

## Y 2019 Earnings Call

### Company Participants

- Gustavo Estrella, CEO
- Yuehui Pan, Chief Financial and Investor Relations Officer

### Other Participants

- Gustavo Miele, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning and thank you for waiting. Welcome to CPFL Energia's Fourth Quarter of 2019 Earnings Conference Call. Today with us we have Mr. Gustavo Estrella, CEO of CPFL Energia and Mr. Pan, CFO and Investor Relations Officer of the company, as well as other officers of the company. The presentation is available for download at the CPFL Energia Investor Relations website, which is [cpfl.com.br/investorrelations](http://cpfl.com.br/investorrelations). We would like to inform you that all participants will be in listen-only mode during the company's presentation. And at the end we will hold a question-and-answer session when further instructions will be given. (Operator Instructions)

We would like to remind you that this call is being recorded. Before proceeding, we would like to clarify that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Such forward-looking statements are beliefs and assumptions of the company's management, as well as information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not materialize. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of CPFL Energia and may lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to turn the floor over to Mr. Gustavo Estrella. Mr. Estrella. You may proceed.

#### **Gustavo Estrella** {BIO 18109709 <GO>}

Thank you very much. Good morning. Thank you very much for participating in our call about the result of 2019. And now let's go straight to page number three in which we have the main highlights for 2019. I would like to start by the increase in our loan in the

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concession area amounted to 1.2% and we will see this in detail. This growth has been very much pushed forward by growth in consumption of lower voltage, especially residential. Record result EBITDA reaching BRL6.394 billion, growing by 13.4% year-on-year. Net income record, BRL2.748 billion, growing by 26.9% on a year-on-year basis. Net debt. Total net debt BRL16.8 billion and leverage, measured by the net debt-EBITDA ratio with our financial governance 2.52 times, an important drop vis-a-vis the end of 2018, which was 3 times. Investments another year with investments higher than BRL2 billion. We closed the year with BRL2.254 billion, growing by 9.3% year-on-year.

Due to the growth -- the reduction of our indebtedness and growth in our results, the company proposes to pay a dividend payout of BRL2.075 billion or BRL1.8 per share, 2,075 million and we had a very important tariff review in CPFL Piratininga in October 2019 with a negative adjustment of 7.8%, mostly due to the reduction of the charges of the CDE and in spite of the reduction in tariff we had an important increase in our Parcel B, amounting to 6.2% mostly led by the transfer of the IGP-M to our tariffs. Once again the highlight of our IPO -- Re-IPO which happened in June '19 and I would like to mention here our average trading of BRL94 million in the stock exchange with a very positive result vis-a-vis the participation in the main share indices in the Brazilian market and we are getting close to 50 with an expectation, which is positive already in the FBOVESPA in the next few months.

We integrated the process of BRL4.1 billion in CPFL Renovaveis BRL16.84 -- BRL16.85 per share and we continue with the delisting of CPFL Renovaveis over 2020. We also had an important process of integration of CPFL Renovaveis into CPFL Energia already announced to the market during our Re-IPO process and we concluded the process at the end of last year in December and today CPFL Renovaveis, is already fully integrated in our headquarters in Campinas. We started an important process in CPFL Renovaveis of debt replacement. We already had BRL838 million and we expect to continue with this process over 2020 with a reduction in the cost and the extension of the terms in CPFL Renovaveis.

Now going to slide number four, we have the highlight of Energia sales in the fourth quarter of 2019. This quarter was positive in terms of our sales with a growth of 2.4% and our sales in the concession area. Load and sales 4.2%. Per class of consumption, we see an important highlight in residential and commercial. This is a very important highlight in the fourth quarter of 2019 vis-a-vis 2018 and Industrial still is slower recovery compared to the others.

Slide number five where we have the energy sales for the full year of 2019 growing by 1.2% and lower than 1.3% in the sales of the concession area. And I would like to highlight that over 2019 CPFL had a migration of some client -- customers from our market to a direct connection to the national grid but no effect on the margins of the company, but it really hinders when you compare to the market performance of 2019 vis-a-vis '18. So net of the effect of the migration of these customers, this 1.2% in fact is a 1.9% growth in consumption in our concession area. Once again, we see the highlight that comes from the low voltage residential and commercial. Basically, the effect of temperatures that affect consumption in a positive fashion in the residential and commercial sectors. And also effect of the industry with a drop of 1.4% and net of the effect of migrations in fact industry was practically stable vis-a-vis 2018 with a drop of 0.1%.

On page number six -- on page number six, we see delinquency energy losses, two very important point monitored last year in the distribution segment. Delinquency with an important drop from the third to the fourth quarter, going from from 0.87% to 0.49% and I would like to mention that we carried out some renegotiations with some customers over the fourth quarter of '19 therefore, we see a one-off effect. Net of this effect of these negotiations, we would get to a delinquency level on a same comparison basis of 0.7%. But still lower than the third quarter and practically in line with the end of 2018. We see a slow draw but there is a downward trend in delinquency and we continue to be very strong in our actions regarding collection, especially the cut -- energy cut in the fourth quarter 591,000 cut, the highest volume of cuts in one single quarter and we expect to maintain the same number or at very high level so that we may control and further reduce delinquency over 2020.

Now talking about the energy losses. Practically stable with a very slight reduction in energy losses vis-a-vis 2018. We closed last year with 8.89% of losses. In spite of this reduction, we are still higher than the regulatory caps and this is a major challenge of 600,000 inspections over 2019, so that we may identify and fight this in our concession areas. Slide number seven, we have a whole set of information that affect directly or indirectly our generation segment. We see a drop in the spot price vis-a-vis 2018, a 21% drop. The average spot price in 2020 BRL27 per megawatt hour. And at the beginning of this year with an expectation of an even lower spot price than 2019 due to the high rainfall that we had especially in northeast at the beginning of this year. GSF 8.3% increase, reaching 91% GSF in 2019.

SHPPs, a reduction in the flow of water from our project in our SHPPs, a 3% reduction vis-a-vis 2018 and this also affects our production of energy over the year. Wind generation, a drop of 4.6% vis-a-vis 2018. And we can see here that it is directly connected to the wind performance in our wind farms with a drop of 4.9% when you compare to the curve of P50, we reach 85% of P50, slightly lower than the volumes of 2018. And this has a direct impact on our total energy generation wind availability. We see a growth of almost 2% and the good news here comes especially from the Sierra wind farms with [ph]associated machines and after our insourcing, at the end of last year we can see an improvement -- a significant improvement in the performance and the availability of our machines and our wind farms after this in-sourcing.

Now I would like to give the floor to Pan so that he may talk about the details of the results of the company.

**Yuehui Pan** {BIO 20609514 <GO>}

Good morning, everyone. Now turning to slide number eight, the EBITDA in this quarter was of BRL1.7 billion, 28.6% higher. The Distribution segment was up 37.3%. The main effect came from market and tariff gains, a total of BRL238 million, especially, thanks to load increase in our concession areas and Gustavo already talked about that and also we had additional effects such as increase in other revenues, reduction in our ADA after several quarters higher and Commercialization, Services and Others, there was a significant increase of 108.4%. In Services, I stress the good performance of [ph]CPFL services with excellent results in 2019. BRL16 million higher in this fourth quarter. In

Commercialization the volume, so drop was offset by higher prices, increasing our margin in BRL8 million.

And the next slide. We have conventional generation, which posted an EBITDA 6.1% higher and the main effects were the inflation rate transfer to contracts, BRL25 million, partially offset by the GSF of our small share of GSF of our energy in the free market, which was negative BRL7 million and others minus BRL1 million. In CPFL Renovaveis, EBITDA was up 26.1%, thanks to assets write-off in the fourth quarter of -- which was BRL60 million, a higher wind farm generation plus BRL28 million and that was partially offset by the integration of CPFL Renovaveis and CPFL Energia, minus BRL4 million and the end of the grace period in O&M payments increasing expenses in BRL3 million and others minus BRL3 million.

Turning to slide 10. We have our net income performance, which was BRL857 million in the quarter, 27.8% higher vis-a-vis 2018. In addition to the variation of BRL387 million variation in the EBITDA, other effects include in the financial results, a drop of BRL108 million because of lower interest rates and reduction of the net debt, allowing a gain of BRL98 million. Depreciation has varied BRL48 million and there was a tax increase of BRL260 million because of better results and posting of tax credits which were higher in 2018 than in 2019. And the next slide, the results for 2019 an all-time high for the [ph]CPFL. The EBITDA was up 13.4%, an increase of BRL757 million. Net income was up BRL582 million and that represents an increase of 26.9%. As for EBITDA, distribution was higher thanks to load and tariff increases, partially offset by PMSO and ADA. Another highlight is renewable generation, which was in the same level of 2018 in spite of the poor wind performance. About net income, in addition to our EBITDA positive effect, we also had a better financial result of BRL376 million, thanks to lower indebtedness and lower debt cost.

Now turning to the next slide, the company's indebtedness. On the top chart, net debt totaled BRL16.8 billion and the EBITDA of the last 12 months was BRL6.7 billion. Leverage, which is measured by net debt over EBITDA was 2.52 times. On the gross debt breakdown, we can see that 63% are CDI-indexed and that has helped bringing down the debt cost. Compared to 2018, main changes in 2019 were the reduction indexed by long-term interest rates and increase of IPCA indexed debt. On the next chart, the debt cost over the past few years. Both real and nominal, the drop from 2018 to 2019 was mainly because of the interest rate reduction, the Selic rate. Cash position by the end of 4Q '19 had a coverage of 0.62 times of the amortization of next year which is enough to pay for 2020's maturities. The average amortization term, which is calculated based on the schedule is of 3.18 years.

On the next slide, our CapEx. In this year, we have invested BRL2.2 billion, over 9% higher vis-a-vis 2018 and are very much in line to our plans. Considering each segment, we had for distribution, a total of 2 billion invested and expansion and improvement in the system for a generation and transmission BRL126 million were invested in renewable, BRL21 million in transmission and BRL12 million in conventional generation. For the Transmission segment, we invested Maracanau, Sul I and Sul II projects which were acquired in 2018's auctions. Finally, Services, there we have invested a total of BRL62 million. On the next slide, our estimated CapEx for the next five years. Considering a total investment of BRL13.5 billion, of those BRL11.6 billion for Distribution, BRL1.2 billion for Generation with

focus on renewable, BRL233 million in Commercialization and Services, and BRL564 million in Transmission.

So now I turn the floor back to Mr. Gustavo Estrella.

## **Gustavo Estrella** {BIO 18109709 <GO>}

Thank you very much, Pan. Now let's turn to slide number 15 in which we have our strategic plan from 2020 to '24. It's important for us to split it into markets. Our plan follows the line and we -- the CPFL Act regarding safety and growth and new businesses and operational efficiency, maybe with two important highlight here. First the digitization of the company and that has been the focus of the company and guiding our investment and the way we mold not only our current business as the company but prospective future businesses, so automation and digital operation is -- are very relevant for our strategic plan from '20 to '24, besides customer focus.

And we're going through a very big transformation in our customers in the powers market and we must focus on service, client or customer service in our regular business and also in other businesses that might -- we might participate in the future. This is fundamental, these two pillars are fundamental and they will be the guidelines for our future as a backdrop for the plan we have our sustainability plan and we always say that results are very important, but the way we achieve them and how we achieve them is as important as this is why our sustainability plan is the basis for our bottom line. When we look at our results, we have to look at sustainability, environmental, social aspects. So these are the guidelines and these are the foundations of our growth plan, our investment plan for the next 5 years.

Very well. This is what we wanted to share with you and now we would like to turn to our Q&A session.

## **Questions And Answers**

### **Operator**

Ladies and gentlemen, we will start now the Q&A session. It will be in Portuguese and simultaneous interpretation into English (Operator Instructions) Gustavo Miele, Itau BBA.

### **Q - Gustavo Miele** {BIO 21077665 <GO>}

Good morning Gustavo, good morning, Pan. Thank you for the presentation and I would like to ask a question about distribution. Besides the very strong volume that you reported in this quarter, the main highlight as far as we are concerned, was the fact that you were able to achieve a very good, very acceptable number of losses without having a big stress on the OpEx. So I would like to know what is your expectation from now on regarding this dynamic ADA hand in hand with OpEx. You talked about the number of inspections and is this the idea for your fight against losses from now on still, or do you intend to reduce -- further reduce losses with this controlled OpEx and maybe the time has come for you to

cut losses more slowly I would say, preserving the healthy OpEx that you have been delivering. So could you talk about this dynamic please. Thank you.

### Q - Unidentified Participant

Hi, Gustavo. This is a Luis Henrique from (inaudible). And to your question, we are more selective. On one hand, we are controlling costs and on the other hand, we are fighting delinquency and losses both and in order to be more selective by means of analysis, we put artificial intelligence here in the program for a better selection of the inspection points or even the cut point, so that we may have the best possible margin with these cuts and also with inspections bringing about that results with a lower number of inspections and cuts with a much, much better average ticket. From this viewpoint we have a lot of discipline and in the next few months we are going to seek this discipline, looking for a good average ticket and do inspections and the selection of cuts in an intelligent fashion with a lower cost.

And regarding what we expect, of course, we had the calendar effect of the result, but we need to keep this stable or even further reducing and we are investing, and we are about to end the instalment of the intelligent meters in RGE Sul. And this will bring about a better monitoring of Group A, which has a major amount of energy. So that we may track this in a better fashion and the more selective cut and the more selective inspection tracking the load of this area. So it's really a summation of all these factors, but the question of intelligence that we put in the commercial area, we intend to roll this out to the next few years.

### Q - Gustavo Miele {BIO 21077665 <GO>}

Thank you very much, Luis, very clear.

### A - Gustavo Estrella {BIO 18109709 <GO>}

Gustavo just adding to what Luis asked by means of technology and analytics, we can be more assertive in our fight against losses. Just to remind you the effect that he talked about is the calendar effect and this has an impact on the calculation of losses when we look at shorter period such as one quarter. So we have to look at one quarter as being a trend and we have this downward trend in terms of losses but when we look at longer periods like one year it's slightly higher, so this is one way to analyze the data and we saw the quarter as a trend and a higher assertiveness when we do this on an annual basis. Thank you very much.

### Operator

(Operator Instructions) Excuse me, we end now the Q&A session. I would like to turn the floor back to Mr. Gustavo Estrella for his final remarks.

### A - Gustavo Estrella {BIO 18109709 <GO>}

Well, once again, thank you very much for being with us in this call. CPFL had a very important year of wonderful results, all time highs for the company in terms of EBITDA and net income, consistent production and consistent improvement in our leverage. This

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was year where we had, we are again a listed company with the relevance in the stock market. So this year was the year where we prepared ourselves to face the upcoming challenges. So as we see the market for 2020, we have a continuous expectation to have lower interest rates, recovery in our economy and so we do expect to maintain the results just as we had them in 2019. We are also preparing ourselves for investments plan, Pan has showed us that the company's expectation is to have investments in -- of BRL3 billion, our planning cycle is of five years, that corresponds to investments of over BRL13 billion, so, we are also working on distribution, we are going to increase our grid, improve quality, expand growth, this is the idea and that's how we expect to be working over 2020.

Once again, thank you very much and have a good afternoon.

## Operator

The conference call for CPFL Energia has ended. Thank you very much for your participation and have a nice afternoon.

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