

## Q1 2020 Earnings Call

### Company Participants

- Mauricio Perez Botelho, Chief Financial Officer, Investor Relations Director & Member of Executive Board
- Ricardo Perez Botelho, Deputy Chairman of Directors, Member of Executive Board & Director
- Unidentified Speaker

### Other Participants

- Analyst
- Carolina Carneiro

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Welcome to the Conference Call for the Earnings Release of the First Quarter of 2020 of Energisa.

We would like to inform you that all the participants will be in listen-only mode during the presentation. Next, we'll have a Q&A session and further instruction will be then given. (Operator Instructions)

We'd also like to inform that the conference call will be held in Portuguese by the company's management. And the English conference will be provided by simultaneous translation.

This event is being broadcast simultaneously on the Internet via webcast. I would like now to turn the conference over to Mr. Ricardo Botelho.

#### **Ricardo Perez Botelho** {BIO 2105867 <GO>}

Thank you very much. Good afternoon, everyone. I would like to thank you for participating in our conference call for the earning release of the first quarter 2020.

I have here with me Mauricio Botelho Investor -- IRO and VP of Finance; Gioreli de Sousa, VP of Distribution; Alexandre Ferreira, VP of Regulatory Affairs; Daniele Araujo, VP of People and Management; Fernando Maia, Regulatory Affairs Officer; (inaudible) our new CFO; and finally our team of Investor Relations.

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I'm going to start my presentation by describing our actions and the contingency plan for the pandemic, something which has impacted strongly our country and has had this impact on the company. In addition will mention some subsequent events. On Slides 5 to 7, I'll present to you our satisfactory result of operating improvement of the quarters, and also (inaudible)

Mauricio, our Investor Relations Officer and Financial VP will speak from Slides 8 to 12 making the financial highlights, investments, and the advantage we've had in the area of transmission.

Next, we are going to open for our Q&A session. I'm going to start as you can see on Slide 3.

As a response to this situation of crisis, we created a governance committee of the crisis, so that we could make our strategic decisions involving the top management of the company and creating a number of topics that are part of our contingency plan, which had to be expended.

Our routine was modified because today we had two local meetings for check pointing where we cover all the topics with the top management of the company.

First work groups are focused on society, people and our businesses. Focusing on society and the community, we privatized relief action, social movement actions involving agriculture and economic issues, interacting with the communities where we are based.

We've prioritized reliability of electrical energy services for critical areas such as hospitals and medical centers and the population in general. We started Movimento Energia do Bem, good energy, which is a set of measures that you can chat in our portal Movimento Energia Energia do Bem. And I'm very proud of the work that we've been performing in this moment of difficulty.

We've been providing platforms of access to culture, professional capacity building to young people, social initiatives to support the elderly, also guidance for healthcare, donation of mechanical ventilators, and surgical masks to hospitals. We've been providing support in electrical energy installation of some emergency department units. We've been donating food. We're encouraging donation by our own staff members. For each BRL 1 which was donated by the staff members, Energisa has doubled the same amount in BRL. And a number of other actions that really make a difference in day-to-day practice of our community.

Focus on people. It has always been one of our priority and it has gained even more attention, especially in the safety and protection of our staff and maintaining our work positions.

We have to bear in mind that a significant number of our staff members are out in the street to make sure that everyone else is kept at home. I would like to show our gratitude

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and pay really a tribute to the great contribution they have made to the country.

As part of the contingency plan, which was activated in the beginning of March, we have adopted actions to maintain the critical activities of the company, primarily in resetting our operation centers in many different sites and allocating 2,000 people to work from home, promoting greater social distancing in all the activities that had to be done onsite. We also have held public consultations, which is one of the measures for protection and care that we have offered to staff members and their family members, those that need any kind of help or support related to COVID-19 infection [ph].

We've suspended all trips, except for those which are absolutely required because of service needs. We have reinforced housekeeping. We have provided protection gear to all staff, changed the routines of cleaning the cars [ph] et cetera. We had applied everything which is recommended as general guidance according to the World Health Organization.

In light of (inaudible) of essential services, Law 936 was applied for 90 days. The main purpose was to reduce expenses during difficult times and also to avoid laying off people without compromising the net compensation of our employees. The compensation of our Executives Board members has been cut by 25% during the same period.

Finally, but not least important is focus on businesses. We have worked in different fronts to minimize the effects of the crisis in our economic financial balance of the group, without which it would be impossible to carry on with our operations, which employed over 14000 of our own employees and 6000 outsourced employees.

Among the implemented measures, we have been reducing management expenses between 7% and 12% compared over the previous year. We have renegotiated 80% of our debt that was due in the short term, we have built on the investments which were expected for 2020 amounting to BRL 567 million. And we have contained the deadlines of our ongoing project for distribution and transmission projects. As determined by contract, we're really working hard so that we can even anticipate the deliverables. These measures were required to sustain our business and mitigate loss of cash resulting from market drop and delinquency.

In slide 4, I would like to highlight some economic and financial effects of this crisis, at least at the preliminary basis such as increase in delinquency in April, measured by the indicator of (inaudible) average of 30 days, which on April 30th amounted to 7.3%.

This is a number that varies widely. It reaches a maximum of 16% volume of April. All of that compared to our historical average of 1.6%, which is the period between January 2019 to February 2020.

The metric that I have just described is exactly the same metric that has been used by ANEEL. There has also been a reduction in consumption of Rond?nia Energisa by 6.3% in April over 13% in Brazil.

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I'd also like to say that we have ongoing negotiations as you know together with ANEEL which means energy implementing the flow of payment of electrical service by creating regulatory assets, which will serve as a buffer to plan the operation of CCEE and then a distribution series CDE.

In April, distributors have already received all the surplus of the reserve energy account called CONER, considering the last account made.

Referring to this energy, (inaudible) received a total of BRL 131 million in April. Ceron [ph] and ANEEL had a price readjustment of fee concession and it has authorized postponement of this price readjustment to July 1 2020. At the same time, we have to have monthly distributions of TDS[ph] of the amount that would be applicable to the same price adjustment.

To conclude this slide, it is important to mention that on April 28, we suffered a cyber attack in our computing system, with immediate reaction by the company. For precaution, we temporarily shut-off some systems but maintained the continuity of our operations and all its components. Our systems of supervision and control of electrical systems were not affected during any moment. We've already resumed 100% of our main system without an indication of data loss nor leak of commercial or third-party data. There has been no impact on our billing processes. We have already adopted a number of measures against this criminal invasion and we have reinforced our safety systems and are running an investigation right now.

Now, let's turn to Slide 5. I would like to highlight that for the fourth consecutive year, we've shown market growth in the first quarter of the year. The performance in 2020 was positive by 2.5% over the reduction of 0.9% that Brazil experienced.

Our result compared to the country may be explained by regional diversity in the presence that we have in very dynamic regions of the country. In this quarter, we highlight the month of March plus 4.1% with the highest growth since 2014, which was 4.9% at that time, despite the effects of COVID, crisis in the second portion of the month of March. Had it not been for it, it would certainly be a record month.

All classes grew in March except in the quarter (inaudible) except for industrial clients which experienced 0.4% grid correction, and high-volt clients that had greater growth in their performance since 2012, plus 8.2% in the first quarter '19 and 9.4% which was the case in 2012.

As you can see in the chart, our four concessions - (inaudible) Mato Grosso, Rondonia, and Paraiba had a positive impact of high temperature rates and also the calendar effect. And the concessions of Mato Grosso and Paraiba had been shown a good performance strength to every business.

Conversely owing to weather effect, lower temperature and higher rainfall index, concessions of Mato Grosso and (inaudible) had presented reduction in consumption.

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(inaudible) has been affected by the exclusion of a large industrial client in June 2019 with a reduction of 3.4% in the total consumption of its market.

The distributors that contributed the most to the growth of the market movement was Mato Grosso 55% share, Paraiba 26% share, and Rondonia 19% share.

Those categories that have greater share market growth were urban households and rural households with 73% and 23% respectively.

Now moving on to Slide 6, we have total losses of the group, which happen to be stable for the past 5 quarters. In March 2020, our losses amounted to 13.52 % of the total injected energy, somewhat above the regulatory laws of 13.06%. If we exclude Energisa Rondonia, a distributor with a greater deviation in terms of reference, the losses would have been 11.60%, 0.19% below the regulatory number of 11.82%.

Although, with a total of 11 distributors, only 3 are above the regulatory growth - Minas Gerais, Paraiba and Rondonia. For Minas Gerais total loss was 10.06%, a small deviation from the regulatory goal of 9.64% which indicates non-technical losses, which are more preponderance in this concession.

Paraiba is currently above its regulatory growth of 0.43%, but it does present a reduction in total percentage loss over December '19, 30% of the trend of growth of losses in 2019 resulted from the actions that we have adopted to fight against losses in critical areas, showing more assertiveness.

In Rondonia, our concession still has a relevant deviation from its regulatory goal with greater impact on non-technical losses. Therefore, since the beginning of 2019, the company has adopted the plan of measures associated with capacity building, enforcing the team, which had contributed to the change in this journey since the third quarter last year.

Concerning the other eight concessions would have presented better performance on regulatory goal, we would like to highlight market losses, because it presented losses below the regulatory limit for the third consecutive quarter.

The next slide - slide 7, we can see the results of quality of service. The first quarter of '20 was exceptional in terms of quality of service. All our distributors, except for Rondonia presented the quality indicators (inaudible) below regulatory limit. And five of these companies had presented in this quarter the best historical performance. And they are published in April IDG ranking referring to 2019. I could see in the data measures, the relative performance of quality, considering the regulatory goals. Energisa collected 6 service company among the top 10 in the ranking of large sized companies.

This consistent operational performance results from appropriate allocation of investments throughout the year (technical difficulty). They cannot hear. I will have to reconnect. Can you hear me now?

## Unidentified Speaker

We can hear you now. We're just close to the end of this slide. Please tell me where to resume.

**Ricardo Perez Botelho** {BIO 2105867 <GO>}

Last paragraph.

## Unidentified Speaker

You can go to Slide 8. You were coming close to the completion of the slide.

**Ricardo Perez Botelho** {BIO 2105867 <GO>}

I apologize, we had a technical problem.

I don't know exactly how far you heard me. I was talking about Slide 7, where we talked about the quality of service.

Let's see if you can hear me. I can hear you. Let's see if you can hear me.

## Unidentified Speaker

Yes, now we can hear you back. Now we can hear you back. Yes, absolutely.

**Ricardo Perez Botelho** {BIO 2105867 <GO>}

I'm using my mobile phone here. I was just talking about the last slide, Slide 7 - performance of quality of service. All our distributors except for Rondonia presented the following indicators below regulatory limit, 5 of which presented their best historical performance ever. I was just saying that now in April, published IBG ranking, referring to 2019 does indicate measures, performance and quality according to regulatory goals.

Energisa got 6 of its company among the top 10 rankings including those large-type companies. It means its been making investments for the recent years and the number of actions focused on improving these indicators. This was the last slide and I'm going to hand it over to Mauricio.

**Mauricio Perez Botelho** {BIO 2105889 <GO>}

Good afternoon everyone. We apologize for the technical problem. Now, let's see Slide 8. Here on the left, we have manageable cards of PMSO in the first quarter 2020 amounting to BRL 648 million with 3.8% increase over the first quarter in '19.

But aligned with inflation rate IPCA 2019, which was 2.30%, but still below IGPM, which was 6.82%. This increase of BRL 24 million in DMSO is basically explained by expenses made mainly to improve our quality indicators.

Our personnel expenses had 5.1% decrease translated into BRL 17.4 million, partially compensating the increase of other expenses.

On the right of the chart, we can see accounting EBITDA. In this quarter, there was a growth of 3.5% over the first quarter '19. If we exclude non-recurring effects of both quarters, we would have growth of 11.6% or equivalent to the growth of (technical difficulty) BRL 111.7 million.

Let's now see Slide 9. Slide 9, we can see company's profit. The profit of the quarter increased 356% [ph] over the first quarter '19, variation of BRL 153 million, which portrays primarily mark-to-market of subscription bonus which in this quarter showed positive results of BRL 421 million, leaving negative effect in the first quarter '19 of BRL 118 million. If we exclude those mark-to-market effect and some non-recurring incentive less relevant, the net profit of the quarter would be BRL 150.6 million, and a reduction of 19.7% or 36.4 million of difference period over period.

It's important to emphasize that here financial results, we had some additional expenses such as financial -- effect on financial operations due to additional resources that we had to obtain from the market to face the pandemic. And also lower profitability of financial investments due to the decrease in the interest rate. Net indebtedness deduced from tax credit in this quarter, amounted to BRL 14.7 billion, increase of BRL 21.9 million over December 2019. The average term of the net debt is 5.3 years, average cost of 6.18% a reduction of 0.42 percentage points over 6.60% in December 2019.

Our main index CDI, which represents 72% of our debt. In terms of net debt over EBITDA (inaudible) as leverage we finished acquiring 2.5x over 3.6x the end of last quarter.

It's also important to mention that the company since the beginning of the year has made a number of fundraisings and elongated part of this cash amounting to give BRL 3.4 billion out of which BRL 1.2 billion was used to reinforce working capital and the remaining portion was used for postponing the deadlines to 2020, '21 and part of the expenses (inaudible).

This initiative focused on reinforcing our liquidity position of Group Energisa anticipating difficulties that would come from the pandemic. This is why in March we had a reserve cash amounting to BRL 4.2 billion, with an increase of BRL 1.3 billion over December 2019.

Now in Slide 10, we can see the investments of the group totalling BRL 714 million, growth of 31% over the third quarter 2019. Out of the total, the (inaudible) distribution absorbed 89% and transmission had 10% of its use, BRL 69 million per quarter over BRL 50 million last quarter.

Slide 11, we can see our plan of investment for 2020 fully revealed. You can see the reduction pointed out by Ricardo of BRL 557 million to process our cash position, considering the moment of crisis.

We've maintained our plan of potential investment to maintain and to have continuity of our operation. It's important to point out that out of the total reduced amount, 55% concerns special obligations. The estimates of investments were reviewed, amounting to BRL 3.4 billion, which also is very relevant to our group. 85% of this amount will be concentrated on distributors and 13% on transmission operation.

Now slide 12 concerning transmission, Energisa Goias 8.136 [ph] km, which was obtained at the auction in April 2017. This is the energy on March 13, this year, 17 months in advance. And this project will have annual committed revenue of BRL 40.7 million.

There are three more projects - Energisa Para I which started its construction in 2018, with a physical advance of 83%. We have Energisa Para II, which was something that we got in an auction in June 2018 and we have covered already 30% of the energy that (inaudible) purchase in December 2018, and average coverage of 12% of the plant. We had some interruptions of construction due to COVID-19, because of some specific cases of obstruction, but we have been successfully negotiating on a case-to-case basis. Concerning (inaudible) we are confident that despite minor interruptions, we are not going to affect any of our anticipated delivery plan, together with the 4 projects amount submitted annual revenue of approximately BRL 193 million and estimated CapEx of BRL 1.6 billion.

Since the beginning of those constructions of transmission lines from 2017 up to March this year, we have already invested BRL 123 million with BRL 245 million invested as Energisa Goias.

With this, I conclude my presentation and I will be glad to answer your questions. Operator, please. Thank you.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. (Operator Instructions) Hello, Carolina Carneiro from Credit Suisse has a question. Carolina?

### Q - Carolina Carneiro

Good afternoon, everyone. Thank you for the call. I have two questions. First, would you please make some comments about the following in the first quarter with good volume of operations in your concessions, provision for the liquidity has grown up but still not much affected by the crisis yet. So, I would like you to share with us some more details about



the progression in April and beginning of May, what have you been observing in terms of delinquency in your concession?

Secondly, we would like to ask you to tell us something about the community account, especially two points: some news -- incorrect news saying that maybe companies will have to pay for part of the financial costs resulting from the load (inaudible) that have been made. We've heard some news that might be some additional requirement, should the companies except to use the resources. So then they wouldn't be free to ask for any compensations later. So I'd like to hear your take on this. Thank you very much.

### **A - Mauricio Perez Botelho {BIO 2105889 <GO>}**

Carolina, this is Mauricio speaking. Let me share my answer here, before my colleagues here.

In terms of load, there was a decrease in April of 6.3% over the load of the national system. In case you have an idea about our company regulatory affairs, I would like to ask Ricardo and Alejandro[ph] to help me answer. How are we doing with our discussions with the Ministry of Energy and (inaudible)?

### **A - Unidentified Speaker**

Can you all hear me? Yeah. I'm going to start and then Alejandro[ph] can compliment. Good afternoon, Carolina. I'm going to start with the second question about asking (inaudible) news and something along those lines. Well, it does not exist. Nothing will decide [ph] because of COVID. Everyone can feel (inaudible) to rebalance this parcel of the distributors.

There is no correlation there whatsoever. We cannot find our objective criteria, though. It's being just an (inaudible) solution for all the requests of economics retracting can be submitted and distributors will have to confirm there has been an imbalance. Everything will be done once we know what the impact --permanent impact, we've already been suffering the impact. But since we know the permanent impact we've had, we will be able to request that according to the criteria that has been set by the agency, but there is no prohibition of asking for rebalances.

This is part of concession contract and also according to the regulations of operation. You would just have to have specific criteria by papers which will be provided by the regulatory agency. Concerning financial part, I'll ask Alejandro [ph] to help me.

At first all costs to COVID, should be on consumers. Consumers should be responsible for paying debt. What we have to say is, if you have got an amount higher than what had been required to have your immediate liquidity and it says resources are additional cost, may be transfer to the distributor. But if there was anything in (inaudible) what is your parcel is. This is how I see it. Right now consumers are responsible for covering it. As Ricardo has pointed out earlier (inaudible) the cost would be spread across, but this is all going to be a service cost. We really don't know how the process will be held, we still have to work on having the regulations.

## Q - Carolina Carneiro

Great. Thank you very much. Thank you for your answers.

## Operator

The next question comes from Marcelo Sa from (inaudible). Marcelo please?

## Q - Analyst

(Technical Difficulty) (Inaudible)

## A - Unidentified Speaker

Good afternoon, Marcelo. The technique has had a number of possibilities and it has a broader reach on different solutions. COVID account is a very short-term solution. We have to come up with different mechanisms for the short and mid-term for this unit. This is our interpretation. There is a menu of options, right now just thinking about, it's a very short term solution, which is the COVID account.

## Q - Analyst

Great. Thank you.

## Operator

(Operator Instructions) If there are no further questions, I'd like now to hand it over Ricardo Botelho for his closing remarks.

## A - Ricardo Perez Botelho {BIO 2105867 <GO>}

Thank you all very much for being with us during the conference call. We'll carry on paying close attention and focusing on doing our best to deal with COVID. Thank you all very much and have a nice afternoon. Thank you.

## Operator

The conference calls for the earnings release of Energisa is finished now. Thank you. You may disconnect now.

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