23rd, 2026 – 11:00 a.m. São Paulo (BRT)
Transcript of the simultaneous translation from Portuguese into English

CORPORATE PARTICIPANTS

Mr. André Luís Rodrigues – Chief Financial Officer

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Mr. Felipe Scopel Hoffmann – IR Manager

PRESENTATION

Operator: Good morning and welcome to WEG's 2nd Quarter 2026 earnings conference call.

I would like to highlight that simultaneous translation is available on the platform. To that end, click the 'Interpretation' button, 'Globe' icon at the bottom of your screen. Please note that we are broadcasting this conference and a replay of the audio will be available on our investor relations website after the event.

During the company's presentation, all participants will remain in listen-only mode. We will then open the floor to the question-and-answer session. If you would like to ask a question, please click 'Raise Hand' icon at the bottom of your screen to join the queue. When your name is called, a prompt will appear asking you to unmute your microphone.

If you have more than one question, we kindly ask you that you should ask them all at once. If we are unable to answer all questions during the live presentation, please feel free to send your question to ri@weg.net and we will respond after the conference call has been concluded.

We would like to remind you that any forward-looking statements contained in this presentation or made during this conference call regarding future events, business outlook, operating and financial projections and targets and WEG's future growth prospects, are based on current beliefs and expectations of WEG's management and on information currently available to the company.

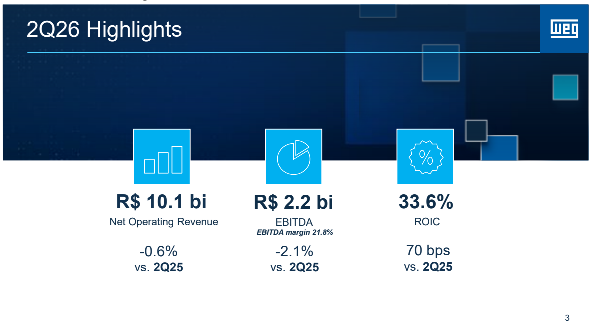
Such statements involve risks and uncertainties and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect WEG's future performance and could cause actual results to differ materially from those expressed in such forward-looking statements.

Joining us today from Jaraguá do Sul are André Luis Rodrigues, vice-president of finance and administration; André Menegueti Salgueiro, finance and investor relations officer; and Felipe Scopel Hoffmann, investor relations manager.

Mr. André Rodrigues, you may proceed, sir.

Mr. André Luís Rodrigues – Chief Financial Officer

Good morning, everyone. It's a pleasure to be with you in this earning call to discuss WEG's results.



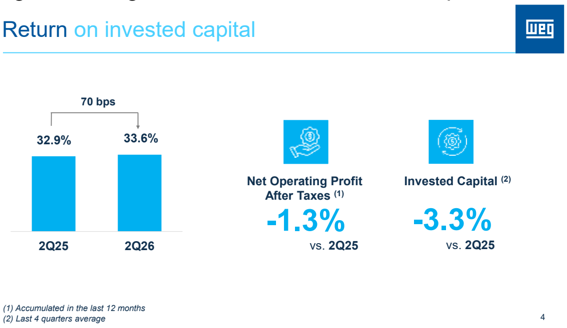
I'll start with the key figures for the quarter on slide 3, showing a slight decrease in net operating revenue of 0.6% when compared to 2Q25. Although the same effects that impacted revenue performance in 1Q26 are still present this quarter, we have managed to virtualize… virtually neutralize these impacts with the continued growth of revenues abroad.

And speaking of those effects, the first effect on Brazil relates to the fact that we already had a significant order book for centralized solar generation deliveries in 2Q25. When compared to the absence of these deliveries in 2Q26, this had a negative impact on revenue in the domestic market. Despite this, other businesses contributed positively to the quarter's result, with continued deliveries of transmission and distribution projects coupled with improved industrial activities.

The second effect was related to the impact of exchange rate fluctuations during this period, which for conversion purposes reduced the growth of BRLs, despite another quarter of good growth in local currencies in the main regions.

Industrial activities remained positive in our main markets, particularly in segments such as oil and gas and ventilation and refrigeration systems. Furthermore, we continue to see a good volume of deliveries from the T&D business in North America, coupled with strong demand from generation business.

The EBITDA margin remained healthy, in line with our expectations, with a slight adjustment compared to the same period last year, ending the quarter of 21.8%. Our EBITDA reached 2.2 billion BRL, a decrease of 2.1% compared to 2Q25. Throughout the presentation, André Salgueiro will give more details about these points.

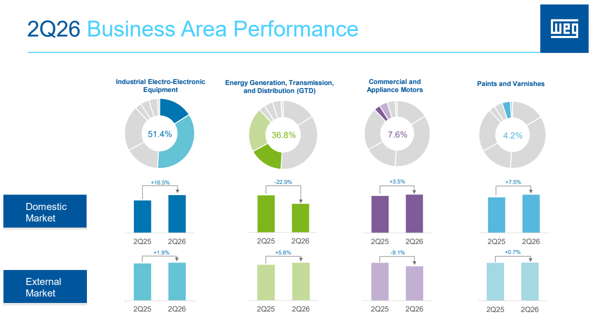


And the ROIC, one of our main financial indicators, showed growth of 0.7 p.p. and ended the quarter at 33.6%, as we can see in more detail on the next slide. ROIC remained healthy, growing compared to 2Q25, reinforcing the quality of our investments, the discipline in capital allocation, and the consistency of our long-term strategy. I now turn the floor over to André Salgueiro to continue.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Thank you, André, good morning, everyone. On slide 5, I present the evolution of revenues in our business areas. In Brazil, positive industrial activity with growth in demand for short-cycle equipment such as low-voltage electric motors and gearbox producers spread across various sectors.

Long-cycle equipment such as high-voltage motors and automation panels also showed sales growth, particularly in the paper and pulp segment, a result of the strong order backlog built up in the recent quarters.



In GTD, revenue continues to be impacted by the declining solar generation business, mainly due to the lack of centralized generation projects in 2026.

We continue to see positive performance in T&D business, driven by deliveries of large transformers and substations.

The commercial motors and appliance area showed sales growth linked to relevant market segments, such as washing machine and compressor manufacturers.

And in paint and varnishes, demand remained strong, spread across different segments with the oil and gas segment standing out.

In the external market, demand for short-cycle industrial equipment remained positive in several operating regions, with particular emphasis on the strong performance in Europe and in the US, especially in the oil and gas and ventilation and cooling systems for data centers.

Good results were also seen in long-cycle equipment, such as high-voltage motors and automation panels, in addition to a healthy order intake, contributing to the building of an order backlog for the coming quarters.

In the GTD area, the T&D business presented another quarter with a good volume of deliveries in opportunities related to strengthening the electrical grid infrastructure in the United States.

In the power generation business, the Marathon generator business in the US continues to perform well, in addition to the contribution of its European operation.

In commercial motors and appliances, demand remained healthy in key regions, particularly in US operations, although revenue growth was impacted by currency fluctuation when compared to the same period of the previous year.

And lastly, in paints and varnishes demand continued to grow, mainly due to the strong performance of operations in Mexico, as well as the contribution of Heresite business.

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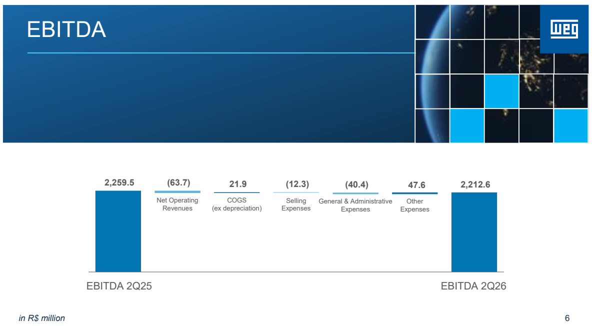
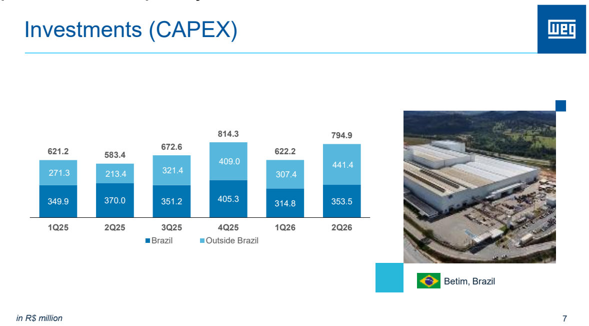


On slide 6, we show the evolution of EBITDA. The EBITDA margin remains positive and in the quarter of 21.8%, supported by a favorable product mix, despite the challenges brought about by the rising costs of some raw materials, the effects of import tariffs in the United States, and the increase in personnel expenses, mainly related to the execution of our strategy to expand our production capacity.



On slide 7, we show the evolution of investments, which total 795 million BRL, out of which 45% in Brazil and 55% abroad. In Brazil, we continue making investments to expand production capacity in T&D and the constant modernization of low-voltage electric motor factories, in addition to investments to increase the production capacity of large equipment in Jaraguá do Sul.

And abroad, there was a progress in investment in transformer factories in Mexico, Colombia and the United States, in addition to investments in expanding production capacity in China. With that, I finish my part and I give the floor back to André.

Mr. André Luís Rodrigues – Chief Financial Officer

On slide 8 and before we move on to the Q&A session, I would like to point out the following: at the end of April, WEG presented its 2025 integrated annual report, highlighting advances in sustainability and showcasing the company's continued evolution in innovation and social environmental responsibility.

Finally, I would like to talk a little about the outlook for the year. Demand remains positive abroad, coupled with strong orders for long-cycle equipment, both in the industrial segment and in the T&D business. Despite the challenges of 1HTY, we remain confident in a more favorable scenario for the return of revenue growth for the remainder of the year, thanks to the strong performance of our businesses and also due to normalization of the comparison base related to 2025.

And finally, we are continuing to execute our investment package for the modernization and expansion of our production capacity in 2026, supporting the company's strategy and continuous and sustainable growth. I end our presentation here, now let's move to the Q&A session.

Q&A SESSION

Operator

We are now going to start the Q&A session. As a reminder, if you would like to ask a question, please click ‘Raise Hand’ icon at the bottom of your screen to join the queue. When your name is called, a prompt will appear asking you to unmute your microphone. Please unmute your microphone before asking your questions. We kindly ask that if you have multiple questions, you should ask them all at once.

Starting our question session, our first question comes from Lucas from XP Investments. You may proceed, sir.

Lucas Laghi - XP Investimentos

Hello, good morning. Thank you very much for the space to ask questions. I have two topics I would like to approach, one for the short term and the other for longer term. Now thinking about the tariff effects, everything has been quite fluid, but I would like you to try to explain what was the difference of impacts of 1Q and 2Q so that we understand the differences, and if the base scenario continues as it is today. And how can we think about the impacts of the… impacts of the tariff along the year?

And I have a second question, thinking about the ramp up of the new plants. How do you assess the timing of such investment maturation, especially talking about transformer plants? And how can we think about the profitability of those units as they move on along its maturation process, considering the production maturities.

Thinking about POC methodology, how can we think about the leverage impacts and also considering the beginning of the operations, how can we think about the margin during the maturation of the investments that are likely to bring this significant increase in revenues along 2027 and 2028? These are the two points, thank you.

Mr. André Luís Rodrigues – Chief Financial Officer

Lucas, André Rodrigues here, thank you very much for the question. Let me start talking about the tariffs. Thinking about the expectations and the comparison of 1Q and 2Q, it's worth devoting some time to explain all the changes that happened and what this can cause to WEG.

As of yesterday, on July 22nd, the section 301 started to be valid at 25%. They are not cumulative when we consider the 232 session, which were more specifically applied, that would affect the content of iron and copper of the products, and now it's applied to all the products.

The scenario of tariffs in the products of WEG, well, how do they stand now? Brazil, in a simple way… Mexico is the section 231 for large transformers; and there's a differentiation above 10 MVA, 15% supplied; and smaller companies, 10 MVA of 25%; and large-size motors, 25% in tariff. When we talk about large motors, we are talking about more than 200 HPs.

It's important to remember that the overtax of 12.5% is being considered, also based on the section 301. This is caused by allegation of forced labor and covers more than 60 countries, including Brazil. Brazil is included in the group together with Japan, China, India, among other countries as well. The tariff is not likely to impact the products produced in Mexico because this is according to USMCA in Mexico, and WEG's products are produced there.

And it's not clear yet if those tariffs, if the new tariff will be cumulative to the others of the 232 session. If so, if this tariff is applied in a cumulative way, the total tariff may reach 37%.

But it's important to remember that - now answering part of your question - when we make the comparisons of the quarters, 1Q and 2Q, and up to February this year, the tariffs applied to WEG products coming from Brazil stood at 50% - and we adopted several mitigation measures. So from 50, we moved to 10, but then we had the 232 that impacted the major large-sized machines and equipment, and then it became 25%.

Now, considering the constant changes in the tariff scenario, it's really hard to estimate now the impact for the long term. But it's correct to say that maintaining the current tariffs, we are going to have an impact on the consolidated base of the company.

Everybody here at WEG continues working to mitigate all those impacts, using the diversification of the footprint global of the company, reevaluating the commercial strategy as necessary in order to have the mitigation.

The major message is that we are going to continue evaluating the impact and doing the best to mitigate the effect, always in the search for maintaining the competitiveness of WEG.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

This is Salgueiro speaking now. In relation to ramp up of the factories, the question was more focused on T&D. And now going back a little in order to remember the history track, we announced an expansion of practically 100% of what we had in 2023 and 2024 - let's say 100% of an increase in capacity - and we had already added 10% in the last call. And now with the expansion of Betim in the middle of the year, we are likely to add more 10 or 15%, so that will amount to 25% of the original announced capacity.

Now in the middle of the year, we are going to have the available capacity already in the middle of the year, which is important to say, and the other 75% will be operational the beginning of next year with a new factory in Mexico and another factory in Colombia.

We'd like to remind you that those dates are when the factories are going to be ready and not necessarily is when we are going to be running 100% or generating

100% of revenues. So we estimate that we will need a little bit longer in order to make the factory fully operational and be close to the optimized level of 100%.

How long is it going to take? It will depend on each of the operations. And also, since the margin, how the margin is going to behave will depend on each operation. In practice, when we look at the T&D segment, which is running at a positive profitability, and the portfolio does not show any important downsides or downturn in the scenario.

Of course, when we're in the process of ramp up of a factory, it's just natural that you should have some costs, as we have already seen. And we even mentioned this in the previous call: there was an increase of personnel expense because we are hiring more people. So during the ramp up, we may have some effect on the profitability.

And why is it difficult to estimate? Because it depends on each individual plant. So Betim is a factory that is being expanded, so the process is likely to happen more quickly. When we talk about Mexico and Colombia, we're talking about new factories, and the ramp up should be quicker depending on the size of the transformer. So depending on the characteristics of each plant, we are going to have a different effect.

We estimate that along 2027 and especially in 2028, we are going to be running those factories at very optimized capacity and profitability level as the …similar to the operations we run T&D operations nowadays.

Lucas Laghi - XP Investimentos

Okay, thank you. That's very clear.

Operator

Our next question comes from João Frizo, Goldman Sachs. João, please, you may proceed.

João Frizo - Goldman Sachs

Good morning everyone, thank you very much for taking my question. My question is related to the tariffs still. Last year you said that you increased price twice, one in the beginning of the year and the end of the year. The one in the last of the year was to reflect the tariffs. Since then there has been a lot of fluctuations in the tariffs, so it may become 37%.

How have you been negotiating with your client in terms of price adjustments abroad? This is the first question.

And the second question is in relation to electro-electronic equipment in Brazil, who has had a very good performance in this quarter, growing 60% YoY. So I would like to understand if this was a result of the projects that we had in 1Q, that is usually stronger but was weaker, and then it moved the performance to 2Q or is it an advance from 3Q? Just for me to understand the dynamics down the road.

Mr. André Luís Rodrigues – Chief Financial Officer

João, let me go back and talk about tariffs. I've already answered the first part. In reality, it's a very complex exercise when we approach this topic at WEG, because in fact, it involves the production platform in the United States, a production platform in Mexico and a production platform in Brazil and other countries as well.

We also export others at a lower level. We also export products to the United States. Each case is evaluated with the client, and we try to understand what happens with the variations of the price of commodities, for example, such as the case of inflation, as we mentioned in the previous call.

All this is evaluated and we define our strategy according to the needs. according to what's happening today in relation to the tariffs and also other points that cause variations, such as the price of commodities.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

João, in relation to the performance of equipment in Brazil, we saw an acceleration of the revenues in 2Q… 2HTY, by the way. We saw an improvement spread across all the industry, especially for the demand of short-cycle equipment.

But I would say that the effect, which is important to mention, and which is not usual, is that we had a contribution from the long-cycle equipment. As we mentioned in the release, we saw a very positive performance of pulp and paper in Brazil. So we have some projects in our portfolio and in 2Q we started the delivery of a very important project, and this is going to continue along the next quarters, and this is a project that will take several quarters for us to complete all the deliveries, and this contributed to the performance of 2Q.

In addition, there's another factor that we always keep in mind. We have the part of new businesses, such as electric mobility. In spite of the fact that it is a small share when we compare to the total revenues, when you compare to the industrial equipment, we see that this is something that has been growing a lot, such as powertrain and also the recharge station, and this has been contributing to the stronger growth in industrial equipment in 2Q.

João Frizo - Goldman Sachs

Okay, wonderful, that's very clear, thank you.

Operator

Our next question comes from Luiza Mussi, Banco Safra. Luiza, you may proceed.

Luiza Mussi - Banco Safra

Good morning, thank you for the space. We saw some positive impact on the line of expenses, close to 25%. Could you provide some details about how that happened, if we can consider this as a level that is going to continue for the future?

And in terms of price, you mentioned tariff prices, but I would like to understand the dynamics of pricing of transformers in the United States. Considering the industry current scenario, how the prices of new contracts have been playing out? Thank you.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Luiza, let's just confirm the first question because we couldn't hear your audio so clearly. So the question is about other operating revenues?

Luiza Mussi - Banco Safra

Okay, yeah, that's right.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Considering this group, we had some non-recurring effect in 1Q, as we mentioned in the call of 1Q. In 2Q, we didn't have any non-recurring effect. In fact, when we look at the breakdown between expenses and revenues, the number is a bit above of what we usually see. But this was a result of some movement of assets intercompany that were included in assets and also expenses. So, net, the effect was almost nill.

The important variation that we saw in this group in relation to 2QLY was a lower expense with profit sharing and bonuses, and this reflects the result, the lower result delivered in this period of the year. So there was nothing out of the usual, there was no non-recurring effect as we had experienced in 1Q. So for profitability and recurring margin effects, we do not need to consider any adjustments for the numbers of 2Q.

Mr. André Luís Rodrigues – Chief Financial Officer

Luiza, talking about pricing, nothing changed from the viewpoint of demand for transformers in North America, and in general from all countries and considering the locations where we operate.

This is something done project by project and as we have already mentioned, today what we are using for the pricing is the price of commodities. All the agreements that we have, we have parametric formats, and we evaluate what was the price of the copper, the steel, with the main components of the transformer. So this is evaluated on a case-by-case basis.

And as we said along the time, different from the past when we had a more stronger growth of price, this is not what we have seen now. But the level of pricing that we see today in the sector is a level which is very attractive, still very attractive, right?

Luiza Mussi - Banco Safra

Oh, that's great. OK, thank you so much.

Operator

Now continuing with the Q&A session, our next question comes from Andre Mazini from Citi. André, you may go on.

André Mazini – Citibank

Good morning, Rodrigues, Salgueiro, thank you very much. It's maybe a follow-up, a bit different from pricing. You notice there is more pricing power with data center clients when compared to other clients? Data center clients are appreciating the short lead time more than others, more than price itself.

And I would like to know if the product they are demanding is changing. Transformers, maybe there's the hyperscalers and the state solid transformers that has a technology which is probably newer since they are trying to find the resources to feed the data center. So the question is the type of product and also pricing for those clients, thank you.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Mazini, good morning, Salgueiro speaking. We have some level of exposure to data centers as we've mentioned previously in some segments, maybe those which are clearer to us are the sales of Marathon alternators for energy backup, transformers that are used in the connection of data centers or grids; and we started to see more demand in industry equipment as well, especially for pumps and ventilation systems for the cooling, refrigeration systems.

But WEG does not sell directly to data center. So it's difficult to have this perception at the end, so to understand how the activity is behaving in terms of pricing.

What we actually see is a very positive demand, and when we see this positive demand, and talking about transformers and longer cycle equipment, and it's not such a long cycle such as T&D. But anyway, the scenario of precification is more favorable for the producers, for manufacturers.

In relation to the changes of infrastructure within the data centers, we have been accompanying all the discussion to understand what's going on. Basically what's happening is the migration of the electrical structure into the data center. This is something which is likely to happen in the years to come.

And then there would be some demand for different pieces of equipment from the ones that we provide nowadays. One of them is the state of solid transformer, which is a transformer, but it's much more likely an energy conversion, much more electronic than mechanic equipment as we understand the transformer to be nowadays.

And this has some implications for products. And we also see some changes in the demand of equipment. But in relation to off-grid and connection, this is not something that's going to change, and this is something we've been studying and accompanying, monitoring, but we have no visibility that any significant change will happen in the long term, because this is a piece of equipment that is still being developed by some players of the market and it has not reached the commercial scale. And this is something that's happened, is likely to happen just in the future, within some years.

André Mazini – Citibank

Thank you, Salgueiro.

Operator

Our next question comes from Alberto Valerio, UBS. Alberto, please, you may proceed.

Alberto Valerio – UBS

Good morning, thank you for the opportunity. I would like to congratulate you on the result and on the improvement quarter on quarter. I have one question on my side related to the United States tariffs. I remember that in the beginning of the year… no, at the end of last year, by the way, we were talking about 25% of the revenues that you had was divided between the productions of the United States, Mexico, and Brazil. I would like to know how it stands today, and I would like to know if there has been any change in comparison.

And the second one would be in relation to the ramp up of the Betim factory. I'd imagine that Mexico has advanced more, but if you could provide some details of when we could expect the revenues to start coming in, the 10 or 15% that will be ready in the middle of the year. That would help us for us to do the modeling for the end of the year. Thank you very much and congratulations again on the results.

Mr. André Luís Rodrigues – Chief Financial Officer

Alberto, let me start answering your first question and Salgueiro will add to the second question. It is important to say that WEG is going, is evolving in different regions, and this share tends to change along the time. The closer vision to reality is the following: everything that is related to the revenues in the United States, 33% is produced and sold in the United States by our local companies; in Brazil is, has about 20 or 20% of all this related to something which is produced in Brazil and exported to the United States - and this used to be more important, such as 2024, which would stand at 30% (1/3).

So when the tariffs started, we decided to change, to increase production in Mexico and also in the United States - and we can see the effects now. And Mexico is a country that is becoming ever more important in terms of supply: 41% is produced in Mexico and exported to the United States; and other countries have a very small share, accounting to 4%. So it shows that along the time the company has been prepared for all those movements in order to mitigate those possible effects of the tariffs.

The point of the recovery of what has been taxed, we have been monitoring all the topics, we have been adopting all the measures with the competent authorities - but we do not have a time when this is going to be concluded, and we'll provide you with the updates.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

In relation to Betim, in the previous answer I said that the factory is being expanded and we are going to use the capacity, this additional capacity of this factory to generate revenue.

And there is going to be a ramp up process. The machines there are very relevant and they are very large-sized equipment, so this is something that is going to help us gradually to add to our revenue - but we can expect more of this contribution along 2027.

Alberto Valerio – UBS

Thank you both.

Operator

Our next question comes from Marcelo Motta with JP Morgan. You may proceed, Marcelo.

Marcelo Motta - JP Morgan

Good morning.

Mr. André Luís Rodrigues – Chief Financial Officer

Good morning.

Marcelo Motta - JP Morgan

Can you hear me?

Mr. André Luís Rodrigues – Chief Financial Officer

Now we can, we can hear you now.

Marcelo Motta - JP Morgan

Okay, thank you, Rodrigues. I have two questions, the first is related to the working capital. There was a little increase in the receivables and also in the stock, I would like to understand how this happened. Okay, there are materials in order to accelerate production. It was just an increase in raw materials? I would like to understand the lines.

And also a question about CapEx. Is there an expectation that… to invest? You said there is an expectation to invest more than 3 billion for this year, so I would like to understand that the 3.6 are the amounts that are going to be invested for this year or is it going to be used also next year?

Mr. André Luís Rodrigues – Chief Financial Officer

Motta, in relation to working capital it's important to say that depending on the quarter and if this can influence the accounts receivable and also inventory levels. We have had more share of long-cycle products in the production cycle, so we need more inventory in transit. So we may have an increase in inventories, and this can show changes quarter on quarter.

But if we look in the long term and we complete… compare the inventory levels, we see there's nothing changed. We see that we are the same level that we have been seeing in the last quarters.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Motta, in relation to CapEx, we announced the capital budget of 3.6 billion and it's still valid. And we look at the half of the year; we have already completed 1.4. There has been an acceleration, and this historically happens, and there is a level of seasonality, and the capital is more concentrated in the second half of the year.

So we continue with the initial plan in addition to all the investments in T&D that we have mentioned, whose investments are going to be completed this year and next year.

In addition to that, we have other investments that is going to happen in Brazil, such as Itajaí, we announced some investments in automation; but there's also the BESS factory that will start also to demand CapEx from this year; and also in Guaramirim factory for large-sized equipment, we also start to require more CapEx along the year; and in addition to modernization, expansions that always happen, other plants such as the one in Linhares, in Espírito Santo.

And when we look abroad, we have Mexico, that concentrates a very important part of this investment, especially in paint and varnishes that we have already almost completed there; and now there is an investment of T&D that is going to be completed in the beginning of next year; and high-voltage equipment in China that has to be considered that will happen this year; we also have investments in Turkey; and we also have some investments of T&D in the United States and Colombia.

So we continue with all the planning going on, and I would like to stress the vision of the opportunities that the company is always looking out for the years to come, and we are getting ready to be apt to use all those growth opportunities along the next years.

Marcelo Motta - JP Morgan

Okay, perfect, thank you, Salgueiro, thank you, Rodrigues.

Operator

Now continuing, our next question comes from Rogerio Araujo, Bank of America. Rogerio, you may proceed.

Rogerio Araujo - Bank of America

Hello, André, Salgueiro, good morning, congratulations on the results. I have two questions on my side; one is to approach the moving parts that impact the margin. Some of them have already been discussed, but just to confirm: the reduction of tariffs from 50% to 10%, can you say how much it affected the quarter? Because I understand there is a time that has to elapse in order to have it happen, half of the quarter, more or less? This is one of the points.

And the second is related to margin, about the pass-through of prices. You mentioned that you would pass through the increase of copper, especially China, but not in the United States. How much has been applied in 2Q and how much of carryover is still lagging?

And I would also like to know about margin related to the ramp up of new plants. Is there a lot of cost to be included, especially in hiring new personnel? Is it already reflected in 2Q?

And in relation to Betim, I believe that this POC methodology tends to favor, right in the beginning of production, the result. So would the margin be improved as of the next quarter?

And still talking about the moving parts and the margins, is there a net effect which is clear as you see it, upwards or downwards? You mentioned tariffs and the impact, but if we put all the moving parts together, is there a clear movement for you for 2HTY?

And my second question is related to WEG US Transformers. We see that there was a drop of 27 YoY, even though there was an increase in GTD. I think this sounds like a trend for the last quarter. What could explain this? An anticipation of cost, anticipation of capacity, maybe a higher leverage with the expansion CapEx or anything else? Thank you very much.

Mr. André Luís Rodrigues – Chief Financial Officer

Rogerio, let's try to get into all the points that you raised, which are all very pertinent. First, let's do the exercise of the tariffs, the impact that they cause on each quarter. It's always a very complex exercise. In a previous answer, I talked a little bit about the supply, what we sell to the United States - and it's not only the percentage, but it also depends on the product we're talking about, so this is a very complex exercise.

So let's do a more detailed analysis of the margin. I think we can take into consideration what happened in 2QTY in comparison to 1Q, when we see an important evolution, maybe compared to what happened in 2QLY. I think this is the first message: the environment is extremely complicated from the geopolitical viewpoint; the supply chains are very stressed. There has been an increase in the price of commodities, and even so we have been able to keep the margins at a high and stable margins - and that's the result of the work we've been doing.

When we talk of the margin, we have to remember that when we compare quarter on quarter, there are mixes that come to play, they may impact the margin on the quarter. I believe that the product mix continues to be very favorable to us. Salgueiro mentioned the dynamics of long-cycle equipment, which is very positive and it helps in this regard, and the contribution of renewables that also impacts the process.

And when we talk of the comparisons of 1QTY, it's important to mention that the growth of the revenue, and how it came about, improves the absorption of fixed costs, especially those related to personnel; the price pass-through also helps us in this process; and also the reductions that happen in the tariffs also helped; and a lower volatility of the FX rate in the short term. These are all welcome.

And when we talk about the period, the same period of the previous year, and we see some effects that repeated in relation to 1Q that we have already explained, we could also mention the increase in personal expenses, which was driven by the larger number of employees, which was related to ramp up of the transformers factories: we have to hire and train people before production starts - and of course, this is a process that is going to grow. The number of transformers will grow and transformers, especially the large ones, you have to produce in line, and you start producing and then the production comes as a sequence; and as we increase the production capacity, costs will increase.

And also, we have to consider the increase of price of raw materials, especially copper.

And also talking about the United States, we also have to mention that there has an impact of the 232, especially on transformers that go from Mexico to the United States and the tariff increase. So the point of the United States is more focused on the increase of tariffs related to the 232 - but as a reminder, what we're delivering this year are contracts that we developed, that we completed some years ago, where when we didn't have any device developed of who would be responsible for the tariffs, and also considering all the cost increases that impact all the situation.

Rogerio Araujo - Bank of America

Thank you, André. Just could you let us know when the deliveries of transformers of Mexico and the United States, when do they start to have that clause of tariff pass-through, when this is going to materialize and when the effect will stop happening? And talking about your transformers, please.

Mr. André Luís Rodrigues – Chief Financial Officer

When the tariff started being applied, the clause started also to be applied. I think we're going to continue using those instructions with the clients still this year and still in the beginning of next year. This is the impact that we see of the 232.

And also there was an increase of… an increase in price of some raw materials. The prices are rising.

Rogerio Araujo - Bank of America

Okay, now it's clear. I thought we were talking about margin, but it also impacts the US Transformers. André, thank you very much for the answer, that was very clear.

Operator

Now continuing, the next question comes from Daniel Gasparete with Itaú BBA. Daniel, please, you may proceed.

Daniel Gasparete - Itaú BBA

Good morning, good morning, everyone, thank you very much for the opportunity. I have two questions on my side; the first one is to understand your perception in relation to the growth expectation. In the last call, we asked if that visibility of 10%, above 2 digits, that you were imagining in the beginning would be maintained. You said because of the FX fluctuations, it was more difficult to reach.

I would like to know if the perception changed or is maintained for the domestic and international market. How do you see all this?

And my second question is a bit more for the medium term. We always say that WEG grows a lot in environments of crisis. Even though we do not have an economic crisis, we have a lot of volatility at play. So I would like to understand how you see the environment, the competitive environment, the capacity to gain share. So do you see the clients, as we saw during the pandemic, looking for other opportunities? How do you see this current environment?

Mr. André Luís Rodrigues – Chief Financial Officer

Hi, Gasparete, thank you. In relating to growth potential, we have to enforce we are growing in the international market and also in the local areas. And what we delivered in terms of growth in the international market in 1Q and 2Q was totally in line with the initial expectation of growth of about two digits. Reminder: we grew in 2Q in the local currency 11.8%, 14.7% in USD.

And what has been becoming an obstacle, and also when we talk about expectation in terms of profile and what would happen in 1Q and 2Q, is what is has actually happened in relation to the comparison basis for the solar area. So now we are going to start in a more fair basis of comparisons and the FX fluctuation that is something we cannot control.

We have a budget that is 5.59 in terms of FX; and what has happened to FX today? Is it going to maintain at 5.5? So we moved from 5.59 that WEG considered in its process to 5.58 - and this is an appreciation of the value which is close to 9%.

So from the dynamic viewpoint, the viewpoint of business, we are showing that we are using good opportunities. And Salgueiro also mentioned that electric mobility starts to become something relevant to the company. Obviously, the sizes are different when compared to motors - but it has been showing along the years, both in terms of recharge stations and other areas, important business for the company.

And we are always providing updates on new businesses that are coming up as we see them as good opportunities. And the main message that we'd like to give is that just as we did with transformers, we understood the moment beforehand and we got prepared for that increasing capacity not only for transformers, but also energy storage and also large-sized rotating machines.

And in all those cases, we have already started way ahead with investments in order to prepare WEG for those demands, which we believe to be very positive and somehow, they are already materializing in the company - and they are going to become ever bigger.

So I believe that the message that I would like to give you is that we were impacted by the FX fluctuations, but abroad we continue growing. There is order intake, which is very favorable and that provides support to everything that we said in the beginning of the year and the end of last year - and we will have to live with more appreciated FX rate and will generate fewer BRL and less growth in relation to the expectations we had in the beginning of the year.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Gasparete, in relation to the second point you mentioned, the possibility of WEG growing in moments of crisis, we are working here in order to be prepared to grow in any environment. Obviously, when we consider the business model that we always mention where we have different competitive advantages such as scale and verticalization, this all helps us in adverse environments. But when the market is positive, as we see nowadays, as André mentioned, we see that the performance has been very solid, especially in the international market in terms of demand, and we also saw some recovery in the industrial area in Brazil.

So we see a lot of growth opportunities and we are prepared, considering all the investments that we have been making in the last few years, so that we can have the level of competitiveness and the adequate portfolio in order to take part and use all those opportunities.

What we can say is that in spite of all those geopolitical issues, conflicts and tariffs, we see that we are in an industry which is very heated and with high demand for our products.

And we observe this, especially when we see the backlog intake and the order intake, especially in GTD - and we are not only talking about T&D, but we're also talking about the Marathon alternators. As we have been mentioning for a for some time, we have some positive visibility for the future, so we keep on working in order to take all those opportunities.

Daniel Gasparete - Itaú BBA

Perfect. Have a good day.

Operator

Our next question comes from Lucas Marchiori with BTG Pactual. You may proceed, sir.

Lucas Marchiori - BTG Pactual

Thank you, two points I would like to mention very quickly. First about the product mix, so that I can understand the margin dynamics. Could you talk about the breakdown of long and short cycles? And if in the short cycle you saw an improvement in margin quarter on quarter, 1Q to 2Q. We saw the construction margin, the transformer margin. I would like to understand if there was any relevant improvement that would be worth mentioning for the short cycle that you could comment.

In the domestic GTD after one year of the phase out of renewable. So tell me what is the new base of growth? Could you provide a breakdown of what is GD, what's renewable, what is still related to solar? So that we can understand this scenario, thank you.

Mr. André Luís Rodrigues – Chief Financial Officer

Lucas, I'm going to answer the first question. You ask how we break down the revenues between long and short cycles in 2Q. Short cycle accounted for 61% and 39% for the long cycle. This is something that has been varying along the time. And here also, oftentimes, you ask so GTD is going to become ever more relevant to WEG?

Of course, when we look at the investments that we have been making it may be like this, but we cannot forget that the other businesses also grow. It's not only in GTD that this is happening... Oh, let me be more precise. In fact, it's T&D.

This quarter specifically, and also for long cycle, was even higher than 39%. There's a bigger share of low-voltage electric motors. This is something where we continue growing; and the good performance of the sales of alternators that we acquired from Marathon, and we can see excellent opportunities for growth for the company and also for other companies where we are devoting time and resources in order to continue growing.

In relation to pricing of all this, especially for the short cycle, yes, this has been very positive, especially in the last few months.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

In case of GTD Brazil, in fact, we anticipated we are completing in the middle of the year, the stronger comparison base that we had last year when we talk about centralized deliveries. There is still a remainder for 3Q, but it's less relevant than what we saw in 1Q and 2QLY. And after this effect has been adjusted, we are likely to see GTD Brazil growing.

Why? Because T&D, which still continues growing in the two-digit pace, and there is a remainder of solar related to the plants, GD kits, we have also seen some growth.

And then we have also to include other businesses related to energy, but that will depend on energy. But thermal energy will also contribute, and maybe because of the effect of the solar it may not be as significant in 3Q, but it's likely to grow along the next quarters.

Lucas Marchiori - BTG Pactual

Okay, great, thank you, have a good day.

Operator

Our next question comes from Daniel Federle with Bradesco BBI. Daniel, please, you may proceed.

Daniel Federle - Bradesco BBI

Good morning, congratulations on the results and thank you very much for taking my questions. My first is relating to mix as well. You mentioned that one of the drivers was related to mix. I would like to understand how you qualify the mix of 2Q. Is it a mix above average, is it going to get worse? Is it a mix in line with average and is likely to be maintained? This is my first question.

And for 2Q, we see some margin pressures from tariffs, with margins of tariffs from 25 to 37 and some hires in Mexico. What are the positive drivers that you see that will increase the margin for this period?

And the second question is relation to BESS. What are the expectations of the company? Did the auction increase the size? And you mentioned that there's an expectation of capturing 20%, I would like to know if it's still positive.

And it seems that international companies are being attracted to Brazil, and how do you see of… this capacity of BESS in Brazil?

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Daniel, good morning. In relation to mix, we have been commenting that the mix has been very favorable in these last quarters, especially due to the reduction of renewables. So we had a significant reduction last year of the wind energy and this half of the year there was a reduction of the solar, and the margin is a little below the average margin of the company.

And since we have a positive performance, especially for long cycle, T&D has been performing well, and we saw an improvement in the industrial dimension. We can say that the mix has been very positive, and if we compare with the recent past, when the exposure was much bigger for renewables, it's above the average compared the recent past.

Mr. André Luís Rodrigues – Chief Financial Officer

Now talking about BESS - thank you very much for the question -, without a doubt, we have good prospects, and as we said, we are getting ready in order to take part in the business. Generally speaking, for everything that is BESS, we have 1 GWh of capacity, which is divided by mobility and BESS. And the new factory in Itajaí, which is going to be completed next year, will add 2 GW in this process. So it's another example that we are getting ready and structured in order to meet the demands of the market.

And since we are a partner of clients of everything that involves energy, without a doubt, we can have some positive attributes for this process when clients are selecting the supplier of the solution of energy storage for them. A reminder, it's not just the storage, but also the whole infrastructure behind all this - and WEG manufactures nearly everything. It's very comfortable to talk to just one supplier, than talking to multiple suppliers that is not structured for this process.

The fact that we are attracting more manufacturers is very positive, very good news, because it shows that WEG's perspective is that new opportunities will come up. If nobody had come to us, we would imagine that good business opportunities wouldn't happen. We see this as something very positive. We see that our expectations have been confirmed and everybody is at the same level of competition. So we see all the scenario in a very competitive way, a positive way.

Mr. André Menegueti Salgueiro – Finance Director and Investor Relations Officer

Now going back to the pressure of margin, you mentioned the downsides of the impacts, negative impacts that may happen. What we see on the other hand? We see an increase of the acceleration of the revenue growth, which tends to be very positive for profitability. And as you said, we have the ramp up of the factory in Mexico, which may be a problem, but we have the expansion of Betim factory.

So theoretically, this is going to help us along 2HTY, and we also made all the movements related to prices and adjustments of the commercial strategy along 1HTY. So we will have this contribution seen along 2HTY.

Daniel Federle - Bradesco BBI

Thank you very much, that was very clear.

Operator

This concludes our question-and-answer session. As a reminder, if you have any additional questions, please feel free to send them to ri@weg.net. I would now like to turn the call over to André Rodrigues for his closing remarks. André, please go ahead.

Mr. André Luís Rodrigues – Chief Financial Officer

Thank you very much for your participation. On our side, we'd like to reinforce the invitation to take part on our WEG Day, which will take place on October 2nd. It will be a great opportunity for you to get updates on the opportunities at WEG. Thank you very much, I hope you have an excellent day.

Operator

This concludes WEG's conference call. We thank everyone and have an excellent day everyone.
