WEG S.A.
Conference Call - Earnings Results 1st Quarter 2022
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Transcript of the simultaneous translation from Portuguese into English

CORPORATE PARTICIPANTS

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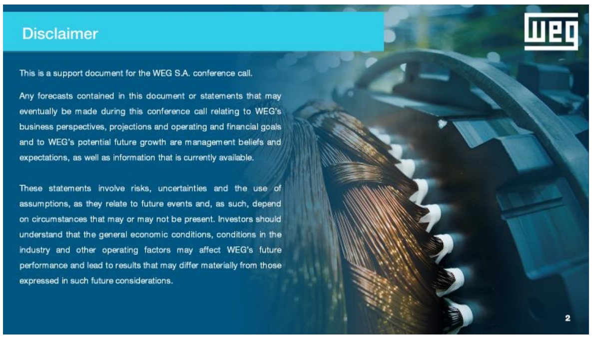
Mr. Wilson José Watzko – Controller Officer

PRESENTATION

Operator: Good morning and welcome to the conference call to discuss the earnings of WEG in 1Q 22.

This call is being webcast with the accompanying slides at our investor relations website: ri.weg.net and after it is finished the audio file will be available at our investor relations website. Should you need assistance during this call, please ask the help of an Operator by typing *0.



Any forecasts included in this document or in the forward-looking statements that may be made during the conference call about future events, business prospects, operating and financial forecasts and goals, as well as to WEG's potential future growth are simply beliefs and expectations of WEG's management, based on information currently available. Such statements involve risks and uncertainties, and therefore dependent circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may influence the future performance of WEG and lead to results that differ materially from those included in such forward-looking statements. We kindly remind you that this conference call is being held in Portuguese with simultaneous translation into English.

Today here with us at Jaraguá do Sul are André Luis Rodrigues, Chief Financial Officer; Wilson José Watzko, Controller Officer; André Menegueti Salgueiro, Finance and Investor Relations Officer and Felipe Scopel Hoffmann, Investor Relations Manager.

Please Mr. Rodrigues, you may start.

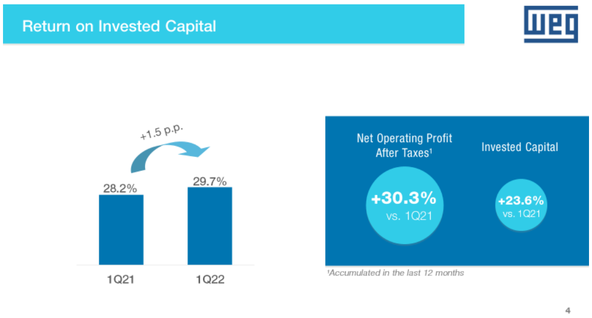
Mr. André Luís Rodrigues – Chief Financial Officer

Good morning everyone. It is a pleasure to be with you once again for WEG's earnings conference call. We start with the highlights of the quarter, in which the net operating revenue grew 34.5% compared to 1Q 21.

We continue to benefit from structurally favorable conditions in the main markets where we operate, reinforcing our strategic direction of developing products and systems with greater added value for our customers.

The strong performance in the domestic market is a consequence of this strategy, where we supplied important products linked to the generation of renewable energy, such as solar and wind generation. In the foreign market we still observe a strong industrial activity supporting revenue growth in our main markets, as a result of our good availability of products and ability to meet the needs of our customers.

Another highlight in the quarter was EBITDA, which increased by 21.3% reaching 1.2 billion BRL. The EBITDA margin ended the quarter at 18.1%, down 1.9 p.p. from last year, a movement that was already expected due to the increase in material costs and also due to the mix of products sold. During the presentation André Salgueiro will give more details about this performance.



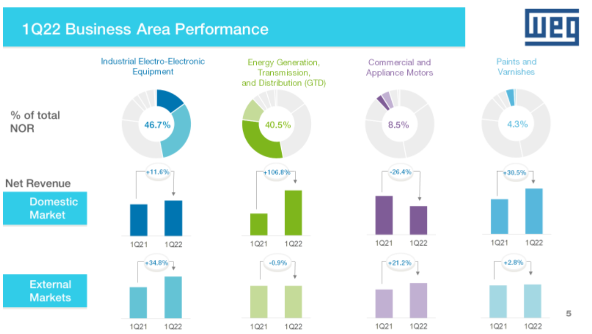
Finally, we had another quarter of ROIC evolution compared to the same period of the previous year, as we will see better on the next slide, which presented a growth of 1.5 p.p. in relation to 1Q 21, reaching 29.7%. The improvement in our operating performance supported mainly by revenue growth, more than offset the greater need for working capital and the increase in investments in fixed assets in the period.

I will now give the floor to Salgueiro to continue.

Mr. André Menegueti Salgueiro - Finance and Investor Relations Officer

Thank you André, good morning everyone. On slide 5 I present the development of our business areas in the markets where we operate starting with Brazil, where activity in the area of industrial electric and electronic equipment continued to be positive in this quarter.

We had good demand for short-cycle products such as low-voltage electric motors, gearboxes and serial automation equipment, especially in the agricultural machinery and equipment, pulp and paper and mining segments.



Sales of long-cycle equipment such as medium-voltage electric motors and automation panels were in line with recent quarters, with good performance in the mining, pulp and paper and water and sanitation segments.

The GTD area was the highlight of this quarter. We had growth in all our businesses, mainly due to the return of sales of wind turbines, the acceleration of sales of distributed solar generation kits and electric generators for other energy sources.

The T&D business posted another quarter of revenue growth, driven by large transformers and substations for projects linked to the transmission auctions, together with sales of transformers for distribution and industrial networks.

In commercial and appliance motors the drop in demand, especially in motors intended for the appliance segment such as washing machines and air-conditioning impacted this quarter's performance, despite the good sales volume in other segments such as food and beverage and agribusiness.

As we had already anticipated, this movement was expected after the short, the strong recovery between late 2020 and early 2021.

In paints and varnishes demand continued to be strong with emphasis on the segments of agricultural implements, road implements and sanitation.

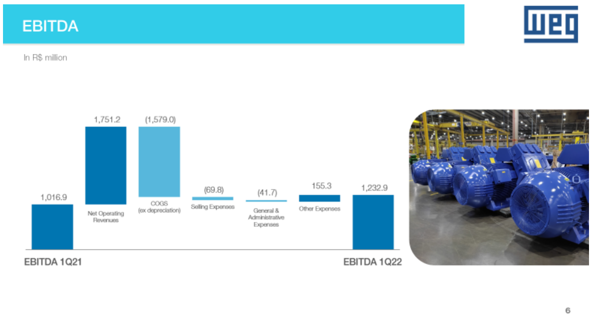
At the external market the continued industrial investment observed in recent quarters was an important factor for the performance of the industrial electric and electronic equipment area, despite the uncertainties present in the macroeconomic scenario.

Revenue growth was spread across different industrial segments, with emphasis on the performance of China and the United States. Long-cycle equipment also showed sales growth as a result of the previously reported good order backlog, with an increase in sales in the oil and gas and mining segments.

In GTD revenues showed fluctuations typical of long-cycle businesses, mainly after deliveries of important T&D projects in Colombia and South Africa and steam turbines in Germany throughout 2021.

In the commercial and appliance motors area we observed a continued growth in demand for our products, explained by the acceleration of the economic recovery and market share gains in the United States and Mexico. Applications such as pumps and compressors were the highlights of this quarter.

Finally, in the paints and varnishes we showed sales growth in Latin American countries. The lower growth in the quarter is mainly explained by the drop in sales performance in Argentina, where we have an important operation for this business area.



On slide 6 we see the evolution of the EBITDA in 1Q 22, where we presented a growth of 21.3% in relation to the same period of the previous year. The EBITDA margin ended the quarter at 18.1%, showing a reduction of 1.9 p.p. in relation to 1Q 21.

It is worth noting that EBITDA was positively impacted this quarter by the additional recognition of credits referring to the exclusion of ICMS from the PIS and COFINS calculation basis. Excluding this nonrecurring effect EBITDA would have been 1.207 billion with an EBITDA margin of 17.7%. This result was within our expectations. The challenges in the global supply chain and the consequent increase in raw material costs, together with the change in the product mix mainly due to higher revenue from wind generation projects, continued to put pressure on margins; but we continue to work on several fronts to preserve the company's level of profitability.

Finally, on slide 7 we show the evolution of our investments. In 1Q 22 investments reached 209.6 million, 52% of which went to Brazil with a greater concentration on projects to increase capacity, process improvements and productivity gains at the Jaraguá do Sul plant; and 48% to the units located abroad continuing the investments in our factories in India, Mexico, China and the United States.

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

Mr. André Luís Rodrigues – Chief Financial Officer

Thank you. Before we move on to the Q&A session, I would like to talk about some of our latest accomplishments and comment on our outlook for the remainder of the year.

Regarding the achievements I would like to highlight the following events: we received from the National Confederation of Industry the title of the most innovative company in Brazil, an achievement that reinforces how important innovation is for the company, always looking for increasingly efficient and sustainable solutions.

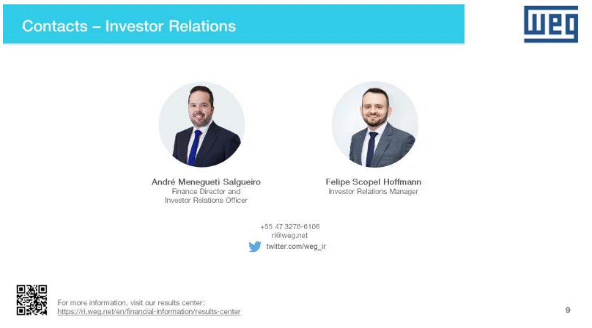
We also announced some news related to electric mobility, such as the new partnerships for the supply of charging stations for Jeep in Brazil, and the beginning of the supply of battery packs for electric vehicles.

Finally, on the outlook for the rest of the year we will continue to follow our strategic plan, investing in the company solutions, continuous and sustainable growth such as in the areas of motion drives with motors, gearboxes and inverters; renewable energy whether solar, wind, hydro or thermal through biomass; transmission, distribution with our transformers and substations connecting power generation to consumers.

At the same time we are managing to deliver healthy margins within the company's expectations, always focusing on the long-term.

For 2022 it is necessary to be aware of possible increases in costs that could put pressure on the results for the year, in addition to the change in the mix of products sold as the wind and solar generation businesses should gain more relevance. In any case, we will continue to work to deliver margins above the market average.

And we understand that our competitive advantages help a lot in this regard. We believe that our business model based on verticalization, long-term vision and diversification of products and solutions, combined with our global presence, helps us not only to expand our range of opportunities; but also to mitigate risks and uncertainties in times of political and economic turmoil, like the one we are experiencing now. This concludes my presentation. Operator, we can proceed to the Q&A session, please.



Q&A SESSION

Operator

Ladies and gentlemen, we will now start the Q&A session. In order to ask a question please press *1. To remove your question from the queue press *2.

The first question comes from Lucas Lage from XP Investmentos.

Mr. Lucas Lage - XP Investmentos

Good morning André Salgueiro, Felipe, Rodrigues, André Rodrigues. I have two questions, two subjects that I would like to explore: first the impact of exchange rate.

There has been a lot of volatility. The exchange rate was, has been, has appreciated throughout April, so I would like to understand from you how you deal with the impact of exchange rate on two fronts: first if you see any negative impact on profitability, given the expected lower revenue on exports that decreases the costs in Brazil; and also if you feel any pressure to reduce prices in some short-cycle products in Brazil, such as solar and distributed generation projects, products. We understand; but any color you could give on the exchange impact would be helpful.

And regarding T&D we saw strong demand in the domestic market, mainly driven by solar and wind energies, and we saw a drop in revenues in the external market in GTD. We understand that it is much longer the cycle here than in the external markets; but I would like to understand from you what has led to this drop and if it will be stabilized at this level of revenue for this year, or if you believe it will continue to grow during 2022. So these are my two questions, thank you.

Mr. André Menegueti Salgueiro – Finance and Investor Relations Officer

Hello Lucas, good morning, thank you for the question, this is André Salgueiro speaking. I will answer the first question regarding exchange rate and then André Rodrigues will answer the other about international GTD.

As for exchange rate, you mentioned in your question that we are in a volatile environment. It was at 5.30, now 4.60 and now it is back to 5. So if we compare to what it used to be and now there had not been such high fluctuation, although it did went back to 4.60 and is now back to 5.

So in a scenario such as this there are no major differences. Of course we should see where exchange rate will stabilize; but if we were talking about a variation of some decimal points that does not change for us too much.

When we see the actual exchange rate appreciating there is an impact on conversion from the external market, and especially when you look at revenue in BRL we always try to make the analysis in local currencies; but the fact is that the revenue in BRL has a negative impact in this scenario.

And there is also the cost issue. The cost is adjusted; but it is never adjusted at the same speed that we adjust revenue, so there is always some lag, some difference; and we do not like to look at volatility in the short period, because revenues has, is quickly adjusted; but the cost structure takes a bit longer to be adjusted or updated.

As for the second point of your question if I understood it correctly about prices in Brazil, obviously the cost structure products that are in USD especially for short-cycle will be priced according to the market dynamics.

So this is why it is important - going back to the beginning - to keep track of where exchange rates will stabilize and then adopt a commercial policy that makes sense.

Mr. André Luís Rodrigues - Chief Financial Officer

Lucas, this is André Rodrigues speaking now. As for the performance of GTD abroad, as you said we made a calculation: in BRL a small reduction, in USD a small growth; but something important that we always like to convey is that revenues may fluctuate quarter-on-quarter, and this is very typical on long-cycle businesses.

And what happened especially last year is that we had these important deliveries of T&D in Colombia and South Africa, as well of steam turbines in Germany during this period.

So it is worth highlighting that in North America what you are in the process of increasing the capacity of the new plant in the United States for transformers. So we are at the initial stage after the opening that happened at the end of last year.

But basically I would like to reinforce something we have been saying from some time now: the long-cycle portfolio is very positive, both in Brazil and abroad; but these fluctuations quarter-on-quarter may happen during the period.

Mr. Lucas Lage – XP Investimentos

Perfect thank you, this is very clear. Congratulations on your results again

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Operator

The next question comes from Marcelo Motta from J.P. Morgan bank

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Mr. Marcelo Motta – J.P. Morgan

Good morning, I would like to ask about the margins dynamics. We do understand that it depends on the mix, solar and wind put pressure on the margins; but I would like to understand whether recent political events such as lockdown in China, a conflict in Europe that is taking longer than expected, could put pressure, more pressure on the margin that maybe something that would influence also the cost of raw materials in addition to the mix of products.

And also about the working capital, if you could comment on. I mean, the idea is to work with enough inventory to prevent any kind of disruption in the future. I would like to understand from you whether inventory levels should be higher this year, or should we expect working capital to be reduced when we think about medium-term inventory levels? Thank you.

Mr. André Luís Rodrigues - Chief Financial Officer

Hi Marcelo, thank you for the questions. Well, when we speak about the quarter margin, what we can state is that the recurring margin stayed according to our expectations. Also it is no news that the margins continue to be impacted by costs: the higher cost of raw materials, as well as the mix of products, which was more significant this quarter due to the growth of GTD in the domestic market, especially solar and wind.

But what helped to offset these cost increases in the quarter was the improved margins in our external operations, or operations in other countries - something we have been working a lot to improve - as well as price adjustments both in the domestic and external markets that usually happen in 1Q.

As for the question about all the external conflicts that are happening not only in the war between Ukraine and Russia as well as the lockdown in China, it is a bit too early to assess how much additional risk this could pose. Given the exposure of WEG we are much more exposed to China than to the war issue.

While there is a zero-COVID policy in China, the supply chain will always be influenced and there may be complications in times that could lead to scarcity of raw materials and increase in prices.

So far we have not felt that, those consequences; but it does not mean they could not come later. So we have to keep a close eye on that.

As for working capital, the increase in our working capital for operations is concentrated on an increase of inventory levels. This is due to inflation on inventory, all the price increases that happened in raw material along the quarters; as well as the increase in inventories of strategic raw materials given the uncertainties in the global supply chain.

This was a strategic decision we made to guarantee the continuity of our operations, which was a right decision. Some raw materials supplies are atypical, or rather we have atypical inventory levels for some raw materials - but they are necessary, and the decisions we made in the first quarters were necessary and proved to be right, because with the China lockdown again we have enough raw materials to guarantee our operations.

The consequences that was in the indicators and cash flow, and the trend for this year is when things go back to normal the inventory levels tend to be reduced.

Our indicators in 2022 will reach the same situation we had pre-pandemic? That is not very likely; but the trend is to be better than the end of 2021.

It is worth remembering that this is concentrated on inventories. Our indicators of average payment terms and receiving terms have improvements or are at good levels.

Mr. Marcelo Motta - J.P. Morgan

Ok, thank you very much for your answers.

Operator

The next question comes from Régis Cardoso from Credit Suisse

Mr. Régis Cardoso - Credit Suisse

Good morning André Rodrigues, Salgueiro, Felipe, thank you for the questions. I would like to quickly go over the main segments and focusing on two of them.

In solar we saw there has been a significant increase in renewables activities, especially solar for GD and solar in general, and in this business can be seen this leap in the amount of imported solar panels.

How can we interpret this from the point of view of WEG? Is this only cost inflation or it just, it means really, it is just a Cogs increase or can WEG also increase its unit margins or volume? Maybe the increase in imports also means an increase in the EBITDA generated? And as well as increase in market share, have you captured this increase? This is on solar.

From guide, the guide some aspects I would like to address is that the operators - Oil and gas I am sorry - operators are receiving from Petrobrás onshore. Is this segment relevant for WEG? I know they use WEG's pumps and motors on the onshore fields as well.

I would like to understand whether or the onshore projects have the same significance of large offshore projects. Could this mean a favorable trend for you?

And within oil and gas - now more of an international focus - is to meet the needs of Europe with gas. Do you have, do you plan to invest on gas plants in the United States and Europe? In liquefied gas?

And also if you could comment on the fruit or the consequences of investments in the sanitation markets, thank you.

Mr. André Menegueti Salgueiro - Finance and Investor Relations Officer

Hello Régis good morning, thank you for the questions. I will cover the smaller part, the renewables and then we speak of oil and gas.

What is happening in solar area is that there is an expectation that after the change in the regulation it became clear that starting next year part of the existing benefit to use the field infrastructure will be gradually removed, and the projects that are implemented during this year will continue with 100% benefit until 2045. So the market is really hot in terms of volume, number of projects and MW installed.

Obviously there is a price issue. The cost of panels and inverters ended up increasing especially during last year, given the impact on the commodities prices - and that is obviously reflected on costs and our revenue as well.

But I would tell you that most of the increased performance is related to increased demand and increase in volume coming from such projects, and we expect 2022 to be a very positive year in the solar generation business in Brazil.

This is the main factor for this good performance, and I know you keep track of number of panels imported, solar panels imported, and that reflects the GTD performance in Brazil: GTD more than doubled its revenue when compared to 1Q 21, this quarter of 2022.

As for wind generation - just to complete the renewables area - we now have wind generation projects start again in last quarter of last year generating revenue, and we are in the ramp up. 3Q, 4Q and 1Q TY is better, so it is a growing trend.

And now we have a backlog of wind generation that will be in 2024, so the backlog of wind projects is healthy and positive. So we do expect that this year and next year will be positive years in terms of demand for wind generation.

Of course, as we move closer to the second half of the year - and the last year in the second half there was some revenue - growth decreases in terms of, on the comparison basis; but the prospects are, the outlook is very good.

As for oil and gas, it is the main business or market for our products in industrial electric and electronic equipment.

If I remember correctly, in 2019 when we made a presentation of our business segments, we said that oil and gas for the industry as a whole accounted for 18 to 20% of the total demand of the segment - and here we are speaking about exposure to offshore, onshore projects, refineries. There is also an exposure to LNG terminals so for liquefaction or gasification.

So these investments are increasing in the United States and Europe. This is a market that could be addressed by WEG, there may be opportunities for us in that market.

So this is a market that in the end of last year we already said it showed a positive trend, and now with the conflict in Europe it could unlock some new projects and so we, the trend is for the oil and gas market to continue in a heated manner growing for the next quarters..

Mr. Régis Cardoso - Credit Suisse

Understood thank you - if you could give us a follow-up just to conclude. I understand that there is a trend for growing revenues with maybe decreasing margins, given the ramp-up of wind and GTD; but the ROIC I believe in 2Q should have a substantial drop, because last year it was two months comparison.

Should we expect a higher drop for the next quarter and maintenance at a more intermediary level at 20 something of ROIC? How can that dynamic be translated in financial metrics?

Mr. André Menegueti Salgueiro - Finance and Investor Relations Officer

Well, it is hard to give a target or guidance for ROIC; but yes, considering that 2Q LY was a very positive one when we had that high increase, and now it will be the basis for calculating 2Q 22, we do expect some accommodation.

The ROIC started a trend of settlement since 3Q LY that happens quarter every quarter… On quarter, so it will continue; but the level at which it will stabilize or reach is hard to tell you right now.

Mr. Régis Cardoso - Credit Suisse

Ok understood, thank you.

Operator

The next question comes from André Mazzini from Citibank

Mr. André Mazzini - Citibank

Hello everyone, thank you for the question. My question is about competition in the external market. When we look at Siemens and ABB results their backlog has increased; but revenues are not increasing so much.

So we wonder whether the peers, your peers could have any reduction in capacity since the global chains are quite broken and there is a lockdown in China. This, added to the fact that you have a small market share abroad, could this be good winds and a good sign for you, given that your peers could be at their full capacity?

And you are more vertically integrated than them and you have plants all over the world, so you would be able to surf during 2022 with fewer supplies and capacity problems when compared to these peers that I mentioned, thank you.

Mr. André Luís Rodrigues - Chief Financial Officer

This is André Rodrigues speaking, André. About the competitors, everybody is keeping track, seeing that the demand is positive in several areas of the world. This is positive for WEG as well as for WEG's competitors.

The main issue here is the capacity that a company must have to differentiate itself and seize the opportunities generated by the world - and WEG is doing that very well.

It started to benefit from those opportunities in the beginning of the pandemic. During the lockdown in areas - I am talking about North America, Mexico and Europe - WEG, thanks to its verticalized production model, which is an advantage we have, and the situation of good inventory levels in some branches, we benefit from that.

And given the growth rate in the external market that you have seen every quarter, and we know how much markets are growing, WEG is really being successful to capture market share during these last quarters.

This is a result of the constant development of the company in the technology area. If you are not, we were not able to compete with our competitors, if we do not keep up-to-date in technology terms, as well as a result of investments to increase capacity we were making several regions, as well as to our capacity to enter new segments in markets.

For example, in the past WEG was a very, highly exposed to oil and gas and mining in the external market, and we made several efforts in the company to also operate in water and sanitation segments abroad, so we opened a new opportunity for the company.

So in the speech of Salgueiro one of the highlights of this quarter in the industrial electric and electronic equipment is also pulp and paper segments. This is another segment in which we are working to create new opportunities for the company, as well as new geographies. As reported earlier Kazakhstan, Poland, Turkey, investment in low-voltage in India - that unit will be finished soon.

So the world has a demand for our products, is creating opportunities for all companies; but WEG in my opinion is making the most of these opportunities.

As for the global supply chain - if I understood your second question correctly - I do not believe there has been a lot of change in terms of what has happened lately. Yes, there is a verticalization of our process and production is a competitive advantage that makes our life a bit easier.

We have things solved regarding global supply chain. The world dependence on Asia for electronic equipment. We cannot reach that level of verticalization; but in other products we have that advantage.

Mr. André Mazzini – Citibank

Ok perfect Rodrigues, very clear. Just one follow-up on the question you answered before: Europe, soon after the war there was a REPowerEU Plan and the idea of that plan was to be zero dependent on Russia for energy source.

Germany is too highly dependent on Russia, and do you believe that this plan with this new branding will make a difference? I mean you are already important in Europe; could we expect a higher growth? This plan will result in more investments from Europe in order to become independent from Russia in terms of energy?

Mr. André Menegueti Salgueiro – Finance and Investor Relations Officer

This is Salgueiro speaking, Mazzini. Well, we have to separate the opportunities a bit. If we are speaking purely of investment in renewable energies, wind and solar, we are not exposed to the European market, so there are no clear opportunities in this area.

We do have a business in Europe, which is a joint venture of TGM that is focused on steam turbines. So for thermal generation yes, and if there is investment in that area it could bring an opportunity for us. And we could also address some projects with the production from Brazil.

In addition to that there is opportunities from demand for other products, such as industrial motors either medium or low-voltage, and automation equipment for projects such as LLG terminals and oil and gas investments in Europe, Middle East, North of Africa. That is a market which we are highly exposed to.

So depending on the investment and where it is concentrated I believe yes, it could become an opportunity; but not for 100%, given that we are not exposed to the renewable market oil and… Or rather solar and wind in Europe.

Operator

The next question is from Luis Capistrano from Itaú BBA.

Mr. Luis Capistrano - Itaú BBA

Good morning everyone, thank you for taking my questions. I would like to go a bit more into details when we talk about domestic GTD. Naturally the demand is very strong in 1Q and will continue to be favored in the next quarters.

The question is about how much this is structural, with some longevity and more predictable, and how much it derives from this context of changes in the legislation that is boosting the solar industry?

And the second part of this question would be for how long this positive impact on solar energy will continue for you? One year, two years? And this movement of pre-by will favor you for how long?

And the second question is a bit more open to all segments of the company: we know that the long-cycle portfolio or backlog is good and ensures a good performance for 2022; but thinking about new orders how has this development been in 2022? I mean, the new orders flow?

Mr. André Menegueti Salgueiro - Finance and Investor Relations Officer

Ok this is Salgueiro speaking, thank you for the question. GTD, domestic GTD especially focused on solar, but also giving you a broad overview. In the release and also in my presentation we mentioned that the strong performance of GTD in Brazil happened because all the businesses in the area had a significant performance - and that is true for all the areas.

Obviously some businesses grew more, such as wind generation, because there was no comparison basis from last year; then came solar with a strong growth.

But if we look at other businesses, even water or hydro or thermal generation also performed well, as well as T&D in Brazil.

Looking forward - trying to answer your question about what is short-term and long-term - we have the wind energy coming back strong since 2Q LY, we are making the plant full and there will be a time when there will not be much growth; but our backlog goes to the beginning of 2024.

So in terms of recurring events this is the GTD business with the highest longevity, almost 2 years in the backlog.

When we move to solar, solar is highly concentrated in solar distribution, distributed generation.

In GD there is a backlog visibility of one, two, three months at the most. So solar is expected to have a very positive year in 2022, and there is expected changes in regulations. So how will the business be for 2023? We believe that since the benefit will be given, solar business continues to make sense in the medium and long-term.

Obviously, keeping the level of revenue and growth level will increasingly be, be increasingly difficult. So we expect growth to become more stable as of next year and to be more of a recurring growth level.

The other businesses such as T&D and generation, we can see a backlog that goes up to the end of this year, beginning of next year. For the visibility we have - and Rodrigo explained in the last questions - we have a good, positive backlog.

Given the prospects of generation options and transmission lines auctions, we see good news for projects for next year. The trend is for these projects to continue to happen.

So summarizing, the first message is that the year will be positive; but as the revenue growth the comparison basis becomes higher, so the growth pace decreases.

We have good, positive trends for long-cycle products. We expect positive year for short-cycle, and we do not know how solar will develop next year. So far we believe it will maintain its revenue level close to what it was in 2022 - but let us see how it will develop

Mr. Luis Capistrano – Itaú BBA

Thank you for your answer, it was a very thorough one. But for GTD the most part of the demand derives from long-cycle, right? If we think about 100% of revenue we are speaking of more than half long-cycle GTD; is that right?

Mr. André Menegueti Salgueiro – Finance and Investor Relations Officer

Well, solar, distributed generation we consider to be short-cycle. So within GTD short-cycle is GD - distributed generation and transformers, small transformers for distribution in poles, which are short-cycle. The rest within GTD is classified as long-cycle.

Mr. Luis Capistrano - Itaú BBA

Perfect and the rest, and the remainder adds up to more than 50%?

Mr. André Menegueti Salgueiro – Finance and Investor Relations Officer

Yes, we do not break down by business. If I tell you the percentage you would have the breakdown of solar, so I cannot disclose that information, unfortunately.

Mr. Luis Capistrano - Itaú BBA

Ok thank you André, thank you for the answer.

Operator

The next question is from Pedro Fontana from Bradesco BBI.

Mr. Pedro Fontana - Bradesco BBI

Good morning everyone, thank you for taking my question, congratulation on the results. Could you please comment on WEG's, how WEG is doing to benefit from the trend and how do you expect this to gain relevance in results? And what are the avenues for growth that you are studying?

Mr. André Luís Rodrigues – Chief Financial Officer

Hello Pedro. If I understood correctly, you are talking about electrification for the electric mobility business?

Mr. Pedro Fontana - Bradesco BBI

Yes that is it.

Mr. André Luís Rodrigues – Chief Financial Officer

Ok. I think WEG is very well-positioned. We already had the powertrain technology, we developed it and had a partnership that is going very well with MAN, and other projects that we are developing with other potential customers.

We did not stop at powertrain; there was the WEGMOB, which are the charging stations. With these opportunities we are developing partnerships with some OEM manufacturers, we are giving you an update as they happen. The most recent one was with Jeep in Brazil, and then the batteries segment, which would be a complementary alternative for this segment.

So this is an area that is growing in the company, and when we talk about electric mobility of course there are specific opportunities that I mentioned; but the infrastructure complex to make this business happen in the world, as well as in Brazil is very important, because we will need more energy generation, and the trend is for this to come through renewable energy.

We are very well-positioned because we produce solutions for the source, four sources of renewable energy in Brazil (hydro, solar, wind and thermal through biomass). If there is more generation, more transmission lines will be required, so the T&D business, transformers and substations, more panels, automation equipment, so then we have the automation business at WEG.

So when we look at the mobility industry the company is well-positioned, it is growing, is developing new solutions, adjoining solutions and when we look at the macro level it is also a very good opportunity for the company in the future.

Mr. Pedro Fontana - Bradesco BBI

Perfect, very clear, thank you.

Operator

This ends the Q&A session. I would like to turn the floor over to Mr. André Rodrigues for his final remarks.

Mr. André Luís Rodrigues – Chief Financial Officer

Hello. Once again thank you very much for attending this call, and we will see you all in the next call for the earnings of 2Q very soon.

Operator

The conference call of WEG has now ended. We thank you all for attending and have a good day.
