

Y 2018 Earnings Call

Company Participants

- Alexandre Nogueira Ferreira, Vice President, Regulatory Affairs and Strategy Director
- Ricardo Perez Botelho, Chief Executive Officer

Other Participants

- Andre Sampaio, Analyst
- Camila Cavalcanti, Analyst
- Gustavo Miele, Analyst
- Marcelo Sa, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, welcome to the teleconference concerning the Results of the Fourth Quarter of 2018 of Energisa. We inform that the participants will be listeners only. During the presentation of the Company (technical difficulty) (Operator Instructions). We inform that this teleconference will be in Portuguese and it will be by the management of the Company, and the teleconference will be in English with simultaneous interpreting. This event will be transmitted simultaneously via Internet, via webcast.

Before we go on, I would like to clarify that declarations during this presentation that may include projections, operational goals, and other information that are in that order are -- of the -- are confidential. We have to make clear that these are projections we have basis on premises [ph] and studies, and future results depend upon these variations and circumstances that may or not occur. Investors may understand that general economic (technical difficulty) will initiate the presentation.

Ricardo Perez Botelho {BIO 2105867 <GO>}

(technical difficulty) Alexandre Nogueira, Vice President of Regulation; Claudio Brandao, Director for Corporate Finance; and the whole team of relationship with Investors.

I would like to start with some considerations, opening consideration. We are very proud of the achievements of the Energisa Group. We have overcome challenges and we are incessantly looking for excellence and growth. We acquired two new distributors through auction realized in August, Ceron and Eletroacre, and after consistent work and very detailed work, we have achieved great results. We have 11 distributors in our portfolio, over five regions of the country, and we are serving 24% of the national territory, 7.7 million clients.

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We are going to use our expertise to realize a turnaround of assets for distribution according to our well successful history with the group already. And we are going to take our energy further with quality to clients of this regions. We keep on growing with the acquisition of a lot in Para in June, in Tocantins and by year-end December last year. We have now four concessions with 1.343 (sic - 1,343) kilometers of lines of transmission capacity of transformation of 4.294 (sic - 4,294) MVA and the revenue of BRL184 million. We continue focused on the client as a result of our commitment with quality in the provision of energy, we have been awarded nine prizes Abradee 2018 and four of our distributors are among the best in the country.

The index of Aneel and of the satisfaction of clients, we are in the leadership in the Center, Southeast and in the North, in the category. In the last Friday, we have seen the ranking of continuity, assessing 47 concessionaires, looking at the best performance in the services provided. Energisa through Southeast Energisa is leading the ranking with seven distributors among the 10 best, in companies of great and mid-sized. It makes major difference in life of our clients.

We want to provide more pride and we want to take to become better and better and that's what we work for. In 2018, the Great Place to Work service -- survey of services defined the distributor as the best developed in the development and performance in continuity of the services provided.

As in other occasions, we are referencing health and offer labor health. Last year, we revised and mapped our way of dealing with risk and labor health, and we improved even further in order to advance and bring innovation to the business we invested in a major project of innovation and contribution.

The new efforts will lessen bureaucracy, receivables loss will be improved, losses will be lessened, and we'll deal with failures that will be diminished majorly, declined flow count [ph] was new possibilities of the payments of their energy bills, and will create more and more channels aiming for improving the experience. We want an even a company that is simple -- simple, more digital and more efficient. We have contaminant results that will start, being presented now by our VP. Please, floor is yours.

Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

Good afternoon, ladies and gentlemen. I will start presenting results, and in the sequence we will open a session of Q&A. Before I start in, I would like to point out that this is the first trimester that we consolidate the companies acquired, Ceron and Eletroacre. And for the operational part, the numbers presented are based upon the data that these companies can carry within from 2017 to 2018. And the financial part carries within a pro forma values, therefore, bear in mind.

Slide 4, financial result. EBITDA BRL1,892 million in the trimester, BRL4,082 (sic - BRL4,092) million for in the year. Accountancy numbers BRL675 million in the trimester, and BRL1,179 million in the year. That has to do with the acquisition of Ceron and Eletroacre, BRL1 million -- BRL140 million. That's what it represent. It's a business combination according to FAS3

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[ph]. Investments have been made in the controller, and as per other operational revenue, we have other results in the exercise. Further details of the accountancy, you can find out on the Slide 17.

EBITDA liquids [ph] that 2.7 that's on a double fold and more, and the -- for trimester according to Eletroacre, we had discussions that were well discussed. We discuss the provenance of the company, and we currently have the realization of an assembly to be held in the near future. We have some events that are subsequent after the closing of the trimester.

On February 28, SEBRAEpar provided the auction of sales with a participation of 3.29% in the participation of decrease of energy, and we have realized the value of the (inaudible) BRL14 million, now we have 45.9% of the company. BNDESPar has a contract that has been acquired and has been successful, thanks to the relationship with other companies that has been acquired.

In 2004, we acquired stocks with yields in the 95.4% in yields, which paid the reminiscent of the debts. Eletrobras include BRL182 million and BRL300 -- billion and BRL360 million, respectively. The respective and remaining partnerships RGE BRL621 million, a BRL5 million in Eletroacre, and this contract is managed by CCEE. On the other hand, we recorded the assets and after that what was mentioned in the auction, we have BRL673 million combining the two companies. And dividends, we have an additional of BRL0.15, 65% of gain.

Let's go to Slide 5. We have the growth rates. It has to do with classification per distributor, 2.57% in growth, Brazil as a whole grew 1%; Energisa Mato Grosso at 5.6%, 123 VWA with a great number of gigabytes hour, whereas the segment in the industrial and Mato Grosso plus 29%.

The food industry has brought major gain. Energisa Paraiba -- 2.7%, 49.6 gigawatts hour plus, and Energisa 39.5% in terms of this growth. Yearly, we have the consumption of the following distributions -- distributors, Mato Grosso more than 39 gigabytes hour, Sul Sudeste with 123 gigabytes hour. 1.1% was the growth of Brazil, once again Energisa is growing ahead of that number.

Slide number 6, the graph to your left hand side, we have losses of the Group in the electrical area. 13.7% as you can see here, 0.27 percentile points, according to the new concession contracts, Ceron and Eletroacre had their losses flexibilized and to be regained over the period of the next five years. And certainly they will be an object of focus of planning and efforts towards stabilizing among the companies acquired. Eletroacre had total losses lower than regulatory numbers without Ceron and Eletroacre in the accounting.

The 11.6% was the level of energy injected, almost constant compared to September last year and below the regulatory Energisa Mato Grosso with a drop of 0.7 percentile points considering December 2017, and 0.38 percentile points compared to 2018. This concession is slightly above the goals of overseas. We are taking measures, and due to

the recurrence and the change in teams, and so we have the departments of states that also have had and influenced on that. In Mato Grosso from 2017 to 2018, we have had results. Tocantins is still below the regulatory goal.

Slide 7 defaults concerning PDG and the revenue 0.5% aside Ceron and Eletroacre, 0.66%, you see here in the graph. To diminish and to lessen defaults, we used algorithms of artificial intelligence considering each and every client, customization of the measures applied, that are more and more efficient in terms of that collection. We have SMS messages, we have blacklisting of names in terms of the market at large, among other activities. And all our companies will use the same tools, we will unify that.

Slide number 8, we are going to use the indicators of quality. We see that except for Ceron and the indicator deck, all distributors are with a good level of quality. We have gone beyond our record -- past record numbers, namely Mato Grosso do Sul, with an exceptional performance for Energisa Tocantins back and non-back, as mentioned initially by Ricardo here, we classified seven of our distributors. Energisa South and Southeast have great results with relationship to the acquisitions. We've regained investments, and we have regained strength in terms of the deployments of the plans that had been in the (inaudible).

Slide number 9 has some highlights financially speaking, considering this year. We have the legacy distributors here lesser and one month is black. We had the reduction of 5.2% in the trimester and a gain of 3.8% in the year, in line with the inflation rates of the period. A good share of that has to do with personnel participation of results of the Group, given the improvement of performance of the Group. It's only understandable and internationalization of the teams. The reduction of services was impacted by the anticipation during the drought in Mato Grosso do Sul, we had impact -- I mean, impacts of that. We have regulatory adaptations that have a set numbers as well.

Slide number 10, we have the evolution of the EBITDA consolidated pro forma without Ceron and Acre, BRL683 million in the fourth quarter, and BRL2.884 (BRL2,884) million in the year, a reduction of 15.3% and 21.5% added respectively. Aside monetary increases of the adjusted EBITDA we had a drop of 4 -- 5.8% in the trimester and an increase of 27.7% in the year.

I'd point out the EBITDA of the year, that was affected by effects non-recurrence. In the end of 2017, we had VNR, we had Mato Grosso, Sergipe and Tocantins. And if we discard those and other effects that are mentioned here, the EBITDA would grow -- have grown around 25.6% and respectively.

The trimester, we point out improvement of 94.4% -- BRL94.4 million, I beg your pardon and installment be at the distributors, we had BRL666 million. In the trimester again, we have Tocantins, influenced by the reversion in the happening of fourth quarter, BRL200 million for Tocantins and BRL13 million for Energisa Southeast. The year as a whole, you can see that there is no compromising of the whole.

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Slide 11, we have here the consolidation of the results of the Group. We see the numbers here an incremental 66% compared to 2017. Pro forma revenue and profit, the results have 72.9% decrease and 0.8% in the year. However, there aren't many effects that are not recovering, the main of them is the bonus of subscription, the debenture of Energisa, that has a relation to that, it's non-cash flow BRL107 million in the first quarter and BRL165 million in the fourth quarter. Therefore, there has been adjustments for the effects -- for that effects non-recurrent, and the net profits pro forma would be 49% superior to prior year. That's why we include Ceron and Eletroacre, BRL10.8 billion total in 2018, and the adjustment had a drop of three-fold in December 2017, 2.7 times in December 2018. 2.7 or has to do with the recognition of BRL1,100 million business combination with Acre and Rondonia. Without that whole scenario, it would be a whole different number. To your left hand side, we see the cost of the debt. 65% of our debt is indexed to this CDI and we're benefiting for -- from the rates -- interest rates for Brazil.

Our credit bills have been reassured, that's important. I would like to point out some issuances, BRL4.7 million. We had some important aspects here. We had the issuance of Ceron debentures BRL1.8 million with maturity for the next three years -- in three years that had to do with paying a debt or surround with another company. We have BRL250 million, average cost BRL4.6 million in CDI and with maturity in 2025 and 2028.

Investments wise, we wrapped up the year with BRL1.981 (sic- BRL1,981) million, including BRL53.6 million invested during the management of Energisa. Transmission wise, we had BRL173 million in the year. I would like to point out the acquisition of the two, Energisa Para and the other in the September and October 2018, two projects that are being installed. We are obtaining the license for 24 months, and we obtained 13 months.

In the (inaudible) front, negotiations with the proprietary is affected and the lines of transmission are majorly concluded. We have less than 5% to deal with. Energisa Para Goias, a lot that was acquired in an auction in June 2018, the contract was executed. In September last year, we have doubled the asset work and regularization according to standards are being dealt with. The common entryway is being also dealt with.

We have agreements in the fund DRA front. 50% of the affected areas are already undergoing clearance for liberation. We point out the fiscal benefit of Rede of the project obtained in January 2019, Energisa Tocantins from December 2018 the acquisition. We have the studies, we have the project -- base projects. The concession contract is to be executed next week on the 25th of March.

These four lots adds up to BRL184 million with a CapEx of -- estimated in the order of BRL1.5 billion. CapEx and guidance wise, we are estimating investments in the order of 2.8%. 87% of that value is focused on the distribution group. Ceron and Acre will receive together BRL699 million. And investment this year, Ceron will be the second distributor in the ranking of the Group, but they will have investments. The distributors acquire the requested along with Aneel, the processing of the revision of the tariffs, the extraordinary ones to be realized in December of 2019 in substitution of the process of the tariff annual adjustments as per foreseen in official documents. EBITDA consolidated, we are at 29.2% as you can see per the graph here, BRL400 million in growth in this period.

Hereby, I end my presentation numbers wise, I would like to open for Q&A. Operator, the floor is yours.

Questions And Answers

Operator

Thank you. We start now the Q&A session. (Operator Instructions) Mr. Marcelo Sa from UBS Bank would like to ask a question.

Q - Marcelo Sa {BIO 16454581 <GO>}

Good afternoon. I have a few questions. Starting with the to regulatory documentation Aneel, for transmission and generation, we had a positive outcome even above the forecast. I would like to understand what was your perspective, if you see room for the distribution to have a different EBITDA cost? We are not clear whether Aneel is open for that kind of change or others, and whether they consider distributing companies? I would like to know whether you see possible differences in terms of the orders of distribution.

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

Alexandre Nogueira has been disconnected. On March 12, Marcelo, we had a discussion, aiming to prepare the discussion in the block off generation. It's well seen and with a positive outlook, we are still in this phase of contribution. It started in -- it is to start on March 22nd and is to end in June. We are keeping up or we are analyzing the development of that and we'll see the differentiation that is to take place between distribution and the other segment. These segments are similar, nevertheless, not the same. So they will be dealt with differently.

Distribution, we understand that we'll have the elements, and the distribution orders will be reopened in the second semester of this year and around 2020 that should happen. The module investors and analysts that aren't here with us -- are to share and confirm rather share here with you.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you, Ricardo. Another question that I would like to ask is whether you have the assessment of the assets of the bank? We have started, and I would like to understand the basis of work of your sales of the company. And I would like to understand if the report on the assets may be greater than expected?

A - Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

I am Alexandre. Hi, Marcelo. We see that our planning on the inventory is going well and the preparation of the basis that we had, and we proposed at the moment of our discussion is going according to plan. Thank you.

Operator

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(Operator Instructions) Mr. Andre Sampaio, Santander.

Q - Andre Sampaio {BIO 19422379 <GO>}

Good afternoon. I would like to ask a question with regards to Eletrobras and the participation. How do you see this possibility? And if you have had any sort of studies, look into that, and funding wise, how do you see that?

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

Andre, I find hard at this point to comment on third parties. The payment on the first moment didn't happen because it didn't happen, it wasn't up to speed in terms of the regulation. They are requiring public information, and we are gathering that. We have some planning for that.

Q - Andre Sampaio {BIO 19422379 <GO>}

In order costs wise, Ceron and Eletroacre, is there anything we should watch for and be more careful?

A - Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

Ceron Acre is rather busy or loaded if you will, it's very diverse. Right after the privatization, even before, we had (inaudible) as if there weren't an actual knowledge of what was to come, the auction happened right after that. If we look individually to the current state of that, we'll find situations like that. The analysis of our results here, and you can see in the reports and I have mentioned that, we are going to focus on the companies that we have, unless it is here. It's difficult to have a comparison at this point honestly.

Q - Andre Sampaio {BIO 19422379 <GO>}

I thank you for your response. And I would like to thank Bruno for opening this information. Cycle wise, you have expectations in terms of discussions that have to do with the regulators or things that you may add in that sense?

A - Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

Can you please repeat your question? You're really low. I can barely hear you.

Q - Andre Sampaio {BIO 19422379 <GO>}

The fifth cycle of revision, the expectations that you have on that? On the fourth cycle, have you discussed anything that concerns that? And what you have in terms of expectations towards that?

A - Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

The fifth cycle, we expect the evolution with regards to the previous cycle in the points that with incentive will improve. Aneel opened for public bids - bidding, and this concept has been clearly stated and designs are being accomplished. We are expecting a clear

discussion. We are working based upon the fourth cycle and certainly we are aiming for major improvement.

Operator

Camila Cavalcanti from Citibank.

Q - Camila Cavalcanti {BIO 20876033 <GO>}

Good afternoon. I would like to understand a little bit more on RGE. In the sense of -- to whether it would be of immediate impact or whether we have to consider a longer time frame? And the tariffs concerning RGE, how are they going to occur over the last -- next years concerning Ceron and Eletroacre?

A - Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

RGE designated, it's under the intervention of the state management once it's been privatized, so we have to consider that public funding is no longer an option here. What happened in the notice that was opened to the public, we have 30 years of maturity. It will have amortization within 25 years in average. In the tariff, we'll have the tariff minus the amount from the auction Ceron and the tariff amount will be 25% lower than the outstanding balance of the loan. And that will be reviewed yearly.

RGE that has been of course dealt with according to the period of the concession, is going to be dealt with CVA. Well, you see it's already on CVA, there is an outstanding balance, it updates the loan. And you were saying that the outstanding balance covers all that RGE have needed so far. Whatever Ceron needs will be -- will suffer amortization. The differential here concerned EBITDA depends upon what the loan yields and what we are charging.

Q - Camila Cavalcanti {BIO 20876033 <GO>}

Thank you. I think that clarifies my question.

Operator

Gustavo Miele, Itau BBA would like to ask a question.

Q - Gustavo Miele {BIO 21077665 <GO>}

Good afternoon. Thank you for the presentation. Operational wise, one of the variations that drew our attention is the non bills net profit, even excluding Eletroacre and Ceron, it affects the future. This variation has to do with the volume that you have acquired. I understand all that you have brought to the table including Mato Grosso and so one, BRL114 million will be recurring in the next trimesters. Can I take that as a consideration?

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

No. That shouldn't be used as a proxy or a basis for the forecast of next semesters -- trimesters, I beg your pardon, or quarters. We depend on the variations of one year to

the other, and the different variations. We have to take into consideration that already in the last quarter, we had some variations that were affected by the temperature that we had forecast as such, and they didn't achieve that level. We have a growth or an increase that has to do with temperature, Mato Grosso, Mato Grosso do Sul, those states have these results that are come from that.

Operator

(Operator Instructions) Thank you. I would like to pass the floor to Mr. Ricardo for his last remarks. Mr. Ricardo, please the floor is yours for your last remarks.

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

Over the next year, we aim to integrate the companies. This is what we all want. That's why we want a major portfolio of diversification, and we want to elevate all companies to the same level of excellence of all the other companies of the group and our clients are taken into consideration. We'll assess opportunities in these segments' transmission and generation of energy.

CapEx will be considered. We'll leverage a number of internal competencies, in order to change and continue to be relevant and grow further, because demands are more and more straight. We have confidence that with what we have planned and for entrepreneurship good planning will carry on with the legacy -- successful legacy of our founders, always same color shareholders, clients and service providers and providers in general. And thank you, and a good afternoon.

Operator

Thank you. The teleconference of the results of Energisa fourth quarter is over. Please disconnect your lines now.

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