

WEG S.A.

1st Quarter 2021 Earnings Results Conference Call

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Transcript of the simultaneous translation from Portuguese into English



## CORPORATE PARTICIPANTS

**Mr. André Luís Rodrigues** – CFO and IRO

**Mr. Wilson Watzko** – Controller Officer

**Mr. André Salgueiro** – Investor Relations Manager

## PRESENTATION

**Operator:** Good morning. Welcome to WEG's teleconference about the results of 1Q 21.



This conference call is being transmitted together with a deck of slides in our investor relations website at [ir.weg.net](http://ir.weg.net) and after the conclusion of this call this will be available in our IR website. If you need assistance throughout this conference please ask for the help of an operator by typing star zero (\*0).



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uncertainties and therefore they depend on circumstances that might or might not take place.

Investors should understand that general economic conditions, industry conditions and other operational factors can have an impact in WEG's future performance and lead to results that differ materially from those that are expressed in the forward-looking statements. We would like to remind you that this conference is being held in Portuguese with simultaneous interpretation into English.

Today with us in Jaraguá do Sul we have Mr. André Luís Rodrigues, CFO and IRO, Wilson Watzko, Controller and André Salgueiro, Investor Relations Manager of WEG.

Mr. André you may begin.

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**Mr. André Luís Rodrigues** – CFO and IRO

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

### 1Q21 Highlights



We start with the highlights of this quarter and the first one is the operational, net operational revenue that grew by 36.7% when compared to 1Q 20.

This good commercial development that has been observed in most of our businesses has been key to reach these results, with positive performance in the domestic market and sustaining elevated levels of revenue in short-cycle equipments and also in the transmission or T&D business.

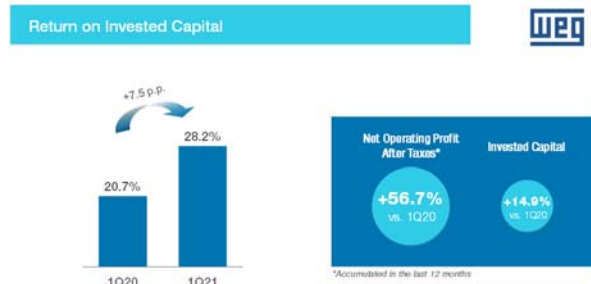
As for the external market, the gradual improvement in demand shows signs of a recovery in the global economy. This movement is reflected in the growth of our businesses in local currency when compared to the same period of last year.



Another highlight this quarter was our EBITDA, which showed a growth of 64.2% and reached 1 billion BRL. The EBITDA margin grew by 3.3 p.p. reaching 20%. Throughout this presentation my colleague André Salgueiro will give you further details about this variation.

We have had good demand for low voltage electric engines and also serial equipment for automation, where we have increased our market presence.

We have also had important supply contracts for long-cycle equipment such as electro centers and automation panels for industries such as mining, oil and gas.



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

Finally, we have had another quarter of evolution in ROIC, as we will see in the next slide. ROIC had a growth of 7.5 p.p. versus 1Q 20 and reached 28.2%. The consistency of this indicator in the last quarters reflects an improvement in our operational performance showed in the EBITDA margin, together with good capital administration in the last 12 months.

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

As for commercial motors and appliances demand is still positive, with durable consumer goods such as air-conditioning and washing machines, motor pumps and machinery for food industry being a highlight.

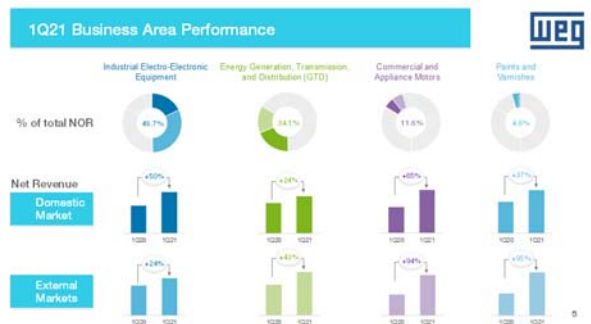
I now give the floor to André Salgueiro to go on.

In short-cycle equipment we have a highlight for electro domestics or household appliances and sanitation.

**Mr. André Salgueiro** – Investor Relations Manager

As for the external market in the industrial equipment and electro-electronic we still observe the recovery of economic activity in the main regions around the world. The volatility in the orders in long-cycle equipment that we saw in the last few months still has an impact in the growth of these businesses, and it is worth mentioning the quotes earlier this year and in the late quarters they signaled for a recovery of the industrial activity. In segments such as oil and gas and pulp and paper show recovery.

Thank you André, good morning everyone. We show the evolution of business in our markets, we start with Brazil and the electro-electronic equipment. The sales of short-cycle equipment are still bullish, mostly for segments such as mining and infrastructure.

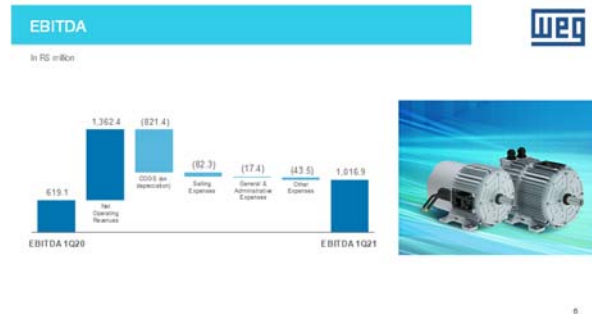


We have had another good result for paint and varnishes, we have had good results in North America, where the synergies and participation in the market in the US and Mexico still bring contributions for this business area.

In commercial motors and appliance, commercial appliances and household goods we have had important growth, a movement that is explained by an increase in our market participation, together with signs of improvement in the economic activity in countries where we concentrate our operations.



Finally, in paint and varnishes we have registered advancement in the sales in the countries of Latin America, especially in Mexico, where we started our operations of our new plant of paints in late 2020.



In slide 6 we see the evolution of EBITDA in 1Q 21, where we show a growth of 64.2% when compared to the same period of last year. The EBITDA margin has finished the quarter with 20%, showing evolution of 3.3 p.p. when compared to 1Q 20.

We highlight a gain of margin in some important operations abroad, together with a rationalization of costs and expenses and a better occupation of factories this quarter.



Finally, in slide number 7 we show the evolution of our investments. In 1Q 21 investments reached 132.7 million BRL: 57% of those are for Brazil and 43% to our units abroad. This gives continuity to the investments of our plants in Brazil, China, Mexico and the US.

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

And that is the end of my part and now I give the floor to my colleague André Salgueiro.

**Mr. André Luís Rodrigues – CFO and IRO**

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

#### Recent Achievements

- "Supplier of the Year" from Whirlpool, in the paints and electric motors categories
- New automation plant in Betim, State of Minas Gerais, Brazil

#### Outlook

- COVID-19 still creates uncertainties about economic recovery, mainly in Brazil
- Improvement in order intake indicates external markets recovery
- Positive outlook for 2Q21, mainly due to the weaker comparison base in 2Q20, COVID-19's worst quarter
- The second half still presents challenges, mainly regarding the industrial long cycle in Brazil

Regarding our achievements, in March we received the Supplier of the Year Award from Whirlpool Brazil, one of the major manufacturers of household goods in Brazil and in the world in the categories of paints and electric motors. This award acknowledges WEG's commitment in adding value the products of our client Whirlpool, mostly in terms of innovation, quality, customer support and sustainability.

We recently publicized a new investment in the State of Minas Gerais, a factory of the electro centers in the city of Betim. They will produce central inverters for solar generation and industrial electro centers. This new unit has 5000 square meters and will generate 100 new jobs.

Finally, about the perspectives of the year we are still facing atypical market situations due to the COVID 19 pandemic, mostly in Brazil. Even with a recovery in demand that we see in 3Q 20 it is still difficult to forecast whether this process will go on until the end of this year.

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



It is also worth highlighting that we have positive perspective for 2Q 21, mostly when it comes to the comparison base, which was weaker in 2Q 20. That was a quarter when we felt the biggest impacts of COVID 19 in our businesses.




Finally, we remind you that 2Q should continue to present challenges, most of all regarding the long-cycle portfolio for the industry in Brazil.

So that is how we finalize our presentation. Please operator we can move on to the Q&A session.

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going on to your revenue abroad. That is my first question thank you.

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**Mr. André Luís Rodrigues – CFO and IRO**

Hello Rogério, this is André Rodrigues, thank you for your question. Let us separate generation, transmission and distribution from electronic equipment. It had good results mostly for GTD. It is important to highlight the contribution of synergy between operations in the US and Mexico.

In the generation businesses we can highlight the good performance that we had in the quarter of our India operations, in spite of the difficulties that we face due to the pandemic in that country.

As for the electro-electronic equipment for the industry, in spite of the volatility in the demand for this equipment that we have seen in recent quarters as we mentioned, it is important to say is that we did see earlier this year an increase in the volume of orders received, and mostly late this quarter there was an improvement in the entry of orders for long-cycle equipment.

So we are starting to see probably signs of recovery in industrial activity. This is already seen in important industries, oil and gas, water, sanitation, pulp and paper. So that shows a bit of the performance of long-cycle in the foreign market.

When we look at our portfolio and looking forward that I understand is the second part of your question, let us try to separate. We have to divide this between transmission, distribution and electro-electronic equipment. We see that the behavior is also similar in the foreign and domestic markets for these two businesses.

But let us look at the foreign market for GTD transmission and distribution, we have a good portfolio of orders that we built throughout recent quarters with deliveries that are programmed for 2021 and 2022.

In North America, as I had already mentioned this was a result of 1Q and a good synergy in the businesses between Mexico and Brazil. This has been a good highlight. I am looking at the markets where we are

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**Q&A Session**

**Operator**

Ladies and gentlemen, we will now start our Q&A session. If you want to ask a question, please type star one. If you want to remove your question from the line please type star two.

Our first question comes from Mr. Rogério Araújo from UBS.

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**Mr. Rogério Araújo – UBS**

Thank you, good morning everyone. I have two questions from my side actually, first one is regarding our revenue abroad, which had important acceleration between cycles and we see Asia going strong, Latin America too, and it looks that Europe and the US are still a bit behind.

When you talk a bit about increase in orders placed late this quarter or last quarter, can you talk a bit about where do they come from and give us a bit of perspective about what do you see coming regarding this increase in revenue coming from abroad? Will this go on? It seems that this is connected to short-cycle, commodities are at a higher price and this probably will give long-cycle further growth, I would say. So if you could give us some more detail about what has been



working for full capacity and we are thinking about increasing our capacity in the US.

Talking of bit about Brazil in the domestic market, I think this is important, we have some wind generation projects for 2Q or 2H and that might contribute to our revenue starting in 2H.

When we look at industrial electro-electronic equipment we might feel still some volatility, however, this volatility, as we said in our presentation, has maybe a positive aspect because we are feeling an increase in the volume of orders, which shows a general recovery, I would say, in the industrial or manufacturing sector of these areas that I have mentioned.

So for electro-electronic equipment we have to work harder, I think, to make sure that we will be able to improve our portfolio, but looking at wind generation in Brazil and it increase this shows a perspective of growth in long-cycle equipment as well.

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**Mr. Rogério Araújo – UBS**

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

And maybe what is behind these questions is an attempt to understand what is your CAPEX looking forward? We are looking at a very high marginal ROIC for your company. So I am trying to understand whether there is need of investment in this capacity to use your plants.

And also if you could tell us a bit what are the main drivers for this, for such a high marginal ROIC. Is it connected to a gain of scale you are feeling, or additional manufacturing capacity? Or is it a mix of products that you have been offering, you are growing in products with higher ROIC?

You guys usually give an example of solar energy. Part of what you sell you are not producing, there is some added CAPEX to it and that leads to higher ROIC. So if you could give us some more detail about ROIC and how this ROIC, how does it look for the future?

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**Mr. André Luís Rodrigues – CFO and IRO**

Okay Rogério, let us start with the beginning of your question regarding our capacity at WEG. We have had operational activity that is close to normal in most of our Brazilian operations and in some important plants abroad, as well. We are at the ideal, optimum levels of capacity I would say. In 1Q 21 we are indeed close to full capacity.

For other operations mostly connected to long-cycle in the foreign market we are close to 70%, 80% of capacity, which I believe is quite a reasonable volume connected to everything that has happened. If you look at the pandemic situation this would be a positive result.

Regarding our ability to invest to support this increase in demand that we have seen and will keep on seeing in the future, that is why WEG is investing in acquiring this Betim plant as an example of that, also expanding to a third transformer plant in the US, which is now our focus, we have a position of leadership in renewable energies, and we also want to focus in utilities in the US. So we are investing in transmission and distribution capacity, which leads us to increase our capacity and Mexico, because there are synergies between the two countries.

As for China, as we have mentioned in other conference calls, since 2Q 20 a good operation increased, we have increased our capacity and we are reaching full capacity there as well. So yes, we forecast some investments there to increase our capacity for appliance motors in China, and also to increase our appliance capacity both in Brazil and China, expanding our frequency inverters plant and also for automation equipment.

We also want to have low voltage in India parallel to the construction of this plant. We want to take part in the motors market there.

So to support these investments yes, there is a forecast to increase CAPEX this year. In the last few years it was around 530 or 540 million BRL and this year we want to reach 1 billion to support part of what was carried over from last year. We wanted to have done more, but the pandemic got in the way and we want to support this growth process.





Well, looking at ROIC one of the main factors we believe that is contributing to this positive performance, first is a combination of growth of revenue with the expansion of the margin that has been supporting this growth in the last quarters. In 4Q LY you saw a slide that showed this expansion quarter by quarter.

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

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

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**Mr. Rogério Araújo – UBS**

Thank you André, thank you very much once again and congratulations on your results.

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**Operator**

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

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**Mr. Murilo Freiberg** – Bank of America

Good morning everyone, good morning André, thank you for your presentation. I want to follow up on a couple of topics that you mentioned when you answered Rogério's question.

You gave us a lot of information about the acceleration of long-cycle equipment globally. This is connected to what we see here in Bank of America. US and Europe are looking at an acceleration of CAPEX and if you could tell us a little bit about the connection of that with the company's margin. The last time we saw WEG with high prices of commodity, I believe it was between 2005 and 2008, WEG had margins above 20%, which is an outlier, your average is lower of course, but if you could speak about the correlation between the favorable macro

environment for long-cycle with the profitability that you expect for WEG.

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

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**Mr. André Salgueiro – Investor Relations Manager**

Good morning Murilo, this is André Salgueiro, let me answer both of your questions. Regarding the first one, global acceleration, a bit connected to what André mentioned, we are, we did report an improvement in the amount of orders received from the foreign market and late this quarter we received more orders.

This has been evident for short-cycle, but also for some long-cycle projects that are in the horizon, mostly in the industrial area. GTD has been doing great since last year.

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

From a margin perspective we know that long-cycle, looking at the dynamic between short and long-cycle, long-cycle tends to have better margins when demand is good, and when demand decreases margin is decreased as well.

So for long-cycle this improvement is positive for margins, but it is interesting to say that we come from a good period of long-cycle. Until 3Q LY we delivered important long-cycle projects, both in Brazil and in the foreign market. Starting in 3Q we started to look at a volatility in the entry of industrial orders and in 4Q and 1Q TY we look at some volatility in terms of revenue, but



it was not a big impact, it was a small decrease in margins.

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

Regarding your second question, Murilo, for transmission, distribution and solar, this is a business that did develop in recent years, and accelerated growth pace throughout the last three years, so it is a good business in terms of growth for WEG. Today we have a sound foundation that is contributing to our results and we have reported since late last year that we expect this growth to go on, but at normal levels I would say and this is what is going on.

GTD is still growing. We had a positive quarter, but growth levels are similar to other businesses for two reasons, first, what is compared to, right? It has grown a lot in recent years, and also because the market is sort of accommodating, there are some regulatory movements going on that have this market keep on growing, but at a lower pace, or a slower pace.

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

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**Mr. Murilo Freiburger** – Bank of America

Thank you André, thank you very much.

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**Operator**

We have a question now from Mr. Régis Cardoso from Credit Suisse.

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**Mr. Régis Cardoso** – Credit Suisse

Good morning everyone, thank you for taking my question. There are two topics I would like to comment on, I would like to understand the path of your results, and it is actually surprising if you look at ROE. You have had excellent results in recent quarters and I would like to understand if in 1Q 21 did you see any specific impact that is not bound to repeat itself? Mainly the depreciation of the BRL or any type of revenue concentration in this period, or if you have an investments plan looking forward? The goal is to understand the recurrency of the results you have just shown, whether there is something that will not be repeated in the next quarters.

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

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

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**Mr. André Luís Rodrigues** – CFO and IRO

Good morning Régis, thank you for your questions. I am going to answer part of it and then Salgueiro will go on.

As for the path of results this is a trend that we had already observed in our recovery process that we went through in Brazil starting 3Q LY. Well, since then some factors have been leading to results and they have not changed.

In the T&D portfolio in 1Q 21, and what we are looking at for the rest of the year, it is not different from what we have reported previously. The performance of short-



cycle business in Brazil we have gone through recovery in 3Q and connected to your first question the fact that we are operating at full capacity, as I told your colleague just a while ago, allows us of course to optimize our cost structure.

Of course, there are some benefits in terms of cost reductions and expense reductions with travel and so forth, we are looking at that of course, but the company is always looking at ways to preserve these gains and develop other ways to reduce costs.

From a perspective of changes well, there are no nonrecurring impacts that could change the numbers you just saw. We are looking at the same standards that we delivered late last year (4Q 20) because you know, the dynamics of the business is quite similar.

Well, the behavior from now on of course, the expectation for this year is to have a value of margins closer to what we had late last year. Of course, we always highlight the fact that between quarters we might face some volatility depending on the mix of products.

In 2H we will have wind having more strong impact in revenue with attractive returns, but WEG's competitive advantage we operate in different industries with different products, and this allows us to adjust to these business impacts and focus on the ones with better margins.

This is part of the company's strategy and we have been implementing this and using this to our favor in recent years. We do have a perspective of recovery in Brazil that looks okay, let us see if this is consistent for 2H, however, abroad with vaccines moving forward the perspective is that things will pick up. We are looking at an increase in the volume of orders for short and long-cycles. We look at an improvement already, so that also leads to a feeling of an expectation of attractive and positive margins.

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**Mr. André Salgueiro** – Investor Relations Manager

Hello Régis good morning, this is André Salgueiro. Regarding inflation of inputs, which was your question, we are feeling the impacts in the increase of costs of some inputs, mostly metal inputs as you mentioned. We

had an increase last year due to exchange rate FX impacts, and we are also seeing now an increase in commodity prices that are sold in USD. Yes, this does have an impact.

We have a hedging mechanism for some relevant inputs and we also have large scale, so we can anticipate some purchases in order to have some ability to forecast. So we do feel the impacts, but I think that in general terms we have some hedging mechanisms and we also can anticipate purchases, forecast of volumes and we have this with our suppliers.

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

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

There is huge focus in renewable energies and yes, we might be benefited by that. I just wanted to correct something you said, not necessarily in generation and distribution in the US. We do not have this in the US and the US for renewables we are focusing on transformers for wind and sun generation.

So that would be one of the windows of opportunity that we might have for the next few years, but of course these investments in infrastructure will have an impact in different industries and sectors that also have demand for our products. So the forecast is positive, it is an outlook that will bring us opportunities for investments in the next few years in the US.

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**Mr. Régis Cardoso** – Credit Suisse

Thank you, thank you very much.





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**Operator**

Next question comes from Mr. Fernando Leitão from Jardim Botânico Investimentos.

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**Mr. Fernando Leitão** – Jardim Botânico Investimentos

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

The second question is regarding these new energy options, mainly in businesses that you have developed recently. You have a partnership with Volkswagen, Embraer connected to mobility, electric mobility projects. I know that you are looking at some specific niches that are still not major, I would say, for your company.

What is your goal as a company by acting specifically in these areas that are still under development for new technologies? Thank you very much.

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**Mr. André Salgueiro** – Investor Relations Manager

Good morning Fernando, this is André Salgueiro, I am going to answer your question about renewables and then my colleague is going to talk about electric mobility.

Regarding renewable energies we firmly believe in the development of this market, not only in Brazil but around the world. I would say we are looking at a trend of investments in renewable sources of energy, and WEG is very well-positioned in that sense. In our product portfolio we have wind and solar energy but also thermal, biomass, hybrid generation of power, so we have a full portfolio of products to support all these energy sources.

Specifically, about wind and solar, as to your question, solar energy I have mentioned in my previous answer that we really believe that Brazil will be great for that, distributed solar energy and also centralized solar energy.

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

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

When we look at wind, wind has gone through a period of low investments in Brazil and what we have seen starting 2020 is a recovery of these projects, mostly when connected to the free market. Together with the development of the new aerogenerator of 4.2 MW capacity, which is under development, we have been managing to bring more competitiveness to our products, and we have managed also to have an important number of orders, we have three contracts that should be delivered until late 2022, early 2023. So for the next couple of years we have a nice portfolio wind turbines.

This is a market under development and Brazil has wind generation power, and this is very competitive to WEG. We manage to sign contracts and we are looking at nice perspectives for the next few years.

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**Mr. André Luís Rodrigues** – CFO and IRO

Hello Fernando, this this André Rodrigues and I will answer your second question about electric mobility. You mentioned Embraer and let me tell you about this partnership. The partnership with Embraer is a



partnership to develop long-term technology, R&D projects.

When we talk about electric mobility and we think about WEG we always think about the powertrain I believe, which is a correspondent to and electric motors for cars, precisely because a while ago we did announce a partnership with MAN, which is the truck division at VW, and we will have the second part of this partnership starting production in 2H.

Electric mobility at WEG is not limited to these partnerships, WEG is constantly looking at new partnerships, new projects, and the company already has solutions for many years now for vessels, for trains and the development of these businesses will go on.

We also should remember that electric mobility is connected to charging stations, robust distribution lines that require transformers, energy storage facilities, batteries for these vehicles, because these batteries lose effectiveness for cars, but after that they can still be used for storage purposes.

What I am trying to tell you here is that for WEG electric mobility is not just about powertrains, just last week we have announced a partnership with Renault, the automaker, and we will supply charging infrastructures for customers who acquire a new Renault electric car that will be sold in Brazil.

This agreement also includes semi-quick charging stations in some dealers, in some Renault dealers, so we are increasing this structure to charge electric cars in public streets.

WEG has developed for that purpose these charging stations to support local markets. In the future also we can think about the external market and we have had, we have fast, semi-fast chargers in solar charging systems, of course.

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

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**Mr. Fernando Leitão** – Jardim Botânico Investimentos

Thank you Salgueiro and Rodrigues, thank you very much and congratulation on your results.

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**Mr. André Salgueiro** – Investor Relations Manager

Thank you.

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**Operator**

Our next question comes from Pedro Fontana, Bradesco BBI.

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**Mr. Pedro Fontana** – Bradesco BBI

Hello, good morning everyone, thank you for your presentation. Could you please quickly comment about sanitation and the auctions, the public auctions that we have had in this area? When do you expect to receive the first orders regarding sanitation public auctions?

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**Mr. André Salgueiro** – Investor Relations Manager

Hello Pedro, good morning, this is André Salgueiro. Well, for the sanitation market this is very important for us as we constantly say. We are going to have a legal framework for basic sanitation in Brazil and this is going to bring opportunities for WEG. We are looking at a first movement regarding a concession of services to the private initiative. We have CEDAE in the State of Rio de Janeiro and this is a stronger movement that we are looking at right now, projects that are undergoing concession or public bidding processes. This is the first part of the process.

From a practical perspective, in terms of orders we have not yet seen a pickup in that sense. We are looking at normal levels because the concession is the first part, then we have the projects being designed, licenses being granted; and as the projects evolve that is when



the purchase of equipments will start and that is where the opportunities will reach us.

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

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**Mr. Pedro Fontana** – Bradesco BBI

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

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**Mr. André Luís Rodrigues** – CFO and IRO

Good morning Pedro. India is a very promising market for renewable sources. In wind energy they are the third or fourth market around the world, I do not have the updated numbers here, and that has led us to a decision which we took a while ago to consider India a country where we would keep on providing wind turbines and we want to produce this equipment there, in the ground.

They have a high-tension network that is prepared, we have engineers, we have skilled workers and two years ago we had announced already that we would take part in this market in India, however, there was a change in legislation. Previously you did not have to accredit your wind turbine in the country, you could sell it even if it was accredited in a different country and now they have a new legislation that asks for accreditation in India.

So it would not make sense to accredit the older model, the previous aerogenerator model, we are developing a new 4.2 MW aerogenerator. The prototype is ready, it is about to be shipped to India in the next few years to be assembled over there, and we want to start this accreditation process in 2021. I hope the pandemic does not get in the way, so that in 2022 we will be able to receive the first orders.

Of course, we are still learning how to operate in that country. We depend on partners for towers and we would like to start with a smaller portfolio and move forward with this business with time. That is what we are looking at for India right now. We firmly believe that India is going to be a good market. We are investing to join low voltage motor business and also generators in India.

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**Mr. Pedro Fontana** – Bradesco BBI

Thank you everyone, congratulations on your results.

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**Operator**

Next question comes from Catherine from Banco do Brasil.

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**Ms. Catherine Kiselar** – Banco do Brasil

Good morning everyone, thank you for taking my question, I have two, first one is looking at orders for long-cycle. How are you looking at the competitive landscape in that sense? There were some negative impacts in the margin for long-cycle and that is connected to my second question, but I will ask it later. If you could, please answer the first question.

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**Mr. André Salgueiro** – Investor Relations Manager

Hello Catherine, good morning, this is André Salgueiro, thank you for your question. Regarding long-cycle we had said, or we were talking about different perspectives between GTD and industrial equipment. In GTD we do not have any problems, the portfolio is positive, we have investments foreseen for T&D, now wind energy products for the second semester.

As for industrial electro-electronic equipment, I think this is the focus of your question I would say we have had a good year until mid-2020, then we started to feel a volatility in new orders and late in 1Q 21 we are looking at a gradual pickup, but still with some volatility



in terms of orders. That is what we are looking at right now.

We still do not have a visibility for the whole of the year, if this recovery is consistent, but yes, we are looking at first signs of recovery. I guess this is connected to the commodity cycle, investments in mining, oil and gas, pulp and paper, water and sanitation. These projects are now in recovery. So the first signs are here, we can see them; but we have to keep on observing to see the evolution of that for the next few months.

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**Ms. Catherine Kiselar** – Banco do Brasil

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

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**Mr. André Salgueiro** – Investor Relations Manager

Well, the competitive landscape is quite, We do not see any major changes I would say, we have the main market players depending on the country and the region. We did not see any major movement or the entry or the exit of important players, and for long-cycle we have demand at the end of the supply chain. Demand is increasing, this includes its profitability and this increases margin. When demand is lower competition is higher, I would say, and we are in between these two extremes.

From a competition perspective and the players of the market we had no major changes, from a cycle perspective we are at the early stages of a recovery cycle, I would say.

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**Ms. Catherine Kiselar** – Banco do Brasil

Thank you very much. My second question, WEG has had an improvement in the order portfolio. You have had some positive impacts and I would like to know if this specific event has favored your trajectory with emerging countries. I know that you mentioned India, but I wanted to have a general overview about emerging countries.

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**Mr. André Salgueiro** – Investor Relations Manager

Well Catherine, these larger orders that we have every once in a while, they gain some repercussion. As for the transformer market we have generated the two largest transformers of our history and we supplied them to Africa, but this is normal in a business, I would say.

From an external market perspective and market share perspective abroad yes, we do believe this is happening indeed; but this is not a recent process, this is something that has been happening throughout WEG's history, and in recent years I believe our visibility increased in some industries and for some specific products, specific regions.

We have had a very important example for an Oman refinery, an important supply that we had for the oil and gas industry, also in terms of GTD we have some important projects in North America, important investment in terms of generation in large motors for India, these things happen.

Regarding Africa specifically, we have been present in Africa for a while now, we have been working with transformers and substations in Africa for a while. Part of transformers are produced there, but when we need larger transformers we produce them in Brazil and ship them to Africa.

And this recognition from customers is reflected in the awards that we win every once in a while. André mentioned the award we just received from Whirlpool in Brazil, and a while ago we received an award from Electrolux, we are looking at that from some important clients.

This is an ongoing process, I would say, throughout WEG's history, and as I said it is a consistent movement. We have not seen any major changes in that sense.

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**Ms. Catherine Kiselar** – Banco do Brasil

Thank you, thank you for your answers.

WEG S.A.

1st Quarter 2021 Earnings Results Conference Call

April 29, 2021 – 11:00 a.m. (Brasilia time)

Transcript of the simultaneous translation from Portuguese into English



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**Operator**

So this is how we finalize this Q&A session. I would like to give the floor now to Mr. André Rodrigues for his final remarks. Please Mr. André Rodrigues, the floor is yours.

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**Mr. André Luís Rodrigues – CFO and IRO**

Well, once again thank you very much for joining this conference call. I hope you are well, and I hope to see you again in the 2Q conference call. Thank you very much and see you soon.

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**Operator**

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

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