

WEG S.A.

3rd Quarter 2021 Earnings Results Conference Call

October 28, 2021 – 11:00 a.m. (Brasilia time)

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 and welcome to WEG's conference call on the results of 3Q 21.



We inform you that we are broadcasting this conference call accompanied by the slides on our investor relations website at [ri.weg.net](http://ri.weg.net) and after its conclusion the audio will be available on our IR website. If you need support during the conference call please request assistance from an operator by typing star zero (\*0).



Any estimates contained in this document or any forward-looking statements that may be made during this conference call about future events, the business perspectives, the operational and financial projections and goals and the potential for future growth of WEG constitute mere beliefs and expectations from the management, based on the information currently available. These involve risks, uncertainties, as they refer to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors could affect WEG's future performance and could lead to results that differ materially from those expressed in such forward-looking statements. We would like to remind you that this conference call is being conducted in Portuguese with simultaneous translation into English.

With us today in Jaraguá do Sul are André Luís Rodrigues, Chief Financial Administrative Officer and Investor Relations Officer; Wilson Watzko, Controlling Officer and André Meneguetti Salgueiro, Investor Relations Manager at WEG.

I would like to turn the call over to Mr. André Rodrigues, who will start the presentation. You may proceed sir.

## Mr. André Luís Rodrigues – CFO and IRO

Good morning everyone. It is a pleasure to be with you once again in this earnings call to discuss WEG's results.

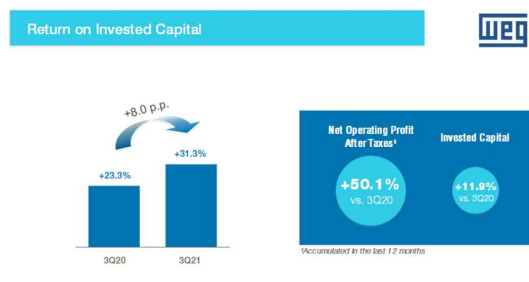
### 3Q21 Highlights



We start with the highlights for the quarter with the first being a net operating revenue, which grew 29.1% compared to 3Q20. The positive performance in all business areas was key to this result, reflecting the improvement in industrial activity and the positive demand for our products and services in the markets where we operate.

In Brazil we see continued good demand in all business areas. In the foreign market we have posted revenue growth in the main markets where we operate.

Another highlight in the quarter was our EBITDA, which grew by 23.3% and reached 1.1 billion. EBITDA margin closed the quarter at 18.5%, down 1 p.p. compared to last year, a movement that is already expected due to the increases in material costs and also due to the mix of products sold.



Throughout the presentation André Salgueiro will give more detail about this performance.

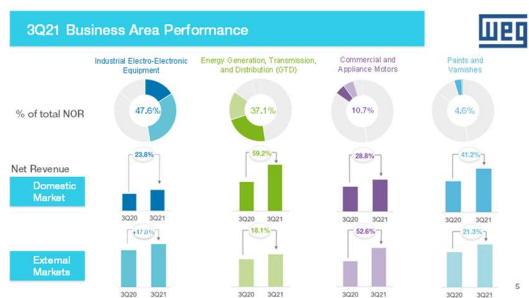
Finally, we had another quarter of ROIC evolution when compared to the same period of the last year, as we will see in detail on the next slide, which grew by 8 p.p. over 3Q 20, reaching 31.3%.

The consistency of this indicator in the recent quarters reflects the improvement in our operating performance, demonstrated by the combination of revenue growth and expansion of EBITDA margin, together with a good management of the working capital LTM.

I now turn the floor over to Mr. Salgueiro for him to continue the presentation.

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

Thank you André, good morning everyone. On slide 5 so I show the evolution of our business areas in the markets where we operate starting with Brazil, where demand in the area of industrial electro-electronic equipment showed another quarter of evolution.



We had growth in sales of short-cycle products such as low-voltage electric motors, gearboxes and serial automation equipment, especially in the agricultural machinery and equipment and water and wastewater segments.

Sales of long-cycle equipment such as medium-voltage electric motors and automation panels also grew, mainly in the oil and gas, mining and water and wastewater segments.

In the GTD area we posted growth in all our businesses, highlighting the good demand for distributed solar generation, which has picked up again in the recent months, and the growth in sales of wind turbines and alternators.

The T&D business presented another quarter of evolution, driven by the deliveries of transformers and substations for projects linked to the transmission auctions, together with sales of distribution transformers and transformers for renewable energy generation farms.

In commercial and appliance motors sales volumes remained high, with the food and beverage segments, agribusiness and durable consumer goods contributing to this quarter's growth.

Demand in coatings and varnishes also continued to be strong, especially in the segments of road implements, aluminum profiles and agricultural implements.

As to the international market, in the industrial electro-electronic equipment area we observed an acceleration in the pace of economic recovery in all regions where we operate. Relevant segments such as mining, oil and gas and water and wastewater are among those that most demanded our products. Long-cycle equipment presented an evolution in sales, confirming the signs of recovery reported in the previous quarter with an improvement in sales and also in order entry.

In GTD we posted another quarter of evolution in the T&D business with relevant projects being delivered in Mexico, Colombia and also in South Africa.

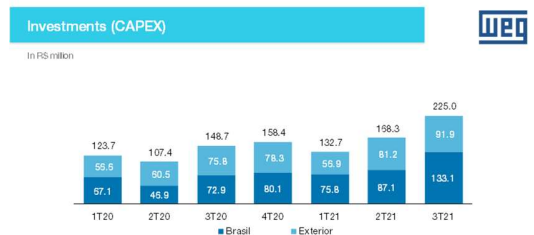
In the area of commercial and appliance motors we saw significant growth in demand for our products, a move explained by the acceleration of economic recovery and gain in market share, especially in the United States and Mexico. Applications such as pumps and compressors were the highlights for the quarter.

Finally, in coatings and varnishes we presented an advance in sales in Latin American countries driven by exports from Brazil and from Mexico, where we started the operations of our new plant at the end of 2020.



Slide 6 shows the evolution of EBITDA in 3Q21, where we presented a growth of 22.3% in relation to the same period of the previous year. EBITDA margin closed the quarter at 18.5%, down 1 p.p. compared to 3Q20, confirming our expectations.

The challenges in the global supply chain and the resulting increase in raw material costs, together with the change in the product mix, mainly due to the resumption of revenues from wind-generation projects led to a small reduction in operating margins this quarter.



Finally, on slide 7 we show the evolution of our investments. In 3Q21 investments reached 225 million, of which 59% were earmarked for Brazil and 48% for units abroad, proceeding with the investments in our factories in Brazil, China, US and India, thus confirming the increase in investments expected for 2H TY.

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

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

Thank you André Salgueiro and before moving on to the question-and-answer session, I would like to mention some of our recent achievements and comment on our prospects for the remainder of the year.

**Recent Achievements**

- Establishment of our 5<sup>th</sup> Transformer Factory in North America
- Acquisition of Balteau Produtos Elétricos in Itajubá, MG, Brazil
- Exclusive partnerships with large automakers in Brazil to supply EV charging stations

**Outlook**

- Improvement in order entry signals growth in the external market
- Good long-cycle backlog should continue to support growth in Brazil
- Raw material costs and product mix should pressure margin in the coming quarters
- Global supply chain is still a concern, but also creates opportunities



Regarding our achievements I would like to highlight three events: this quarter we completed the construction of our fifth transformer plant in North America (the third in the United States) in the city of Washington, Missouri. The new plant is part of our strategy to break into the industrial transformer market, as well as increase our capacity to serve the market of large-sized utility companies and transformers for renewable energy generation farms.

We also announced the acquisition of Balteau Produtos Elétricos in the city of Itajubá, State of Minas Gerais, a traditional manufacturer of equipment for measuring and protecting low, medium and high-voltage electrical systems. We remind you that this transaction is still subject to the Brazilian antitrust authorities' approval.

And we, as highlight the exclusive partnership for the supply of EV charging stations for large automakers in Brazil such as Renault, Fiat and Peugeot.

Finally, about the prospects for the year, improved order entry in important segments such as oil and gas, mining and water and wastewater signals continued growth in the foreign market.

In Brazil the good long-cycle order backlog especially in GTD is likely to continue supporting our growth.

On the other hand, the combination of the increase in raw material costs and the change in the mix of products sold, especially due to the higher sales from wind projects as of 4Q 20 should continue to pressure operating margins.

Finally, the impacts of the pandemic on the global supply chain are still of concern and do not signaled normalization. However, we believe that our business model based on vertical integration allows us to have greater flexibility and availability of products, taking advantage of revenue growth

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opportunities with a gain in market share across all regions.

I end our presentation here. Please operator, we can proceed to the question-and-answer session.

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## Q&A SESSION

### Operator

Ladies and gentlemen, we can now begin the question-and-answer session for investors and analysts. To ask a question please press star one, to remove your question from the list press star two.

Our first question comes from Mr. Lucas Barbosa with Santander.

### Mr. Lucas Barbosa - Santander

Hello good morning André, congratulations on your results.

I have two questions, the first is related to CapEx. You had 25 million of CapEx, we saw a reasonable acceleration. I know that you expected something of the sort; could you make some comments on the dynamics about the investments? And there was a delay on deliveries because of the pandemic and some other things were pushed to the future. Okay, so this is my first question.

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

Hello Lucas, thank you very much for the question, this is André Rodrigues speaking. Okay, here we go. Let us talk about the CapEx performance. We have already told you that we had the expectation of an increase in CapEx in 2H TY. In 1H we also

said that we had some delays and some of them were continued in 2H TY. Because of the pandemic still there were some delays in the equipment that had been purchased, and also the plant that was being built in India that was affected by lockdowns and the number of people at the plant that was restricted then, so we had some delays in the process.

The expectation of CapEx was about 1 billion BRL, and what we are seeing now is that for 4Q we are going to have something very close to what we had in 3Q, and we will deliver this year investments of 750 million and the remainder will be carried over for the following year. We have no plans to cancel the investments. We have to make adjustments to the execution due to the pandemic, so part of the investment is going to be used next year.

Most investments, only to complete for 3Q we had some investments in China, where we expanded the plant of electric motors; in the United States we completed the industrial transformers plant; and we have already started expanding one of the plants where we have in the United States in the T&D area; and in Brazil we have investments connected to gains in productivity and improvement in processes, basically.

### Mr. Lucas Barbosa - Santander

Okay perfect André, it was so clear, thank you very much.

Can I ask another question related to working capital? When we look at days you had a substantial decrease in the days for the receivables. I would like to understand if there was any change in the policies of deliveries for the payments, the deadlines for payment, anything related to working capital. That would help us a lot.

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

Lucas, talking about working capital I think it is important also to remind you that along this year the working capital reached the best levels when we compare working capital/revenues. Maybe the best ratio happened in 2Q TY. So we had told you that the expectation was that along this half of the year we would have an increase in working capital.

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I think the main reasons for that is that first, it is related to the level of activity. When we talk about working capital we have to understand the level of activity increased, and this influences the working capital; but we also had a drop of some of the performance indicators. Basically this increase has been happening in the part of the receivables from clients and inventories.

As to inventories for example, the turnover of inventories was about 5x, it dropped to 4.8. So we have to consider that along the year we had something important related to inflation affecting the inventories, and we also recomposed some of the inventory levels, which were lower compared to some other months. When we look at our branches, where the demand for our products from abroad was stronger, so we need to recompose the inventories.

And we also had an anticipation of purchases of some of the components. So to provide some more comfort in terms of inventory volumes, especially related to raw materials, and we have to consider the volatility of the supply chain.

And when we talk about receivables we understand that this is more connected to the mix of products. This half of the year we have an increase of transformers, smaller equipment which are transformers that are used in the grid and some cases are even serial equipment, and the deadline for receiving the amounts is a bit longer.

So it was something related to the mix of products when we talk about receivables, and also the inventory levels that are influenced by inflation and we increased our inventories in order to provide some guarantee, and also when we needed to refurbish the levels of inventories.

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**Mr. Lucas Barbosa - Santander**

Okay thank you. Just another question, a follow-up question: I know that 3Q we saw some worse indication in relation to the previous quarter; but we saw that there has been an increase in working capital when compared to last year.

Was there any change in your policy or in your strategies?

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

Lucas, this is a little bit about what I mentioned. We had suffered some degradation in some of the indicators, and the lifecycle business helped to reduce working capital. But once again I would like to point out that the amounts that were announced especially in 1Q were the best ones when compared to the last 10 years. So it is just natural that we are going to expect a little increase for the future.

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**Mr. Lucas Barbosa - Santander**

Okay thank you, that was very clear, have a good day.

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**Operator**

Our next question comes from Lucas Laghi with XP Investimentos.

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**Mr. Lucas Laghi - XP Investimentos**

Good morning André Rodrigues, Salgueiro, congratulations on the results. I have two questions, the first is just a follow-up on the previous question thinking about CapEx. It was clear when you mentioned the working capital, in the inventories, and the increase in raw materials costs; but when we look at CapEx, especially when we saw in 3Q we can see that the delays also influenced; but there was an increase in prices that we see in industry in general.

And the second question is more specific thinking about taxes. We saw that there was an increase, a relevant increase in terms of taxes paid and we had a difference in the rates due to the international market.

I would like to understand those factors in relation to 3Q just to understand if it was, this was something specific and do you think we are going to see changes in the tax rates that were applied?

So these are the two points: so one is about the CapEx and the other one is about the taxes, thank you.

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

Hi Lucas. As I started talking about CapEx I will continue. So this year we had some effects on FX. When we look at the investment plans the expectations were different, so large part of investments is in international market, so we also see some impact there. So a little bit lower when we talk about prices, because many of the pieces of equipment were contracted in periods before the global crisis. But we still see some impact due to those effects - but I do not consider this to be so relevant.

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

Lucas this is André Salgueiro speaking and I am going to answer the questions about the income tax. In fact we had no changes to the benefits that the company has been granted in the last quarters. So basically what happened this quarter is that there was a growth especially in Brazil, because there was a change in the mix and the generation was different from Brazil and what happened abroad. So we saw some differences; but in terms of expectations there is no change that happened will make the future be more different, or much more different in the other quarters.

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**Mr. Lucas Laghi - X the Investimentos**

Okay this is it, thank you very much and have a good day everyone.

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**Operator**

Our next question comes from Renata Cabral with Citi.

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**Ms. Renata Cabral - Citibank**

Good morning, thank you very much for the opportunity. My question is related to the dynamics in the local market in Brazil. Last quarter the performance was very positive, it was a rebound of

the effects that we had last year, so we see that it continued. We saw the sectors helped: mining, machinery, oil and gas, these are sectors that are doing very well.

At the same time we have an economic scenario for 2022, which is quite challenging for Brazil. I would like to understand how you see it in terms of growth of the local market for the quarters to come, including 2022 and then I will ask my other question okay? Thank you.

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

Hello Renata good morning, this is André Salgueiro speaking. In fact, as I said the domestic market was the main highlight. The growth was very strong and first in the GTD segment that grew 59.1% in relation of last year and we had a growth of all the businesses. Some businesses growing at the base of two digits, and we had a resumption of wind generation projects that also contributed to this performance.

And as for the industrial area we saw a positive dynamics for short-cycle that has been going on since 2H LY, and we have noticed an improvement in the entry order, especially in oil and gas and mining and water and wastewater.

So we are working on the budget for next year. We do not have the precise numbers yet and we also have to separate the two businesses: the short-cycle business provides us not very long visibility for the portfolio, and we can say that this is positive and we can have some changes all of a sudden - but we do not expect that; as for long-cycle our portfolio has been built along the past few months providing a good visibility depending on the business, such as industrial electro-electronic equipment we see, we can see ahead for our portfolio and also wind generation that we can look ahead up to 2023.

And based on the long-cycle portfolio we can say that we have good perspectives for 2H. So for the short-cycle we do not have this flexibility. We need some confirmation that will be given along the next months to understand what was the consolidated dynamics for the domestic market.

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**Ms. Renata Cabral - Citibank**

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Okay perfect, thank you very much for the answer.

And my second question is in relation to what you have said even related to the lack of raw materials in the global chain, and because you are very verticalized it may be of influence.

But I would like to understand how you see this dynamics, because it helps you on the one hand; but on the other hand it may affect the consumers, those who develop the projects, and since you have many local plants abroad I would like to know how the lack of raw materials would affect your business, because we have seen some bottlenecks for example in the freight operations and how this is going to be affected in the short term.

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

Renata this is André Rodrigues, let us talk about this lack of material crisis that is generation this crisis globally.

Along this year and even last year, we said that we had all the raw material we needed. We just had some specific problems related to some specific operations that did not affect the deliveries; but everything was manageable.

And part of this is result of our verticalization process. We can be a bit more conservative in terms of inventory. We decided to increase some inventories as a strategic measure that contributed for us to go through those periods without any relevant effects on our operations.

I think the global crisis of supply is not over yet. So let us see what is happening to electronic components. Those who did not place an order for next year, they place orders now and they are likely to receive those components only at the end of the year, or even in 2023 only. But in our case what we see is demand for the manufacturing of our products, we have all the demands already seen and for the short term we have this solved - but the company has been preparing for the future and it is just natural that things will start to improve. They are not going to be normalized in 2022; but the situation is going to improve.

Because we are verticalized and we have this availability and the mobility to produce here and send it to Mexico, and from Mexico to China, it is a good production for us. So what happened in the beginning of the pandemic especially in Europe,

those companies that did not have this level of verticalization and would depend on other manufacturers of components had to stop their productions because they did not have production. This did not happen to us.

We understand that today WEG's model is a model that brings us some advantage. I have always said that one of the reasons why we are so successful is that we have an industrial strategy which is very solid and very sound, not only in Brazil but in other regions as well.

But of course, this can cause a problem for our client. As Salgueiro mentioned, we do not see this reflected on the orders placed with us. But this is something that we have been monitoring. When we consider long-cycle equipment business and the deliveries are in the long-term and this is up to WEG to have the raw materials and then to the client, because the client is the final receiver and the risk is lessened.

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**Ms. Renata Cabral - Citibank**

Okay this is so clear. Have a good day, thank you.

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**Operator**

Our next question comes from Daniel Gasparete with Credit Suisse.

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**Mr. Daniel Gasparete - Credit Suisse**

Good morning everyone, thank you for the call. I have two questions as well. I would like to talk about the ROIC behavior, what is your expectations for the next year in view of the increase in CapEx and also the working capital.

And the second question would be to pass through prices. How do you see that in the market, both in the Brazilian market and the international market? What is the acceptance of this increase? Thank you, good morning.

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

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Hello Daniel good morning, this is André Salgueiro speaking. In relation to the ROIC, what we have been saying in the last quarters is that this indicator grew in the past years if we look at the longer horizon, and more recently when we look at the beginning of last year up to now it even accelerated in terms of growth.

So we had a very strong growth from the viewpoint of results of the company. We had very good improvement of the working capital, as André mentioned in the first answer he gave, and we have the FX effect that the valuation of the BRL helped us to improve this indicator more recently.

So since last quarter or even the quarter before that, we said that it was possible to see some stabilization of the ROIC for different factors: one is related to investments that we accelerated the investments in 3Q and the expectation is to continue with this trend in the future; and we also have the working capital and also the FX that can interfere. We do not provide official guidance for ROIC or any other indicator; but we are going to be working to deliver healthy ROIC and higher than the average of our peers so as to say.

So this is the idea we had in mind and these are the factors that may impact the ROIC in the future.

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

In relation to the increase in prices we have already been approaching this, and in order to minimize the impacts of raw materials we needed to recompose the prices, and whenever possible we were recomposing the prices in all the markets where we operate. In the international markets we made some adjustments this year in order to offset the increases of raw materials.

But I would like to remind you that all those adjustments happened especially in short-cycle products, low-voltage products, paint and varnishes and may change depending on the line of products, and this is something important to consider, because sometimes there is a mismatch between say but the increase of the raw material prices and the recomposition of prices, and this recomposition in industrial, in the industry took everyone by surprise and this has taken WEG and also our suppliers, clients and even competitors to follow the same trend.

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**Mr. Daniel Gasparete - Credit Suisse**

Okay thank you, have a good day.

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**Operator**

Our next question comes from Victor Mizusaki with Bradesco BBI.

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**Mr. Victor Mizusaki - Bradesco BBI**

Hello good morning, congratulations on the results. I have two questions, the first one in 2019 WEG made a very relevant agreement with the French group Arkema, and the discussion at the time was focused on the electric motors for the improvement of energy efficiency, and the estimate at that time and was the consumption of 8% - and we have seen this discussion of energy aspects and I would like to understand if we can expect large agreements for electrical motors for the industrial sector that would involve the replacement of engines. Is this a trend that we are likely to expect for the next years?

And also in relation to growth, WEG in the past months has been seeing that M&As have been concentrated in Brazil and growth has been more organic.

So my question is: are you looking at possible M&As abroad? Can we expect anything out of this? What was the increase in capacity abroad considering the investments in China and in the US?

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

Victor okay, here we go. So let us talk about the trend, and this is something that WEG has been working on related to the efficiency of electrical motors. So this is a front that we have. We want to bring more opportunities for investments because our clients are willing to have more efficient products, and the company has been investing in research and development and innovation so that we can offer better solutions to our clients.

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In 2010 the first company in the world that presented the highest level of efficiency in motors was WEG. We are prepared for that. We understand that this is a trend and we understand that there is a growing demand for those products, and as you said you had the agreement with Arkema and we are doing the same approach with other companies as well.

So we understand that this is a demand from the industries at large, especially at moments where you need to reduce energy consumption considering the energy crisis, supply crisis. So it is very important to have complex, industrial complex with optimized machines. So this is a way we are taking and all the strategy related to renewables that take WEG the position of continuing growth to those demands.

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

Hi Victor this is Salgueiro speaking. In relation to your second question, from the viewpoint of growth especially in the international market, which was the focus you raised, we have some information that was provided on WEG Day last year, when we showed where, which are the regions where we have presence. And we showed the size of the market and our market share and our main products also in the regions where we operate.

So that we showed the message that there is a lot of room, a lot of opportunities from the viewpoint of growth by gaining market in the international market. So this is our main objective and investments are always focused on this long-term growth, the sustainable, continued growth.

And the investments are going to depend on each business specifically. We have some examples of M&A and investments as you mentioned. For example, as to transformers in the United States we acquired WTU, and now we decided to increase the capacity with a new plant, our third plant in the United States.

In China, which is another example you mentioned, the plant of the low-voltage industrial motors in China is increasing its capacity year on year. So we have been investing in that modular expansion model that we have both in Brazil and Mexico, and as we see, feel the demand of the market we make investments so that we can meet the demand.

So the main message here is that we believe in this long-term vision, the growth opportunities, and we are going to make all the necessary investments so that we can meet all this growth.

An interesting example would be the operations in India, and when we talk on investments and M&A this has a lot to do with this. It was a decision that we made. We looked at the potential acquisition, but we decided to have a greenfield project to break into the segment of low-voltage industrial equipment, and from there we are going to develop that market.

Yes, we are always looking at CapEx and M&A and we have this view of opportunity growing in the international market.

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**Mr. Victor Mizusaki - Bradesco BBI**

Okay thank you.

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**Operator**

Our next question comes from Marcelo Motta, J.P. Morgan.

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**Mr. Marcelo Motta - J.P. Morgan**

Good morning everyone. I have two questions: could you comment on the margin? So it is going to migrate, the same margin of last year, close to 19 or 18.5; however, when we look at 9M 21 of EBITDA margin we see that there is a gap if we consider 4Q 21.

So do you think there is going to be an additional reduction in 4Q 21, or maybe related to the mix and, or is there anything related to raw material costs, the supply chain that you discussed? So this is the first question related to EBITDA margin.

And the second question is related to M&A. You have been focusing on industry 4.0, capacity increases. So I would like to understand what is in your margin to resolve M&A and also maybe including mobility and everything that you have been considering.

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

Motta, thank you very much for the questions. Let us talk about the margin. This was everybody's concern, the main concern and the main questions that we hear in our meetings. This period, as we had anticipated, both EBITDA margin and the gross margin were impacted by the cost of raw materials and also the product mixes.

It is obvious that although global supply chain has been impacted in these last periods, and we have observed an increase of raw materials in the past quarters. And first, last year we felt this increase in Brazil, especially the raw materials connected to the foreign exchange rate, and we observed that the price increases, especially in the most relevant segments such as iron and copper.

We always say that costs can cause a mismatch, which is temporary in the short term. Another point is to remember that materials cost structure is very similar to all our competitors as well, as the main commodities they also suffer all those impacts.

Mix of products. In addition to what is happening in the world we also have changes to our mix, and we say that the wind business as of 3Q became more important. It is a business where the margin is lower than the average margins of the company, and this also impacts the margin in this 3Q.

When we look at 4Q the expectation, if nothing different happens and if the projections continue, our margin, expectation of margins will not change for the year. We understood in the beginning of the year that the company would deliver EBITDA margins, operational margins very close to what we reported last year, 18.7%, obviously excluding the nonrecurring effect of the ICMS tax in the calculation basis of PIS and COFINS taxes.

So we do not see anything different now, so we are going to be focused on going after the margin that we posted last year. Of course it is not going to be a margin similar to what we recorded in 1Q.

And as to M&A the company has not changed its strategy. We are always on the lookout for new opportunities that can bring us access to the market and/or a new technology. What happened in the past quarters or as of 2020 is that the pandemic affected this process.

So looking for opportunities in the international market prevented us from doing a complete due diligence process for example, or an integration

process which is well conducted, which is so important for us to implement our culture. This all prevented us from the opportunities outside.

But the company has always been on the lookout for opportunities, and of course there are no preferential areas; each business has its own strategy and if the automation business is not focused on electrical mobility, but would bring opportunities for growth in all other segments where, which may not be so relevant as it is in Brazil - but we are going to go after the growth opportunities and it is connected to the strategic development of WEG.

So the message is that all business areas has its own strategic planning, they know what are their growth objectives and the growth objectives can come from organic or inorganic growth, depending on the acquisitions.

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**Mr. Marcelo Motta - J.P. Morgan**

Okay perfect thank you, good morning.

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**Operator**

Our next question comes from Rogério Araújo with UBS.

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**Mr. Rogério Araújo - UBS**

Good morning André, Salgueiro, congratulations on the results. I have two questions on my side, the first you mentioned on the first page of your release that there was a long-cycle entry order abroad. So could you provide more information about it? So is WEG likely to be accelerating the gaining of revenues as we have seen in the past quarters? So this is my first question and then I can ask my second question.

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

Rogério good morning, this is Salgueiro speaking. In fact what we said in the release is related to the long-cycle portfolio. So especially in the industrial



side we have seen at a global level important industries such as oil and gas, mining, water and wastewater segments, we see the level of entry of orders has been increasing since the end of 2Q and the beginning of 3Q. So we have seen this being consolidated in 3Q, so in this business we can say that the portfolio is very positive, indicating growth in the future.

But also there is the mix short-cycle that provides less visibility for the business. Our visibility is positive for short-cycle, but changes can happen depending on something happens to the economy, and it is not anything that we can, that we are foreseeing now - but we understand that this is something that can happen.

So but what I mean to say is that for the consolidated view we have to consider the short-cycle aspects.

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**Mr. Rogério Araújo - UBS**

Could you provide some information about this mix related to long and short-cycle segments?

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

Yes. For this quarter we reached the quarter of 66% short-cycle and 34% for long-cycle. I do know if you remember; but last year in the worst moment of the pandemic in 2Q 20 the long-cycle was 40% of the revenues and from then on the short-cycle has been improving, and we are looking at the short-cycle because of its improvement and a slight drop that we had in long-cycle for the industrial aspects. So it is more likely 34 long and 66 short.

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**Mr. Rogério Araújo - UBS**

My other question is in relation to the domestic market, it is a follow-up on a question you have already answered in fact, related to the uncertainties and the slowdown in the economy.

We saw Mexico had some problems with relevant drop in the GDP. So what I would like to listen, hear from you is what is the situation now considering all the uncertainties. What do we have to follow to

understand what is the trigger for the companies to invest? What are the triggers? So could you compare those periods of crises with what we are going on now, when orders stop to come in?

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

Rogério, this is André Rodrigues. I was not even at the company at that time, so I will ask him to answer.

So what happened when we compare 2016 and today? In 2016 we experienced a very atypical situation, where we started the year with an expectation that it would be a bit more difficult; but the growth was 25.4 in our revenues in 2015, and then we expected 2016 to be difficult - but not how difficult it was, and the revenues of WEG decreased by 4%, which is something rare to happen for the company.

And one of the advantages of our company is because we are exposed to different segments, different sectors of the economy. It is very difficult to have everything up; you have the ups and downs and then this is where we are looking for opportunities - but at that time nearly all sectors were down. So we had a crunch, a slowdown in Brazil for the short-cycle products and at that time we did not have a long-cycle portfolio, which was so solid that would ensure performance that would amortize the drop of the short-cycle business that happened in 2016.

So we built a long-cycle portfolio, which is different from that that we had in the past and considering the T&D history, so we had the plant in Betim, we are working at full speed and this is a reflection of what happened to the long-cycle portfolio. And then the wind energy business is also resuming and in 2020 we already have delivered plant throughout the year, and at that time we did not have solar businesses and this is a business that has been growing a lot and that the expectation is that these are segments that are going to bring opportunities to WEG, considering the potential that Brazil has for solar radiation.

So we have a combination of a better portfolio of long-cycle equipment and we started to be exposed to do new businesses. So we are in a different situation that that faced in 2016. But we expect that this possible deceleration or slowdown in Brazil that may happen in 2022 is just an expectation, and we

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hope that new opportunities continue to be generated for WEG, and this is what we have been preparing for. So it is too early to us to imagine a pessimist situation for 2022.

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**Mr. Rogério Araújo - UBS**

So clear, thank you.

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**Operator**

Our next question comes from Araújo with Genial Investimentos.

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**Mr. Ygor Araújo - Genial Investimentos**

Hello everyone. First of all good morning, congratulations on your results. Only to complement what everybody has already said in relation to wind-related machineries, what is your capacity today? And what can we expect for the end of 2023 or end of 2023 or beginning of 2023?

And the other question is related to M&A. Recently you have expanded the products related to smart aspects, and do you think you have any expectations to have any M&A in the domestic market?

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

Hi Ygor good morning, this is André Salgueiro speaking. In relation to wind energy this is something that is coming back. We started to generate revenues from the wind energy businesses. We had some revenue in 3Q and it is going to be, is going to grow ever more relevant in 4Q.

Our current capacity is about 8 to 10 machines/month and what we have been saying to the market is that we have a portfolio of projects of wind generation whose visibility is going as far as 2023.

The first agreement was announced with Aliança in the beginning of last year, and this agreement has been delivered now and we have other agreements

in the portfolio, in the pipeline, with this visibility of the beginning of 2023 - and we have good perspectives going forward. Some negotiations, some conversations that we have been having in order to increase this portfolio. When we expect to have an investment cycle in wind energy in Brazil in the next two or three years, which will be quite relevant. So we have, we are very competitive in terms of size. We have a 4.2 MW machine that is bringing opportunities to us. So this is our vision in relation to wind energy.

In relation to M&A I think André Rodrigues has already mentioned the drivers in the access to the market and technology, so if we think of those drivers we understand we are looking at opportunities. We do not like to talk business on business; but specifically WEG Home is something that is growing now out of a need – and some clients requested, demanded this.

So we brought this product to complement our portfolio in terms of construction structures and we have sales of switchboards, electrical panels and we have this portfolio of equipment such as cameras, sensors, movement sensors and sensors for opening and closing curtains to complement our portfolio. It is an effort to complement the portfolio for us to sell products for the residential structures or buildings.

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**Mr. Ygor Araújo - Genial Investimentos**

Okay thank you.

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**Operator**

We have now closed the question-and-answer session. I will give the floor back to Mr. André Rodrigues for his final remarks.

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

Once again I would like to thank you for attending the call and I am going to give you some important information: most of you have already received the invitation for our WEG Day that is going to be held on November 11 in a virtual mode. It will be a very important moment to give you some update on WEG and talk about the future and the strategies of

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the company. So it will be a pleasure to see you on your next WEG Day.

Thank you very much.

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**Operator**

WEG's conference call is now closed. We would like to thank you for your participation and have a nice day.