

WEG S.A.

Conference Call - Earnings Results 2nd Quarter 2024

August 1, 2024 – 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

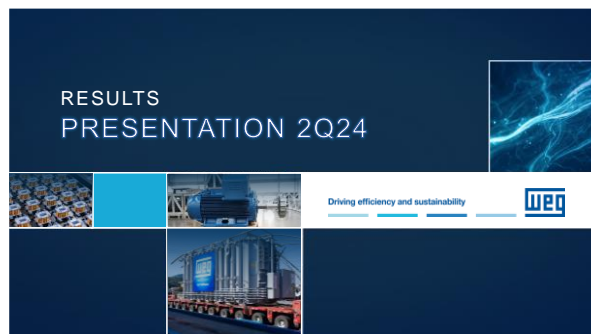
Mr. André Meneguetti Salgueiro – Finance Director and Investor Relations Officer

Mr. Wilson Watzko – Controller Officer

Mr. Felipe Scopel Hoffmann – IR Manager

PRESENTATION

Operator: Good morning and welcome to the conference Call on WEG and to release the results of 2Q24.



I would like to highlight, the simultaneous translation is available on the platform on the 'Interpretation' button in the 'Globe' icon, at the bottom of the screen. We are transmitting this conference call through webcast and after it's end, the audio will be available in our Investor Relations website.

During the company's presentation, all participants will be connected in listen-only mode, then we are going to start the questions-and-answers session.

If you want to ask a question, please click on the icon 'Raise Hand' at the lower part of your screen to join the line. Once your name is announced, a request to open your microphone will appear on the screen and then you can open your microphone to ask questions.

If you have more than one question, please ask all of them at once. If we do not have enough time to answer all the questions live, please feel free to send your question to our e-mail: ri@weg.net, and we are going to answer those questions after the end of our conference call.



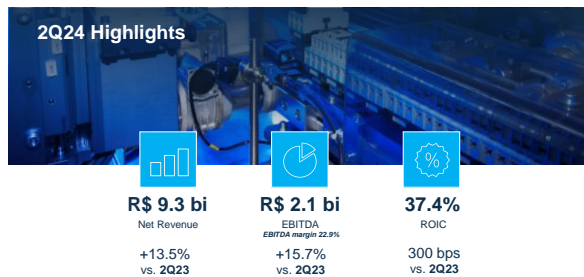
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Today with us today in Jaraguá do Sul we have Mr. André Luís Rodrigues, Administrative and Financial Officer; André Meneguetti Salgueiro, Finance Director and Investor Relations Officer; Wilson Watzko, Controller Officer and Felipe Scopel Hoffmann, Investor Relations Manager.

Mr. André Rodrigues, please, you may start.

Mr. André Luís Rodrigues – Chief Financial Officer

Good morning, everybody, and it is a pleasure to be with you once again for WEG's earnings conference call.



I start on slide 3, where the net operating revenue grew 13.4% compared to In Brazil, we report revenue growth as a result of the performance of long-cycle equipment, especially in the area of power generation, transmission

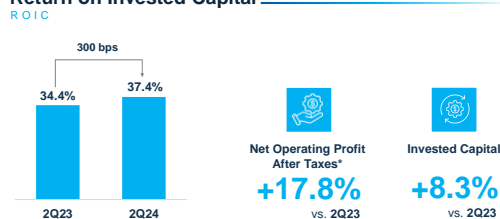


and distribution, with emphasis on transmission and distribution and wind power generation projects.

In the foreign market, we also report positive results with good delivery volumes in the T&D business in North America, remembering that this quarter we started to consolidate in May the industrial motors and generators businesses of the brands Marathon, Rotor and Cemp, acquired from Regal Rexnord in the business lines of industrial electro-electronic equipment and GTD.

EBITDA reached 2.1 billion BRL, up 15.7% as compared to 2Q23. The EBITDA margin ended the quarter at 22.9%, an increase of 0.5 p.p. compared to the same period last year. Throughout the presentation André Salgueiro will give more details on these points.

Return on Invested Capital



*Accumulated in the last 12 months

ROIC reached 37.4%, an increase of 3 p.p. compared to 2Q23, as you will see in more detail next slide. Revenue growth and the improvement in operating margins more than offset the growth in invested capital, whose expansion is mainly explained by the acquisition and investments in fixed assets in the period. An important point to highlight is that the ROIC was positively impacted by the booking of tax incentives in 4Q23. Excluding this non-recurring effect, ROIC would be 34.4%.

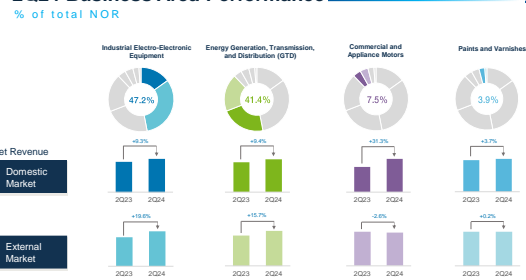
Now I give the floor to André Salgueiro to continue.

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

Thank you, André Rodrigues, good morning, everyone. On slide 5, you can see the evolution of revenue by business.

In Brazil, we saw positive manufacturing activity, with good demand for short-cycle products, especially gearboxes and serial automation products, with good performance also in long-cycle equipment such as high-voltage motors, reflecting the order book built in recent quarters.

2Q24 Business Area Performance



In GTD, T&D businesses had another positive quarter, driven by deliveries of large transformers and substations for projects related to transmission auctions, transformers for distribution networks and deliveries of wind turbines.

In distributed solar generation, despite the growth in the volume of projects sold we report another quarter of revenue below the same period of the previous year, mainly due to the lower prices of solar panels and the consequent impact on the prices of products sold.

In commercial and appliance motors we present continued good demand in several segments, with emphasis on segments such as air conditioning and motor pumps.

In paints and varnishes demand remained positive, spread across different segments with emphasis on the segment of home appliances.

In the foreign market we noticed a gradual recovery of manufacturing activity in the main regions where we operate, especially for short-cycle equipment such as low-voltage electric motors. We also had a positive contribution of long-cycle equipment, especially high-voltage motors, with emphasis on the oil and gas and water and sanitation segments. Please be reminded that industrial engine businesses of the brands Marathon, Rotor and Cemp began to be consolidated in the business area as of May, thereby contributing to this quarter's revenue.

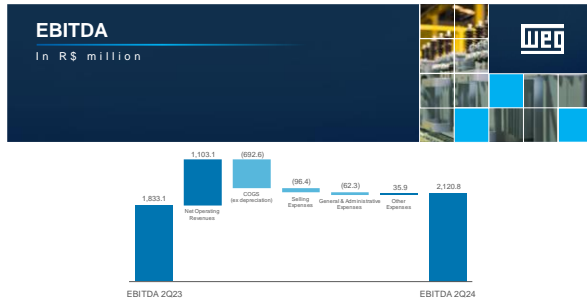
In GTD, this is another quarter of good delivery volumes in the T&D business, especially in the United States of America, combined with good demand in South Africa and in Colombia. In the generation businesses we presented consistent results, despite a strong basis for comparison due to the concentration of projects in Europe in 2Q23. In this business area, in May we started to consolidate the generator business acquired from Marathon.

In commercial motors and appliances, despite the good performance of commercial motors in Mexico and the US, we had flat sales volume in the quarter, mainly due to the drop in revenue in South America.



In paints and varnishes, demand for industrial products did not grow because of declining sales in South America, despite the positive activity in Mexico.

employees, integration of leadership, in addition to getting to know the needs of our new customers.



RECENT ACHIEVEMENTS

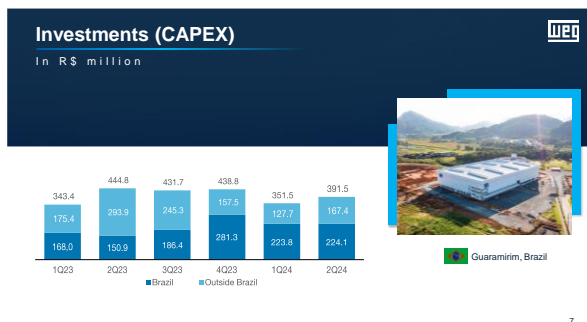
Closing the acquisition of the industrial motors and generators businesses from Marathon, Cemp and Rotor brands

OUTLOOK

- Healthy operating margin dynamics and positive returns
- Demand remains positive, with a gradual recover of industrial activity for short-cycle goods
- Integration of new businesses, strengthening synergies with the other operations

On slide 6, the evolution of EBITDA growing 15.7%. The EBITDA margin ended the quarter at 22.9%, an evolution when compared to the same period of the previous year. This reflects the good margins of some important operations abroad and the current mix of products sold, mainly influenced by the improvement in margins of long-cycle equipment due to the good demand for these products.

Lastly, I would like to talk a little bit about the outlook for the rest of the year. We continue with a healthy operational dynamic, where the good product mix and the constant pursuit for operational efficiency and productivity gains is expected to continue to support good operating margins and the return on invested capital for the rest of the year. We continue to have a positive demand for long-cycle equipment, especially in projects related to electrification and electrical infrastructure, such as the T&D businesses.



In short-cycle businesses, we saw a gradual resumption of manufacturing activity, but we remain alert to possible fluctuations in the main regions where we operate.

We continue with our action plan to integrate new businesses, working constantly to strengthen synergies with current operations, always seeking business growth and the improvement of the profitability of new operations.

Finally, on slide 7 we show the evolution of our investments. We invested 392 million this quarter, 57 in Brazil and 47% abroad.

Now I end our presentation. Please, operator, we may move to the question-and-answer session.

In Brazil, we continue expanding the manufacturing plants of industrial motors and electric traction motors, in addition to increasing the production of capacity... the production capacity of transformers. Abroad, we highlight the investment in increasing production capacity in motor and transformer factories in Mexico.

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<https://www.weg.com/pt/financial-information/results-center>

Mr. André Luís Rodrigues – Chief Financial Officer

Q&A SESSION

On slide 8, before moving to the Q&A session I would like to highlight the completion of the acquisition of the industrial electric motors and generators of the brands Marathon, Cemp, Rotor. This quarter we started the incorporation process with support of our new

Operator

Now we are going to start the questions-and-answers session. As a reminder, if you want to ask a question, please click on the icon 'Raise Hand' at the lower part



of your screen to join the line. Once your name is announced, a request to open your microphone will pop up on your screen, and then you can open your microphone to ask your question. We kindly question you to ask all your questions at once.

So starting, our first question comes from Rogerio Araujo, sell-side, Bank of America. Rogerio, please, you can open your microphone, you may ask your question.

Mr. Rogerio Araujo - Bank of America

Good morning, Salgueiro, Felipe, congratulations on the results. I have two questions, the first is about margin trends for the future quarters and years. The market expected to normalize margins very much because of commodities. I think that the industry as a whole absorbed cost reduction, and we expected, delivered contracts with lower margins.

And now there are some tailwinds, so we have T&D not just in the US, I think that globally it's gone up, the depreciation of the currency. There is a reduction of renewables in the margin, and recently this improvement in the short-cycle portfolio and a normalization was also expected. So, there is a lot to say in the many factors implied here. Could you tell us which are the prevailing forces right now, and what is the trend for the margin in future quarters and years? This is my first question.

Second question is you announced this production of wind power in the US. I think this is something new for renewables in developed countries for the company, and I think that also because of seasonality and competition and maybe oversupply at some points in time, in the past WEG did not go into those markets. I would like to understand the rationale and the growth prospects, timing, anything you can tell us about that, which is something that is still underexplored in terms of relevance. Thank you very much.

Mr. André Luís Rodrigues – Chief Financial Officer

Hi Rogerio, this is André Rodrigues. I'll answer the first question and Salgueiro will answer the second question. Well, on margin let's focus the next quarter, we are focusing slightly more on this year. So, it's always difficult to make a forecast because this demand is very much on the dynamics and variations in long and short cycle.

Well, first of all, we see resilient margins, especially because of the good performance of long-cycle products. We are not expecting any significant changes

in the short term in terms of margin. Yes, we are supposed to continue with a performance that is better than our historical margins recently, and our objective is to always deliver margins above the market averages - and margin fluctuations are common in our industry, especially if we compare long and short cycle. I think it's always important, when talking about margins, is to observe the market because this might change this margin.

You mentioned the FX rate. Well, FX, the fluctuations, every time there is a devaluation it benefits in the short term, so we need to follow up the fluctuations in FX rate; the cost of commodities for long times may also affect volatility and slow down the macroeconomic scenario in the world.

I think that we should also remember that the acquisition of the businesses that we acquired from Regal Rexnord may bring some fluctuation in margins, too.

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

So, this is Salgueiro. As to wind, we announced in the market recently our intention of joining the US market providing wind turbines, and this strategy is part of a bigger movement of making wind generation international. We've been developing this in India for a while, and we want to... generators of 4.2 certified.

We always seek new contracts, but we should then move to other geographies - and now it's the US, because of opportunities and market size - and the second reason is the fact that we already have an operation in Minneapolis where we manufacture other generators, and we are going to use the same plant to manufacture the wind turbines.

So, as we do, we start in a small scale with no significant investments. The idea is to start just with a few machines, and then we have room for a participation, we move to increase the business in the short term. This is not something for the short term. We have just announced, and the intention is to sell new brands, the brands that are being sold in Brazil, the 7 MW machines, so maybe we'll be working to have the first orders probably in 2025 only - but considering the opportunity and the size of the US market, we see with good eyes that development of wind generation, especially out of, outside Brazil.

Mr. Rogerio Araujo - Bank of America



Great. Thank you so much, this is very clear. Well, André, I didn't say your name, but thank you very much for answering the question.

Operator

Now our next question comes from André Ferreira, sell-side, Bradesco. André, you may ask your question, please.

Mr. André Ferreira - Bradesco

Good morning, everyone, thank you for taking my question and congratulations on the very strong result. If we take out Regal's revenue in the foreign market, the growth would still be around 8% YoY, and also explaining the FX, this is some growth. In the last quarter, we were talking about a drop. Is there any change in demand for short-cycle equipment in the foreign market? Which markets and which products got better?

And the second is the effective rate that is slightly higher this quarter. I think that the main difference quarter-on-quarter was related to Regal. Does it have anything to do with the acquisitions? How do you explain that?

Mr. André Luís Rodrigues – Chief Financial Officer

Hi André. About the short-cycle dynamic and how it behaved this quarter, I think that number one, if we think of growth and taking out the newly acquired businesses, it's better than it was in 1Q, we expected this to happen. I think that when we separate short cycle in Brazil, the activity demonstrated to be positive, especially with serial equipment automation, with different segments, and... so here talking about electro-electronic.

We saw a gradual recovery, with a highlight in the main segments that had a positive performance. This quarter it was oil and gas and water and sanitation.

We mustn't forget either that in terms of short cycle that commercial motors and appliances we had been seeing since last year, and once again it's a strong with a growth of 31.3% in Brazil, and this is because of the continuity of the favorable demand in many different of our target segments - and here we are talking about segments that are significant for us: air conditioning, motor pumps and leisure, so pumps for swimming pools.

So this is basically what we're seeing in the short-cycle dynamic. We've been seeing an improvement in the

booking of new orders and that there is a lag of two or three months, and there might be some fluctuation in that period.

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

André, as to the effective rate, there has been an oscillation between 1Q and 2Q especially in the foreign line, and I think that the most significant effect here is the change of the transfer price here in Brazil. So, but this is part of our expectation. If we look at the average in the quarter we had some expectations, and this is the trend that we expect from now on.

Mr. André Ferreira - Bradesco

Ok thank you.

Operator

Our next question comes from Lucas Laghi from XP. Lucas, we are going to open your audio for you to continue. Please, you may ask your question.

Mr. Lucas Laghi – XP Investimentos

Thank you so much, good morning, everybody, thank you for the results. I have two questions I would like to ask you; I think that first complement some things that you have already said, but thinking of the demand for electro-electronic industrial products. So, this is important for customers exposed to commodities.

This is volatile, this is related to the feeling that you see among customers, and starting in August, at the beginning of the year, how do you see the evolution of the feeling as to investment allocation by your customers, which translates into future revenue for WEG? So how do you see the evolution along the year? Maybe there is more optimism in terms... and how has these dynamics been changing? You said that you have a backlog in terms of the portfolio in the short term, and are you seeing any change in the feeling of your customers that are more exposed to commodity cycles?

Now as to GTD and delivery of wind turbines, so do you see anything in the internal GTD because of this revenue that will not continue in 2H? And in solar, the absolute EBITDA of this segment has been dropping at the same proportion as revenue. So, the drop in revenue has been explained by price, and this is explained by inputs if we think of photovoltaic, so there



is a mix because the revenue reduces the relevant but better percentage within the segment.

So, these are the two points: so, wind and solar, internal GTD and the electro-electronic dynamics. So, what do you see with your customers?

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

Hi Lucas, thank you. In terms of electro-electronic manufacturing equipment, yes, this is important for the process industry, and most of them related to the consumption of commodities, and we have explored this theme on some WEG Day in the past. So, we have water and sanitation, sometimes we don't have 100% visibility because most of the sales are through OEMs.

But in terms of feeling, I would say we did not have any significant changes along the year. There are some segments, such as water and sanitation, performing well, very warmed up, with good performance in recent quarters, with a positive trend looking into the future.

We have other segments, pulp and paper, that was very strong of a very important investment cycle in recent years in Brazil, and this year is kind of weaker - but it's likely to resume looking into the future; and mining there are some oscillations, but overall, no major changes in the market dynamics.

So, this depends very much on commodities and price cycles, so with the mid- and long-term prices, because this is going to be the trigger for people to define that this is based on the variation of prices and volumes.

So, the price dynamics of short-term products, this is an indication, but this is not all people are looking at when they decide to make their investments. So, this is within the overall context. If we think of long-cycle, we have a positive portfolio and some projects in the pipeline; and in terms of short-cycle, we see a gradual improvement of the portfolio, especially along recent months.

As to the GTD in the domestic market, as you said before we are delivering the last wind project, and in fact there has been a greater concentration of revenue in 1QTY; and we can't look at GTD as a whole and then the performance for the rest of the

year, because there are other segments; and we have an expectation in solar, which has been getting better. When we look at solar it's better, and as time goes by the price effect is likely to be, to become more normal and to go down and down along the year. So solar is likely to grow again in 2HTY. So, this is more or less the dynamics.

As to margins, especially in solar there is an inventory effect depending on raw materials and prices, but these movements may affect the cycle in the short term. When we look into the mid and long term, we don't see any major changes. These movements of impact of raw materials somehow end up being considered in a price structure, and looking at the mid and long term we can see some stability.

Mr. Lucas Laghi – XP Investimentos

Great Salgueiro, thank you very much for answering my question.

Operator

Our next question comes from Lucas Marchiori from BTG Pactual. Lucas, you may ask your question.

Mr. Lucas Marchiori - BTG Pactual

Thank you, so I have two questions: first, André - both of you -, could you give us an update about integration? What about the assets that you received? What was the margin? Can you tell us about that?

And then, Rodrigo, so average utilization of capacity, how much do you think you can ramp this up? So, all these assets from Regal that...

And number two, so this growth in foreign currency, in local currency, the US market is very strong, transformers, because the commodities cycles that you have mentioned and long cycles to the growth in foreign currency, that is still low.

Do you see any space for you to evolve more? What's your mindset in terms of how much this is going to move forward? Thank you so much.

Mr. André Luís Rodrigues – Chief Financial Officer



Hi Lucas, thank you for your question. Let's talk about the integration process that was developed in this very short period of time. We completed the acquisition in April, and we started the merger of new businesses in May. So our first concern were people and customers, because they are very important assets to our company, and in this manner at first we try to provide full support to our new employees - almost 2800 people who have joined WEG - and to get to know their needs, of our new customers, too.

So we had a very short time to work with improvements and to strengthen the synergies of operations. This is a journey. I think there is a lot still to be developed, but we always try to improve the profitability of new operations. We started mapping the synergies in supplies to optimize our purchasing processes of raw materials; improvements in manufacturing processes, WEG has a lot of experience there; efforts and initiatives for the integration of commercial and management areas; and especially the integration of leadership to incorporate WEG culture, and this is very important to us.

For sure, this process poses challenges in the short term, but we are confident in the execution of our action plan. As a reminder, along history and through many acquisitions WEG learned and structured itself and is specialized in post-acquisition processes. As I said, it takes time; it may take 3 to 5 years until we have 100% of our businesses integrated - but I think that we started this very well.

As to margins, and then this is slightly above WEG's expectation, but this is in line with Regal had been doing while you were managing the businesses of industrial systems, as announced along the year; and utilization capacity, which has not changed yet and is around 50%, as we published when we made the acquisition.

As to the growth in local currency, two comments: well, this number in the press release does not consider the acquisition, and we are adjusting the economies to high, to inflation, not to distort... especially Argentina and Turkey.

Just to say this here, overall, the growth is smaller this quarter, and as a reminder in 2QLY we had that major project in generation in Europe along with GTD in the market, the comparison basis was very strong, and we have a more normalized scenario. We should see this growth in local currency growing more, closer to what we are growing in USD, something that is more aligned with the growth of the foreign market, considering the acquisition and these one-off effects this quarter.

Mr. Lucas Marchiori - BTG Pactual

Great, thank you.

Operator

Continuing, our next question comes from Andre Mazini from Citi. Andre, please ask your question.

Mr. Andre Mazini - Citibank

Good morning, Rodrigues and Salgueiro. First question, what's your exposure with regards to the datacenter? We know that you provide products that are intensely used in datacenters. Do you make any other products that are used in datacenters? Of course, there are many indirect things, but there's direct exposure.

And the second question is about the transformers market. We get reports showing the lead time for a transformer in North America was 40 weeks, now it's 130 weeks with prices going up 80% since 2020. Has WEG's delivery time also gone up so much? Is this due to lack of capacity in industry?

As to the capacity, we have seen Siemens and Hitachi's announcements to increase capacity, and they are investing today for capacities for deliveries in 2027. Is this, ok? Greenfield takes on average 3 years in the transformers market?

Mr. André Luís Rodrigues – Chief Financial Officer

Hi André, thank you for your question. Datacenters that somehow involves AI, which is a trendy subject recently and everyone is talking about it. Well, number one, this is something that WEG is related to this product line, how we can help that segment to develop, but I'm going to give you an overview of the opportunities this may represent to our company, and where we are more or less exposed to that.

Number one, datacenters, AI, this involves many different segments where WEG operates. This is directly related to demand and use of electric power, and this is the focus of our products and solutions. AI systems and datacenters demand a large amount of electric power, especially considering computing power of those datacenters that goes up and up, there is more processing of information.

To WEG overall, this exposure will demand higher energy consumption, and what we are seeing today especially with renewables; moreover, the need of having backup power so that there is no interruption in operations and cooling systems for processors and servers.



First one, in generation, as more power is demanded, the demand for renewable generation is expected to go up - where we work in generation of electric, wind and thermal power generation. So, you need more electric power, and as a consequence the entire transmission and distribution infrastructure also needs to be developed, and this is happening especially in the United States today, where demand is concentrated currently.

Also, as I said before, emergency generation or backup. So, datacenters use redundant energy supply systems, and so they are comprised by generation groups, and we offer generators and alternators for those. So, we have the newly acquired businesses of Marathon that have significant exposure to some of the leading suppliers of this kind of solution in the US, the kind of generator that WEG, through the acquisition of Marathon, manufacturers in the US. Marathon was already a leader in U.S. market in that area, and we shouldn't forget that there are alternatives in power storage systems in batteries, and WEG has a good positioning both in the US and in Brazil.

And finalizing in terms of refrigerating systems, datacenters need cooling systems, because there is a lot of warming up and WEG already have some exposure that we call heating, ventilation and air conditioning, so we have many types of equipment. All these systems use electrical motors and automation equipment that we manufacture.

Datacenters are not new; WEG is expected, they are not direct customers but yes, this will generate a distributed demand in the many business areas that I have mentioned - and of course we are assessing this scenario with optimism and prepared to make the most of the opportunity.

So, I would like to say that there is the tree and the forest; so, datacenters now are the trees, but the vision of the forest, the entire infrastructure that needs to be developed to make it happen, and WEG has always been very well-positioned in this structure.

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

So as to transmission and distribution, we've been reporting T&D performance for a while as a highlight, and there's been indication of good demand for that kind of equipment, both in Brazil and in international market, and as to your question about demand in the US, it is warmed up and we are making the most of it, and in this scenario naturally we have longer lead times and longer portfolio times. So, our portfolio today is longer than it used to be a few years ago, and this indicates recurring

demand looking into the future. So, we are likely to see this scenario in future quarters.

It's important to say that it depends a little bit on the kind of transformer; so bigger transformers, very powerful transformers, the lead time is longer; when we have midsized transformers the lead times are slightly shorter; and renewable and distribution transformers times are even shorter. So, it depends on the kind of machine we are talking about.

And of course, there is a commercial strategy for each company and how much that you want to have in-home, and then whether there is space for us to use new opportunities in the future - and in this scenario it's natural, so the chart in our presentation, that we have long-cycle demand when the market is warmed up and demand is also warmed up; when actually we have a scenario that is better in terms of pricing and this helps in profitability too, as we've been saying in recent quarters.

Mazzini, I just forgot to talk about the lead times of our factory. So last year we announced on WEG Day a few important investments, especially a greenfield factory in Mexico, and we expect that plant to be ready at the end of 2026. So, this gives you an idea more or less of times between the announcement, the building, construction and once the plant is ready, so you can have an idea.

Mr. Andre Mazini - Citibank

Thank you, thank you Salgueiro and Rodrigues.

Operator

Continuing, our next question comes from João Frizo from Goldman Sachs.

Mr. João Frizo - Goldman Sachs

Good morning, everyone, thank you for taking my question. I have two quick questions, first is an update regarding the wind market in India. At what stage is the project?

And secondly, thinking in the mid and long term, you always talk about your growth target in mid-teens. How do you see today the breakdown between organic and inorganic growth? Obviously, we're seeing many tailwinds for organic growth, so what about new acquisitions versus organic growth?



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

Hi João, this is Salgueiro. As to wind in India, we worked on a certification of our machine. We are past that, it's been certified, we are now in the final phase of the civil construction of our plant and then we are going to start the installation of equipment so that it's 100% ready for the first orders.

At the same time, there is a commercial effort. For now, we do not yet have any contracts in the Indian market, but the commercial team is already working to find opportunities and maybe something that goes into our portfolio for us to start manufacturing in 2HNY, with effective deliveries only in 2026. This is more or less the pipeline that we have right now for the development in India.

Mr. André Luís Rodrigues – Chief Financial Officer

As to organic versus inorganic growth, it's very difficult for us to define targets of how much we can grow in one category or in the other. Well, number one, WEG's objective is to always deliver two-digit growth as you've mentioned - but WEG will never favor acquisitions just to meet growth targets. This is very clear in our mission: we want continuous and sustainable growth, so actually there is not a target of how much we're supposed to grow, because different businesses need to have a long-term strategy to find conditions to seek the growth in the company. So that's why we have never defined those objectives for inorganic and organic.

Obviously, if there are good opportunities, we may take a look and find more organic opportunities - as with Regal recently and others in the past -, but there is no objective for each of WEG's businesses, and definitely we have the objective of continuing to deliver two-digit growth consistently in the long term.

Mr. João Frizo - Goldman Sachs

Thank you so much.

Operator

Now continuing, our next question will be asked in English from Jens Spiess. We are going to open your audio to ask your question, please.

Mr. Jens Spiess – Morgan Stanley

Yes, thank you and sorry for doing this in English. Yeah, first of all, congrats on the results and taking the time to answer questions. I have three quick questions; one is on your backlog for wind turbines in Brazil. How long will it take down to wind down that business, and how much does it currently represent of your domestic GTD revenues, approximately?

Secondly, on CapEx, what should we expect for 2HTY? I think your, like your initial indications of CapEx for the full year would indicate an acceleration versus 1H that you reported.

And third and last question, if you could give us any sense on the assets you acquired from Regal, the margins that you are having, just in order to be able to forecast like the full integration into your results and if there's a meaningful difference between the profitability that you have in GTD and EI for those assets, thank you.

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

Thank you so much, Jens, for your question in English, we are going to answer in Portuguese with the simultaneous translation. As to the backlog for wind power, as I said before, even before we are delivering a last project that we have in our portfolio. So from now on in 2H24 we are likely to have revenue from wind that will go down and will gradually go down until the end of the year.

From next year on, we have no projects to be delivered. It doesn't mean that we are going to have zero revenue, because we do have a few operations and maintenance contracts that generate recurring revenue, so that's still happening in the mid and long term - and we depend on the new projects being placed in our portfolio for us to generate revenue with wind turbines in the future.

We do not publish the exact breakdown of each of the businesses in GTD Brazil, but it's important to say, as I said in the beginning, that there is some oscillation in revenues when we look at GTD as a whole - but we have other businesses within GTD, especially T&D and solar, that will continue to perform with growth in 2HTY.

So we need to see the overall mix of GTD, what it will look like in 2HTY, but we are working for the impact of wind to be the smallest possible. It's important to say that we have already gone through similar times in the past: in 2017, 16-17, when we did not have any wind turbine projects in our portfolio - but despite of that, we somehow could occupy our plant, and we reinforce that



it is important that our factory is not dedicated to wind turbines; it is a large machine, equipment; we do the adjustments in our manufacturing line and then we work on the other segments of the company and try and find opportunities for us to continue our growth.

Mr. André Luís Rodrigues – Chief Financial Officer

As to CapEx and investments, we have approved 1.9 billion BRL, which is considerably bigger than what we did in previous years. If we consider how much we invested in 1H24 it was less than half, something of 743 million. This doesn't mean anything, because usually 2H of the year is always bigger, the CapEx for 2H of the year is usually bigger than that of 1H of the year - but I don't think we are going to get to all the CapEx, sometimes we cannot execute the entire amount within that year. So we are likely not to deliver 1.9 in terms of CapEx, but apparently it's going to be more than 1.6 billion that is the amount we invested last year. It's going to be something between 1.7 to 1.9 billion, following the trends in 1HTY, but definitely we are not going to have anything above what we approved in our capital budget.

Now when we had the chance of talking about the strategy of our acquisition, we also talked about the complexity of this process. We are talking about 10 manufacturing lines in 7 different countries, and obviously producing engines and generators, and we know a lot about this - but they used a different model as compared to WEG.

WEG has verticalization as a competitive advantage, which was not the case of Regal that does not have the same levels of verticalization, and we announced that definitely our objective is to bring margins of operations in each country closer to the margins of the operations where WEG operates. We're sure that this is going to happen, the only thing is our expectation in terms of the timing.

When I talk about verticalization, sometimes we need to invest in production capacity of components, and obviously we do not have capacity that is ready to meet 100% of Regal businesses in each of the countries we operate, so it takes a little while for us to make all the investments to start manufacturing those parts. In the past, if there is a process as big as this one, considering WEG's experience in the market, this may take something like 3 to 5 years to come through.

In terms of IT, so implementing the same ERP that WEG, which is completely different, this is a complex implementation process considering the exposure of business of having businesses in many different countries, so this is something that we should take into

account. I can't, I'm not saying that everything is going to happen after the 3rd or 5th year; this is a journey and things happen period after period, but on the side of WEG we will be able to do it once the integration is 100% done.

Operator

Now our next question comes from Daniel Gasparete from Itaú BBA. Daniel, please, you may ask your question.

Mr. Daniel Gasparete - Itaú BBA

Good morning, everyone, thank you for the webcast. I want to go over something that André said about Regal's ramp up. You said that there is a growing demand for products manufactured by Marathon. So in AI, datacenter race, can it accelerate the ramp up? How do you see the utilization of Regal? So how is this likely to evolve?

And now thinking of the other areas, slightly more electric mobility and GT&D in Brazil, especially GD Brazil, so where is this going to go towards?

And two, when Salgueiro talked about wind, do you think this is going towards the same direction? What is it going to be like?

Mr. André Luís Rodrigues – Chief Financial Officer

Daniel, thank you for your question. Well, sure, well, all the new demands for equipment are related to a given segment, when we have a higher demand, this may accelerate. The fact that today we have a utilization capacity that is low as compared to WEG assets in the Regal Rexnord assets that we have acquired, yes, there is an opportunity for us to produce more.

In the case of generators, we have generating engines, the utilization capacity for generators is a higher capacity than engines. But yes, if customers need, we need to be reminded, we also manufacture generators in other locations of the company and we are ready to meet this demand.

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

Gasparete, as to electrical mobility there are two main groups of products: one is powertrain and battery packs, especially for electrical buses and trucks. The market is developing, you must have seen; the pace is good, but



slightly below what the market expected especially in the past, when investment intentions were announced, especially the purchase of buses in big cities in Brazil - but we are participating in the processes and there are orders, and we take part through our partners.

In most of the market we are well positioned. Both, we have both powertrain and battery pack, and we have powertrain for Volkswagen, and we want to understand more about the evolution and the project on the front end so that we get more traction.

Now when we see the charging stations here, this is fast and demand because of heavy vehicles, but there is a demand from light vehicles. We have a partnership with the main OEMs, especially with a recharger together with the car, or what is offered to customers in agencies, and we have charging stations for fast charging. So, there is a significant growth and this is likely to continue to grow if we look into future quarters and even future years.

Now as to solar power, basically what we have today is classified as GD. It's been a while that we haven't had any major projects of GC, so we're seeing that the market is getting better, is improving. When we look at volumes, volumes have presented a significant growth, especially this quarter we see significant growth in terms of volume.

And in terms of revenue, we do not yet see any growth. Revenues are still going down because of the effect of cost adjustments, especially solar panels along last year - but as the basis is normalized, we start to see some growth, and in the previous questions we expect this to start happening along 2HTY.

Mr. Daniel Gasparete - Itaú BBA

Thank you very much, thank you very much for the opportunity.

Operator

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

Mr. Alberto Valerio - UBS

Good morning Salgueiro, Rodrigues and Scopel, thank you for the opportunity. I would like to take a more longer-term look. I remember that on WEG Day we're talking about transmission and transmission lines. We talked about the plant in Blumenau and external expansion, and we see in the next 5 years a Cagr of 8%, and I remember WEG thinking in terms of price, volume

that materials had gone up a lot in prices, but then had gone back down in terms of commodity prices and WEG would try and keep prices.

This quarter it seems it was different. In the long term, do you see any changes? Are you still based on the same assumption? And also, in terms of capacity of your plant in the US, do you have the flexibility to change from electrical engines to transmitters? Can you have longer shifted? What about the use of the capacity?

And lastly on price transfers, so what can we expect this year? Thank you very much.

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

Ok, this is Salgueiro. As to the T&D market, we presented a few numbers in WEG Day last year, both in terms of market performance and growth, and then as part of the investment package we have a greenfield plant in Mexico and another one in Colombia and some significant investments here in Brazil, especially in Betim and Itajubá, Minas Gerais - and I think that there is an indication that the market is warmed up and we are expecting to continue the growth looking in the mid and long term, which was the focus of your question.

I think it is important to indicate that WEG, as we like to work and we make investments and increase production and capacity, you know, in modules, as we say, and the market still indicates growth, we might have new projects or new investment decisions looking into the future.

Now looking into the future, naturally growth is going to come from volume, and as the market is warmed up, as we said some of that growth is going to come from price. I think that this has been the growth highlight in GTD, both in the domestic and international markets, and it is likely to continue like that if we look into the future.

Now as to the second part of your question about factories and Regal plants, we have Regal Rexnord operations that are more focused on engines, and we have Regal operations more related to generators and alternators, so usually there are different manufacturing plants, so we have idle capacity.

When we said that, when we announced the acquisition and we can improve that along future quarters, and if we have opportunities to grow in the future, we want to have a fuller factory. We have some flexibility of manufacturing in other locations because we have other factories, for example, here in Brazil and the factories in Mexico, so that we can have some flexibility and maybe in the future, if necessary, we can think of new



investments - but this is not what we are thinking about right now.

As to your last question about price, well, we always look product by product, case by case. There has been a fluctuation in some raw materials that are important to us along 1Q, and we are transferring those prices to some of the products in our portfolio. But this is more of this monitoring cost and need to replace something or to transfer prices looking product by product and case by case.

Mr. Alberto Valerio - UBS

If I may follow up, if you allow me, André, if you need T&D capacity in the US, can you revert the engines? I know that industrial engines are doing very well, but could you use that capacity to transform it to T&D or is this impossible?

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

They are kind of different manufacturing plants; it would be complicated to do that. Yes, we can use T&D plants in Mexico, Colombia, US. We have operations in these three countries, so between those operations we have some flexibility - but from engines and generators to transform this is a little bit more complicated, more difficult, it's more geographical flexibility.

Mr. Alberto Valerio - UBS

Thank you so much, congratulations on your performance and have a good day.

Operator

Our next question comes from Marcelo Motta from JP Morgan. Marcelo, you may ask your question.

Mr. Marcelo Motta – JP Morgan

I have two questions, so this is just a follow up on margins. Do you have any rule of thumb in terms of depreciation of the BRL that might have helped you in terms of labor and in domestic? A few things are dollarized, there are exports in Brazil. So, what can we think in terms of how these depreciations may help margin, if you may?

And the second topic is the working capital. So, you break down Regal's financials, but how much longer do

you think it will take before you normalize the working capital levels to the levels you had before the acquisition of Regal?

Mr. André Luís Rodrigues – Chief Financial Officer

Motta, this is Rodrigues answering your first question about the appreciation of the BRL. I think that there is no shadow of a doubt: whenever there is a devaluation that is slightly sharper in a period of time, undoubtedly it provides benefits in the short term in terms of impacting in the margin in the short term, also because today slightly more than 50% of our revenues is international.

And as a reminder, slightly less than half of our revenues internationally is manufactured in Brazil and exported, and then we have a benefit at first with the devaluation of the BRL, but we saw this in 2020 in 2H: because at first there was a significant devaluation, there was a positive impact in the short term.

Now we need to remember that the FX rate is just one component affecting margins, but we also need to remember that part of our raw materials also suffers the effect, so copper, steel. So, we always say whenever there is a devaluation or valuation of the currency, there is an impact in the short term that may be positive, as it was in this quarter, but if the opposite happens, this is going to be an offender.

But along time if you need to buy raw material again for the inventory, we buy at adjusted prices and the margin is adjusted in the sequence. So, devaluation, a case of WEG has a positive impact and afterwards it is adjusted. So, this is not something perennial.

As to working capital, we have had an increase. Especially if we look at the indicators and inventory, we had a worsening in the consolidated working capital, dropped from 4.5 to 4.3, and this was the effect of the acquisition and of Regal's inventory that operate at levels that are well below WEG's levels, and this will take a while.

I think that at first, we need to understand better, to define a new supply chain dynamics for us to see the normalization. So, this is another point that I am sure we will be able to implement, but it takes a while for us to analyze everything. There are costs, operations, acquisitions, raw material. This is significant industrial engineering work. This is where we started and slightly further on in the future, we will have an improvement in these performance indicators of the company related to inventory.



Mr. Marcelo Motta – JP Morgan

Rodrigues, thank you for answering my question.

Operator

Our next question comes from Lucas Barbosa from Santander.

Mr. Lucas Barbosa - Santander

Hello, Rodrigues, Salgueiro, Felipe, congratulations on your performance. Could you give us an update about the internationalization process of your charging and charging stations for electric mobility?

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

Hi Lucas, good morning. Well, actually we started this process with partnerships with car manufacturers. We did this in Brazil, and we started extending these partnerships to a few countries, especially other countries in Latin America. So, we started with countries in South America, but more recently we are going to Mexico, too.

So, this is a natural process, and we are also in the phase of certifying other geographies. So, there is an internal idea here that this is a product that is likely to have a more global exposure. I don't know if all geographies, but probably the Americas and Europe, for sure. So, products are always related to the electrical grid, need to be certified in each one of the countries or regions, and we are going through the certification process in these geographies, and once we complete that we will be able to start selling and offering these products in other regions.

Mr. Lucas Barbosa - Santander

Super clear, Salgueiro, thank you very much for your answer, have a good day.

Operator

We now end our questions-and-answers session. I would like to give the floor to André Rodrigues for his final remarks. Mr. Rodrigues, please.

Mr. André Luís Rodrigues – Chief Financial Officer

Hello once again. I would like to thank you all very much for your attendance to our webcast for the earnings of 2Q, and I would like to invite you again to our WEG Day that will be on October, 4, with our CEO and other people in the company, with live transmission on the internet and simultaneous interpretation, thank you so much.

Operator

WEG's earnings webcast has now ended. Thank you very much for your participation and have an excellent day.