

Q1 2021 Earnings Call

Company Participants

- Carlos Cyrino, Director of Investor Relations
- Gustavo Estrella, Chief Executive Officer
- Ricardo Motoyama de Almeida, Chief Executive Officer, Power Trading Business
- Yuehui Pan, Chief Financial Executive Officer and Investors Relations Officer

Other Participants

- Andre Sampaio
- Marcelo Sa
- Rafael Nagano

Presentation

Operator

Good morning to everyone. Welcome to the presentation of Results of the First Quarter CPFL Energia. My name is Carlos Cyrino. I'm the Director of Investor Relations of the group. And today, I'm going to conduct all the dynamics of our event. Today, we have Gustavo Estrella, President of CPFL Energia; Mr. Pan, Director, Vice President, Finance and Investor Relations; and the other Executives of the company. I reinforce that due to the pandemic everyone is still connected from homes. Therefore, we apologize if there's any failure of connection. And we reinforce that we'll be working hard to re-establish communication as soon as possible.

All the presentations will be done in Portuguese with simultaneous translation to English. All you have to do is click on the button, interpretation, which is on the bottom part of the screen. If you wish to see the presentation in English, this presentation is on the website, RI of CPFL. I'd like to mention that after the presentation of results, we will start our session of questions-and-answers. (Operator Instructions). I remind you that this event is being recorded.

I'm now going to give the floor to Gustavo Estrella to start the presentation of results of the first quarter.

Gustavo Estrella {BIO 18109709 <GO>}

Good morning to everyone. Thank you very much for the participation in our call of results on the first quarter of 2021. I'm going to move directly to the slide 4 where we have some highlights. The first one is the growth in load in our concession, we can see this in more detail. I think we have some very positive signs here of recovery in our concession areas.

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We have closed this semester with BRL1.966 billion. This is a growth of 15.9% in relation to 2020 and a profit of BRL961 million, and a growth of 6.3%. And we have a net debt of BRL15.1 billion, and a leverage 2.03 times the net debt EBITDA.

We have investments. I think this is important to highlight. We have an ambitious plan of investments for the company for 2021. Our expectation is BRL3.4 billion of investment for 2021 expressive growth, which was already a record in investment last year. So we have BRL695 million, a growth of 36.3% in relation to 2020. We also had the tariff adjustment for CPFL Paulista of 8.95%, a very similar process to what took place with CPFL Santa Cruz in March. We had here some deferment for the reduction of the impact of tariffs. So we had the postponement of a parcel. This deferment does not mean any loss for the company and this is just for the cash flow.

Another important data is the sustainability as our practices in our business, and also the evolution of our commitments, our public commitments in this area. Another important event that we've had is the Alesta operation, which is our fintech and we've been preparing the entry of this Alesta. We've had these operations of the Central Bank and we started the operations in a pilot model with CPFL Piratininga with the expectation -- a high expectation in relation to potential business for our fintech during the next few years. Another important number, we reached 10 million clients, and we've noticed that the market continues this organic growth. So we've reached 10 million clients in the month of March, 2021.

Well, let's move on to the next slide. Here we have the composition of our tariffs for CPFL Paulista, a long negotiation with the agency, not only CPFL, but all the distributors that have had a tariff adjustment, they've been going through the same discussion. We put a benefit here of all the agents of the sector from clients, the regulators, and also the companies themselves. I think -- when we think of alternatives to avoid a very high adjustment now during the pandemic, a time where we have a pressure of default clients. So I think we've had a lot of success in this negotiation. What we can see here is that the largest parcel of this tariff deferment comes from effective reductions of costs, so with no impact in the cash flow of the company.

So these readjustments of the transmitters, we anticipated this and the reactive energy already contracted for the next -- this is just anticipating what was going to take place with Paulista in 2023, the reversal of the credits, Itaipu credits here also with no economical or financial impact. And we are able to reduce the expenses, so no impact on the cash flow and the deferment of Parcel B, which will be corrected in 2022. So we have this potential adjustment of 16.58%, and we go to the final effect to the consumer of 8.95%.

Let's move now onto the next slide. Well, going here to energy sales, a growth of 2.6% in sales, 2.5%. If we look at the right side of the screen, we see this growth per class. And a highlight here in the industrial area where we have an expressive growth of 7.7%, followed by residential with 4.6%, also doing very well. And the commercial class here still suffering the effects of the pandemic. And with some recovery, we see that this negative percentage is less than the previous quarters. I'd also like to highlight the case of the industry. You can see here on the pizza chart on the left slide below, we see here that, in

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general, we have a positive performance in all the main segments of business of our industrial class.

So we can see here a general recovery of all business segments. This is very positive. It's an outlier of a specific area, but the industry in general and I believe this is very important. When we separate here the impacts in the residential class, we see that the effect, temperature, calendar, the distributed energy, we see that the recovery in fact of residences is even higher. And due to macro economy and revenue, et cetera, we have a recovery of 7.8%. So I think these are good messages, good news in relation to the growth of the consumption of energy, very positive. And this is aligned with what we had in the fourth quarter. And of course, it's still a year of a lot of uncertainty. And we hope that we will overcome this pandemic area period. And we will have a recovery of the market. So with no doubt, it is a very positive beginning of the year.

Let's move to the next slide. Now let's talk about delinquency. I think this is another focus and attention for the company ever since the beginning. Here we have good results of delinquency 0.67%, 0.1% better than the first quarter of 2020 and a bit lower than our historic average. I think again, the market is reacting well, and we are able to deliver good delinquency, a lot of concern for the months here in the second quarter of 2021 we have felt pressure. And we have prepared the company with different actions, billing, et cetera, but we see that there is a trend of an increase of the delinquent, especially the residential clients, which is pressuring this delinquency. As I said, it's a year of a lot of uncertainty, a lot of volatility. So we have always to pay attention at such types of movements. And in April, we noticed that there's a trend of increasing the delinquency.

So our main tool, we have high levels of here over 200,000 cuts per month. And the expectation is that, we'll increase these power cuts so that we can control this trend of the increase of delinquency short term. In terms of losses, these are stable energy losses. These are -- we've had some challenges to control these losses. I think the good news is that, it's not increasing. We've had some difficulty in bringing these losses to a stable level. So all the instruments that we have, especially a growth of 6% in terms of -- compared to 2020, we also had a positive effect of here with 19%, but this is also -- this is the recovered energy, but this is something that concerns and is object of a lot of tension in the company.

About generation, I think here, we can see a drop of the PLD in the first quarter of 2020. For sure, the trend is different, especially for the end of the second quarter. And the second quarter of 2020, we've gone through unfavorable times, and from January to April, it's the fourth worse period in hydrology in the last 91 years. So this starts to pressure the PLD. So we have a perspective of a high PLD for the next month. The GSF, more or less going in the same direction with this expectation of a dryer period and the expectation is that this GSF has a trend to increase in the next month.

We have different scenarios about the flow. Basically, it talks with the rain regime, we've come from a negative number in 2020, a bit better in the south of the country, different to the PCHs, which are basically in the Southeast of the country where we have worse hydrology. Well, what about wind? This is one of the highlights of -- it's a growth of 68.4% in the wind generation. And here we have two large impacts. The first one of them comes

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from the availability with the growth of 0.9. And we've had a trend of increasing the availability ever since last year, especially in our wind farms. And this has brought better performance in generation.

We also have a very positive performance in wind. Last year was bad, was a low performance of wind, and we've had an expressive growth. Last year was 58% and now we have already reached 92%. So this has been the trend beyond the first quarter. This number is very close to P50, and it brings a positive perspective for wind generation, not only for the first quarter, but also in general.

Let's move to the next slide. Well, now I'm going to give the floor to Mr. Pan for him to comment the results.

Yuehui Pan {BIO 20609514 <GO>}

Thank you, Gustavo. Good morning to everyone. This slide, the EBITDA in this quarter has been almost BRL2 billion, an increase of 15.9%. The distribution segment has now had a good result, again, with an increase of 11%. The largest variation was the finance assets of the concession which had an increase of BRL130 million due to the high IPCA. In the first quarter last year, the IPCA was 1.62%, and this year was 2.48%.

Another important effect was the higher market gain and the tariff, BRL62 million, mainly due to the increase of tariff that we've had in the readjustments. In 2020, we also had a gain of BRL7 million referring to the BRR of CPFL Santa Cruz. In CPFL Santa Cruz, we decided to revert the gain in relation to the PIS/Cofins over the ICAMS tax. This reversion was carried out due to the positioning of the technical area of ANEEL on the theme of public hearing, which is ongoing, about the credits, which should be total. But it's important to highlight that the agency Director is still going to decide about this topic, and the company is still continuing with the understanding that the reimbursement to the consumers is limited to a timeframe of 10 years.

In the pension plan, we've had an increase of BRL11 million, the PMSO and other effects on the EBITDA all totaled BRL12 million. In generation, EBITDA was of BRL650 million, an increase of 21.4%. The main effect was a higher energy generation in our wind farms with which Gustavo has just mentioned with BRL117 million. Another positive effect was the update of the contracts prices to BRL62 million.

On the other hand, we had some negative impacts in the period. The seasonality of the PCH contracts negative BRL34 million due to a lower allocation of energy. This should be compensated in the next quarters, a high of UBP due to a high IGPM BRL10 million, GSF, BRL7 million, depreciation tax change in Epasa assets to adequate to the end of the contract, BRL6 million among other effects. The segment of trading, service and others had an increase of BRL41 million. Trading improved its results in BRL17 million due to higher prices in the service segment, more than BRL17 million. CPFL services and CPL efficiency once more are highlights.

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Now the next slide, we show the performance of the net profit which was BRL961 million during the period, an increase of 6.3% in relation to the last year. In the financial results, we had a decrease of BRL242 million due to the gain of MTM which we had in the first quarter of last year. On the other hand, we had a gain of BRL40 million with increases in fines due to payment delays of energy bills, due to the higher IGPM and the expenses with a net debt had a reduction of BRL15 million which are explained by the decrease of the SELIC and by the cost reduction -- the average cost reduction of the debt. The depreciation varied in BRL33 million and the taxes had a positive impact of BRL26 million.

Let's move to the next slide. Now we're on slide 11, where we have the debts of the company. The first chart, the net debt is the total of BRL15.1 billion, EBITDA BRL7.4 billion, and the leverage measured by the net debt over EBITDA was of 2.03 times. On the debt profile on the chart beside, we have the cost of the debt real and nominal, an increase in the first quarter is due mainly to the IPCA variation during the period, but the real cost is negative, helped by the interest rates, SELIC in its historical minimum and by inflation which is over 4%. In the composition of the gross debt, we see that a higher exposure is indexed to the CDI with 75%. Cash at the end of the first quarter was close to BRL4.6 billion with a coverage rate of 0.76 times the short term amortizations. The average period of amortization is 2.44 years.

Now, let's move on to the slide number 12. Here we have the CapEx. During this period, we carried out an investment of BRL695 million. Gustavo has already mentioned this amount, an increase of 36.3% in relation to the same period last year. And the vision per segment we had in distribution, a total invested of BRL597 million destined to a modernization and maintenance. For generation and transmission, we've had BRL44 million to continue the Gameleira and Cherobim projects and BRL38 million for the Maracanau, Sul 1 and Sul 2 projects of transmission projects. And for the trading and services segment, we destined BRL16 million.

So that's what I had to say. Thank you very much. And now I give back the floor to Mr.Gustavo Estrella.

Gustavo Estrella {BIO 18109709 <GO>}

Thank you, Mr.Pan. Well, to -- I want to go a little bit more into detail about the sustainability and what we've been doing. So I think, the first initiative that we have here is that we're increasing the renovated number of units. This is totally linked to ESG. This is part of our fourth commitment for the sustainability plan, almost 10,000 units only in -- just in the first quarter. This activity has bought large relevance for our business of distribution, renovating our transformers about the reverse chain, which is part of our sustainability is that we've started this in the south. We had already this activity in the state of San Paolo. So the idea is to expand these activities and we now began with huge expectations. We have all over 6 tons being recycled and in a reverse chain, and the idea is to do the same thing. And for all the benefits of our environment, we also have generation of new jobs in the company with these activities. So once more, there are 15 commitments. What we have here are very clear plans for each one of the terms that are linked to our business. These are some examples of the fifth and the sixth -- fourth and fifth commitment of the

sustainability plan with these refurbishment, reverse chain, and this is part of our core business here in CPFL.

So I believe that these were the main information, and now we are open for questions and answers.

Questions And Answers

Operator

(Question And Answer)

A - Carlos Cyrino {BIO 21090309 <GO>}

Thank you, Gustavo. Thank you, Pam, for your presentation. So we'll now open the questions-and-answers, and the questions will come in and their order reinforcing that these questions will be made live. (Operator Instructions). Well, we have here some questions. The first question is from Rafael Nagano from Credit Suisse. Good morning, Rafael. Thank you for your participation. You can ask your question.

Q - Rafael Nagano

Thank you, Carlos. Thank you for the presentation. I would like to know about capital allocation and the leveraging of the company. I'd like to see how are you looking at the return comparison as these transmission projects, and which one of them are more competitive right now? And besides transmission other activities of the group, what are the expectations and what would be the steps for this negotiation to have results?

A - Carlos Cyrino {BIO 21090309 <GO>}

Thank you for your question. Well, allocation of capital, what we've seen here -- what we've seen is a series of opportunities in transmission. And as you said, we have the perspective we had with the tenders. And I think these expectations are lower than last year, but some assets will be on the market. So that's what we've been seeing. And I think in both cases, what we observe is, high competition, a lot of people, a lot of competition, a lot of players wanting to invest in transmission, whether it be through bidding processes, but this is pressuring. We're living through an interest rate scenario with low interest rates.

And in general, we have this perspective of low interest rates, which will probably last for another year or two. And this ends up by reflecting in investments. It's important to remember that we're talking about assets with maturation of long-term concessions of 20, 30 years. And the scenario that we expect of real interest rates in Brazil can only -- have to look at this perspective at an even longer term than this. So this has brought us a challenge of growth with this perspective of low interest rates and also the market -- low market return for this type of asset, we continue. Of course, the environment short-term also affects our perspective of return, but it is important to keep up the methodology that long-term investments should be evaluated long-term. So that's what we've been doing. And we have -- we see a lot of competition in this modality of investment.

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Now we don't have any signaling or any news from what we've been saying to the market. I think these are decisions of the shareholders. And what we always say is that, if we have any movement, any new movement, all the procedures and practices will be according to the norms and the regulations of CVM of the market and the respect that CPFL has always had for the market, this respect will be maintained. So this is a process that has been happening in the same basis. So, a follow-on, but we also had the -- so we're going to follow all the government's rules, transparency, fairness with the market so that we can have this operation. It will not be different, but once more, I don't have any signaling that this operation will be happening at all. If we have any news, we will communicate.

Q - Rafael Nagano

Thank you.

A - Carlos Cyrino {BIO 21090309 <GO>}

Now let's move to the second, Marcelo Sa from Itau. Thank you for your participation. You can ask your question.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you. I have two questions. I think the first one would be for you to comment about the implications of the SCF decision, the high court decisions of the exclusion of the calculus base of the PIS/Cofins. From what we've understood in the case of distributors in general, that we follow everyone went to court way back. So if you went to court before 2017, you'd have access to this credit and the credit that you recognize or that you are going to recognize, it will be guaranteed with this decision of the high courts. And another point, which I think was important in this decision is, how to quantify this credit? I think this is a discussion about the value effectively paid and what was determined, which is over (inaudible). And in this magnitude, I think that you -- I would like you to compare the numbers that you've put in the gains. Is this made based on the value effectively paid or just for us to have an idea of the dimension of what could change with this high court decision? Thank you.

A - Gustavo Estrella {BIO 18109709 <GO>}

Good morning. Well, this decision, I think, is aligned with our expectation. It's basically what we imagine. So, as you said, the most important aspect is the definition of how to calculate the process that still haven't been decided and how to calculate the ICMS credit. So this is the value that is on the invoices and not effectively paid. So it's important to take in to consideration some process already have a crystallized decision in these different processes, so it won't change, but this will guide the next processes and they will quickly converge to a final decision. So the way that we calculated is, this was calculated exactly as we imagined. And the next ones is you will be converging towards a decision of the high court's where you have these values. So in these processes that you've already -- that have already been taken -- that have already been calculated, this credit was calculated based on the value effectively paid.

You wouldn't have additional recognition of credit. It would be the value that was already determined and nothing would change. What's being discussed is what was not yet

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judged. And this then will be done based on the value of the invoice and not on the value effectively paid. Yes, they --so there wouldn't be any change, but this process has changed. So it has to be calculated according to what they've -- and the next ones will be done according to this criteria.

Q - Marcelo Sa {BIO 16454581 <GO>}

So my question is that some people say that this total value would be BRL250 billion. And in this study, the value effectively paid and not the value determined on the invoice, but if it's not good a change, perhaps the increase on the fiscal side ends up being lower than what people think, because of what is going to happen in the future?

A - Gustavo Estrella {BIO 18109709 <GO>}

Yes, you can't change what has already been ended and been crystallized. You're talking about the whole country, but in any case, what was -- this is what was decided yesterday by the Supreme Courts.

Q - Marcelo Sa {BIO 16454581 <GO>}

Do you have any estimate of how much this could impact the actions, ongoing actions that you have that haven't been concluded? Does this increase 10, 20%? Is there any estimate made by the company?

A - Gustavo Estrella {BIO 18109709 <GO>}

No, we don't have a clear vision. It'll be calculated according -- now we have a more precise understanding coming from the high courts, but it would be a higher value depending on this. So it would be higher than the value effectively paid, then the value would be a bit low.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay. That makes it clear. Thank you. Estrella, I think my last question is about the privatization process of Eletrobras. So this was published and after there was a report that was circulated and in this report, it mentions the possibility of ANEEL when you have a large market share of the free market, it could be obliged to participate in a regular bidding process. I don't know how you see this? Is this something that concerns the sector? If you think this is something that will be modified? How's the sector articulating itself to avoid this becomes a large regulatory risk in the future.

A - Ricardo Motoyama de Almeida {BIO 16179006 <GO>}

I'm Ricardo Motoyama. Thank you for your question. We have followed the issue of the privatization of Eletrobras. We believe it makes sense for the country. And we have been looking at the concentration of generation in the hands of one only player, one sole there. They have a large parcel of the country's generation. So this is something that we've been looking at with care to see what the impact of this concentration is. For sure, in relation to the topic that you're talking about, we have to look at this very carefully. So this is not a regulatory risk, as you mentioned, but that is -- it is a point that we've been following very carefully along time. Thank you.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you very much folks. That's it.

A - Carlos Cyrino {BIO 21090309 <GO>}

Thank you, Marcelo for the question. We're now going to move on to the next question we have from William from the Santander Bank. Good morning, William. Thank you for your participation. Please go ahead with your question.

Q - Andre Sampaio {BIO 19422379 <GO>}

Hi, (inaudible) it's Andre. Sorry I came -- I'm on Zoom with another name. I'm going to ask two questions, which are very much connected with the topics of Sa. These are two questions I have. The first question is, it would be in relation to the PIS/ Cofins taxes. I'd like to know what is your expectation? And how the process can evolve, the legal process due to this law that they're working on to revert this 100% to consumers? This has already advanced in the government. And at the second question I have is about the privatization of Eletrobras is another interesting point which is the Proinfa for renovation contract we'd like to hear, if you have any vision about this possibility? How you see this? Would this be compulsory? And how much we could be talking about in relation to potential? Basically that's my question.

A - Gustavo Estrella {BIO 18109709 <GO>}

Good morning. About the PIS/Cofins, we understand that the values over 10 years will not be giving back to the consumers, so CPFLE has -- would have the right to this amount and now it's not a law, it's an interpretation that all this amount would be transferred to the tariffs. It seems to me as from a public hearing, the decision taken by ANEEL, the natural consequences that there'll be a dispute about this and it could even go to court. So, basically we will -- we could differ from this idea or -- and there would be some legal actions. So we think that these amounts, obviously, should be for the distributors. That's how we understand it. If there's any dispute, this is obviously, something that can happen. I hope I answered your question?

Q - Andre Sampaio {BIO 19422379 <GO>}

Gustavo, I'd like to follow up here in relation to this question. My question is, if the Congress approves the law that says the consumer -- can the company continue disputing this fact or not?

A - Gustavo Estrella {BIO 18109709 <GO>}

Well, a law that says that you're going to transfer this to the consumer, this would be from now on, not a retroactive law. So, if there's ANEEL decision, then this legal dispute will be different. It doesn't seem reasonable that a law goes back to a right -- a legal right that already exists in the past. So it's already an old rule. So the reason that we understand that we have the right to this is, is prior to this. So to make a new law to transfer this and remove the right that we have, I think this would be something questionable. So if it's this way, for sure, I think we could question even a law because it's a right that already exists.

Q - Andre Sampaio {BIO 19422379 <GO>}

Thank you, Gustavo. Thank you for your answer.

A - Carlos Cyrino {BIO 21090309 <GO>}

It's Andre Gomes from Regulatory. Just adding to Gustavo Estrella, I think he's also talking about the Senate law, which is establishing a social reduction utilizing this PIS/Cofins decision. Perhaps he's referring to this, would it be this?

A - Gustavo Estrella {BIO 18109709 <GO>}

There's a law -- it's a recent law that passed in the Congress? I can't remember. Yeah, it's still ongoing, but I can't remember the number of the law. Well, it ends up by referring to the ANEEL discussion and it establishes a return in five years. So there would be this return of the PIS/Cofins tax in five years. And in the article, it establishes that the executive power will determine the value associated to the resources that this law project, which is 10-8-4-8. So I think it still has to be evaluated. It will still go to the chamber, but I think that these values would be regulated by the executive power. So I think there is still a discussion about what the executive power is going to define. So I think it's still ANEEL's responsibility to discuss if it's a 100% or not. I think there will still be a discussion on this. I also believe that we still have to evaluate. Things are moving fast, but it goes back to the ANEEL issues and resources and readjustments when you analyze the reasons of the project laws. So we have to look at this carefully, but we will == we will have to evaluate and check. Thank you, Andre.

A - Carlos Cyrino {BIO 21090309 <GO>}

Hello. Good morning, Andre. Thank you for your question about the Proinfa that you mentioned. There is this point in the preliminary report that was published this morning about the privatization of Eletrobras. It is a point that for sure we're going to study, it's not a simple topic. We have to remember that Proinfa has different types of sources, PCH, wind, and a extensive contract, the performance of this type of project. So we're paying attention to this, but it will be a discussion that will be carried out with technical aspects taken into consideration. I think that's what I had to say about it.

Thank you, Andrea, for the question. Well, we don't have any more questions, so we're going to end this question and answer session. If there's any other question the investor relations group has that is available to clarify this later, I'm going to give the floor back to Gustavo Estrella for his final considerations.

A - Gustavo Estrella {BIO 18109709 <GO>}

Thank you, Cyrino. Well, thank you very much for your participation. I believe that we end the first quarter in a very positive way with expectation and hope of a recovery of our economy, of the market and that we are able to overcome this pandemic so that everything can go back to normal. I think it's a positive beginning of the year, which shows the market and the industry ready to produce again. And there's this involvement of stock composition and we see this in a very positive light.

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So, there's a perspective of recovery. I think it's still early to celebrate. It's a challenging year, the same as 2020. We've been trying to preserve the maximum. We can operations with a focus, always concerned with the health and the safety of our collaborators and our business. I think the indicators of the investment gives us the directions of the perspective and the way that we're handling our business goes long-term, it's a crisis that has to be dealt with, but looking to the future and looking long-term. So, I believe that we've started well, but we have to be very attentive to any movements in the sector, to the economy during the next month. So once more, I thank you all for your participation and I wish you a wonderful day.

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