Q2 2020 Earnings Call

Company Participants

- Henrique Manuel Marques Faria Lima Freire, Chief Financial Officer and Vice-President of Finance
- Joao Manuel Brito Martins, Vice-President of Grids
- Marilia Barbosa Nogueira, Executive Investor Relations Manager
- Miguel Nuno Simoes Nunes Ferreira Setas, Chief Executive and Investor Relations Officer

Other Participants

- Marcelo Sa, Analyst
- Maria Carolina Carneiro, Analyst
- Pedro Manfredini, Analyst
- Unidentified Participant

Presentation

Marilia Barbosa Nogueira {BIO 22039088 <GO>}

Good afternoon, everyone. Welcome to the earnings release of the Second Quarter 2020 of EDP Energias do Brasil. I'm Marilia Nogueira, Executive IR Manager of the Company. The presentation today is going to be made by Miguel Setas, CEO and IR Officer; and Henrique Freire, Vice President, Finance.

This webcast is exclusively being posted on web at the following address, ri.edp.com.br. The webcast is being recorded and it's going to be available on the Company's IR website. At the end of presentation, we are going to have a Q&A session, please ask your questions on the webcast platform.

Before moving on, I would like to let you know that any statement made during this webcast relative to the Company's business outlook, operating and financial goals and projections are based on the beliefs and assumptions of EDP's management and rely on information currently available to the Company on the website and also through CV [ph]. Forward-looking statements are not a guarantee of performance as they involve risks, uncertainties and assumptions and because they refer to future events and therefore, depend on circumstances that may or may not occur.

And that -- I'm going to turn the call to Miguel to start the presentation. Please, Miguel, you may go on.

Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Thanks, Marilia. I'd like to welcome you all to the second web conference of the year to discuss the earnings of the second quarter 2020. Today, we are going to have an experience, a different release. It is the first time that we are testing the webinar technology, and we hope it is a model that is easy to interact, and that will enable us to follow this presentation with quality.

So I would like to tell you that we are very much aware that this is a sensitive moment for the country, not only for EDP, but for the whole of Brazil. And we hope that you are all healthy and right now that everyone is at home and working but safe and protected from the pandemic. This is my first comment. This is a quarter that is, I would say, quite special, quite important for us. It is a quarter in which we started to see an inversion of results you are going to see, and that we are going to explain that throughout the presentation. Most our results compared to our records of 2019 have changed, and it's also a quarter in which we are going to make an important announcement, not only an adjustment to our dividend payout policy but also a start of a buyback program.

And in the end, I'm going to give you an explanation about the objectives that we have with the adjustment of our policies that (Technical Difficulty).

If you could please go to the first slide. I would like to tell you a bit about what our agenda is going to be like today. So we are going to first talk about how the Company positioned itself before the pandemic, the strategy adopted to react to the current context. Then a second chapter of the presentation is -- that is going to be presented by Henrique, our CFO, who will address the quarter results. And then we are going to talk about the adjustments on the dividend policy and the share buyback program that is going to start as of today for a period of 18 months.

So please, if we can go to the next slide. Well, this basically to show you that we have adopted a three-fold strategy that we call it the 3R strategy: react, recover and reshape. And basically, the first R, react, it was the first month that we're reacting to the pandemic, we put together crisis committee that met daily and this crisis committee is this still operating. And we have six sub-dimensions of our people health care, operating results [ph], financial results, supply chain of the -- value chain, legal regulatory issues and finally communication and society. So these six sub-committees were used for us take measures, immediate measures on the pandemic, which enabled us to timely and cautiously to what was going on around us.

And here, over to the slide, is -- just a brief summary, that shows that we have adopted measures that enabled us, to safeguard Company's cash at about BRL3.1 billion, of which BRL1.35 billion comes from a reduction CopEx, that is CapEx and OpEx, a reduction of divined and the cancellation of an M&A project, and also a reinforcemcent of our liquidity with BRL1.75 billion by refinancing and rolling over debts -- additional debts that were issued that enabled us to reinforce our cash position. And we are going to see that in Henrique's presentation further on.

A second part of our reaction -- or after the react, we had the recover, which is the phase we are now in. Basically, that is to recover, and we want a full recovery of all the impacts of COVID-19 on our operations and on our accounts. And we want that to last until the end of the year. We have a plan with about 50 initiatives that aims to shorten, so to speak, the estimated impact of the pandemic on our operations or lessen the impact. And this is again, something that we monitor on a weekly basis, 50 initiatives, as I mentioned, to optimize our cost structure, to resume and accelerate our construction work, to manage our regulatory agenda, to manage our contingencies, a very thorough plan that aims to recover the impacts of COVID-19. If we hadn't adopted the plan, we could have an impact of two digits on Company accounts. So on a weekly basis, we are following up with those responsible for each initiative, really strictly managing our recovery plans.

And part of which we have already started working on, which is, as I mentioned, the reshape. The way we are working on reshape today is basically by means of opportunities committees on the topics that you see on the slide. So that is -- committee is focused on growth, customer relations, our digitalization program, innovation initiatives, green recovery initiatives, that is our environmental agenda, initiatives that are more socially driven, that is to manage our people, which we call (inaudible) an initiative. And finally, a new normal way of working, which we call workplace redesign. So those committees will meet every 15 days. And then we address this topic in our meeting, and they are allowing us to push the agenda to create value, already focusing on the future and the opportunities that the Company has -- basically to use the crisis to fully strengthen ourselves with a full politic-coherent strategy.

And finally, I would like to make it very clear, in this quarter, with -- the Board of Directors yesterday made the decision to adjust its dividend policy. We are going to see that in more detail further on. Basically, to give more transparency and safety to our investors, basically all the way that we can generate our cash flow and we pay out dividends. And also implied in this dividend policy and how it was structured, there is an optimization of our capital structure and we are going to see that again further on. And basically, for everyone to be aware that investing in the Company is profitable, with the price interval today, we believe that investing in our share is a good decision. And therefore, we are having a share buyback plan that, again obviously, has this vision of creating value with our base of investors.

So I believe this is a truly important quarter, it is the turnaround quarter. We have a full strategy in place not only to react but to recover results and reshape our impact in the future with the options that we have ahead of ourselves. And certainly, the scenario of crisis helped us also to use opportunities to create value to us all.

Well, all that said, Henrique, I have finished with my introduction and I'm going to turn to you. And I'll come back to talk about the readjustment and share buyback program.

Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Hello, everyone. So we are going to start with Slide number 5. So here, I'm going to talk about the highlights of the quarter. This is obviously the COVID quarter, and I think that we were able to present results beyond expected. First, I would like to talk about the most important highlight in each one of the business. So in generation, trading and services and the solar distributed energy, we won two bids with 14.3 megawatts in contracted power.

We also -- in terms of hydrological risk of coverage, we have an allocation of additional energy more to the second half of the year. And in transmission, basically we had the good news of the start-up of Lot 11 and 12 months ahead of the regulatory deadline, which is a very good news. Altogether, we are adding more than BRL40 million in additional CapEx to the structure, so very robust. We had 71 of the total CapEx already executed. So we are -- even with the downtime that we have to talk about further on. We are now at -- in full speed.

Talking about distribution, basically because of the Conta-COVID, we already received BRL574 million, 92% of the total allocated for (inaudible) as reinforcement. We received that in the second quarter. We are now discussing the economic losses related to that. We had also the first tariff readjustment, that was negotiated with a rate of 2.55%, and we continue to have a stronger position in CELESCs with an acquisition of 5.72% shares. And with that, we have 28% of the total CELESC capital.

In terms of our operational and financial performance, we have been able to reduce our operating costs, our nominal numbers of more than BRL800 million [ph]. And with that, we have net earnings of 25% compared to last year. Net debt/adjusted EBITDA is at two times the ratio because of the CapEx evolutions that we had. Then also, it was the month that we joined the UN's initiative, the business ambition for 1.5 degrees centigrade. And with that, we are joining efforts of EDP worldwide and also EDP Brasil. In terms of donation, also very important, which shows our commitment to society in the coming years and societies in which we are inserted. And at difficult times, we made donations in the amount of over BRL10 million to fight the pandemic in the areas in which we are inserted, assess the commitment that we have that the society is in.

Please, the next slide. Well, this is our EBITDA evolution. Well, COVID obviously had -- is something that affected us. We had a drop in our distribution market. Our generator, also because of the flexibility of the contracts, was as well affected. Distribution, some companies were above the 5% limit. And that led us to record the purchase of that energy vis-a-vis the spot prices. So there is a difference compared to last year. And that partially justifies what we have in terms of BRL22 million for distribution. In transmission, this is the accounting entry. We have the completion of work. So although there was a slowdown, we have a positive number.

Hydro generation, we still see a positive evolution compared to last year. And Pecem, not with much dispatch in the period, but with a number that was very much aligned with EBITDA, and that helped us with our operational costs in the period.

If we can go to the next slide. Here, we talk a bit about distribution. Well, first, our adjusted EBITDA, generally, we have an entry, which is a non-accounting entry with our assets. Generally, it is an addition to our gross margin because of the accounting entry, but there is a non-cash effect of that. With that, we made the adjustment in this quarter. The effect was not that much, the effect of the VNR. But if it weren't for that, we would have a positive evolution of EBITDA from BRL192 million to BRL203 million. But anyway, we know that there was a drop in the market by 12.1% in Rio and 10.7% in the Espirito Santo market, but these are mostly for free customers.

So you see that in Sao Paulo, about 6% -- 5.9% are the other markets that is a regulated market. And when we see the breakdown, we see the highest tariffs, residential, that went up, and the drop that we had were in the industrial and commercial segments by 15% and 24%, respectively, in both redundancy [ph] in which we operate or in which we have most of our operations. In terms of losses, of course, this is not a good quarter for losses, but it is very good for us to have act within a perspective. Just when we compare losses, we do see a slight recovery in the level of losses.

EDP Sao Paulo closed the period with 1.35 thermowatts (Sic - gigawatts) hour in losses, which accounted for in terms of total losses, an amount of recovery of 40 gigawatts hour compared to the same period last year. That is, remember that we have a 12-month analysis. In Espirito Santo, you're talking about 101.1 gigawatts hour of recovery. Of course, here we have a point that percentage-wise, we see an apparent worsening in the case of Sao Paulo, but that's very much explained, because we had a drop in the market, a drop in market base. And remember that clients and (inaudible) have a lower technical losses. And that, therefore, we see an apparent drop in percentage but not in absolute numbers. It's important to mention that we improved a lot of our digitized processes. That's very important, especially for the provisions of bad debt. So addressing delinquency in rates, and we had an improvement in digital search channels with -- in fact, an improvement of 70% when we compare to the numbers we had in the second quarter last year. So self-services increased a lot, and that enabled us to go through the crisis in a way mitigating discomfort in terms of services to our clients.

On the next slide, well, transmission, we have 71% of our CapEx already executed on June 30. EBITDA and adjusted EBITDA, when you take a look at our adjusted EBITDA, we had an evolution from BRL6 million to BRL11 million. Remember that the booked EBITDA is a record of our construction, so it is the regulatory EBITDA incorporating the works in operation. So we have a total of BRL2.7 billion invested during the period so far. And the good news is that the main Lot 07, 18 and 21, and the Q have between 65% and 73% of construction evolution, not necessarily financial but fixed -- physical. And they had been topped [ph] period of time, but now we have resumed our works, and we are at a level that is equivalent to the pre-COVID period. And we are very satisfied with the resumption of the pace of work, that also of our productivity.

Next slide please. Here, we talked a bit of our stabilization. You see in this quarter, we allocated only 22% of energy with an improvement in the second and third quarters. Obviously, this quarter we had a different breakdown than what we expected. Because of the pandemic, our seasonalization was not as expected. But still, remember that we always have a strategy of mitigation of problems. We have our mitigators in place, and basically, you see a drop of BRL23 million until the end of the year in order to recover those indicators. And remember that these positions were not absolutely static. We had short position of -- for the trading company. And these are now closed, but these are the dynamic moves that we have to make as of the market dynamics. But obviously, the

COVID was not something that we had forecasted when we were thinking about the year, although we did have a very good results for the quarter.

Next slide. Here, we talk a bit about Pecem. Well, Pecem, basically, we continued the good work and we are having consistent results from the plant. We did not have any dispatches in the period, but it continues with an uptime above the FID. So that's what we want, the FID above 100%. And therefore, a time above 83%, 85%, and we continued with the good performance, also adjusting our OpEx levels this quarter.

And to talk about OpEx, on this slide, we have a drop of 8.2%. That was possible because we did first several things, we addressed vacancies that had not been filled yet. Basically, we cut expenses in traveling units, et cetera. We negotiated contracts in distribution, especially EDP Sao Paulo in terms of meter reading, (inaudible) trimming. We had cuts in the Company based on the incentives of the government on unemployment subsidies. And we also worked a lot with our -- the field teams in terms of maintenance. So it was a period in which we could fight losses and delinquency. We already are enjoying these cuts in August. But we were able to keep a level of revenues. In fact, our gross revenues went from 1.2% to 1.5% with relevant initiatives that we had.

Again, maintenance of our reading and billing, flexibility of payment terms, the evolution of our digital channels that enabled us to establish agreements because of the flexibility of the digital channel. So we were not downsizing. This was something that was -- something that we did not announce, but delinquency levels have not increased significantly. And of course, there was a higher credit risk due to the pandemic. We also basically regulated our recovery plans. And now we have a period of six months -- 16 [ph] months. So basically, with that, we're able to have even better delinquency numbers than what we had expected. Of course, this is a number that still requires our attention, but it is not out of control.

On the next slide. Here, we have basically how we are maintaining our leverage at about two times and then the drop of indicators and rates that enabled us to decrease our debt cost. Remember that our gross debt is basically 10% part of Pecem and distributors indexed by TJLP, then we have IPCA and CDI that did have a drop. And also, Miguel already talked about that. We had a reinforcement of our availabilities just to mitigate future risks because the market may be a bit more closed, any risk in roaming over our debt. Today, we have a cash and cash equivalent of BRL3.4 billion. But with that, we can meet our maturity schedule up to the end of 2021. And basically, this was an important move, to mitigate any financial risks that we might have in such a complex period.

And on the slide -- next slide, when we talk about our net income. Basically, we had net earnings of BRL48 million above the same quarter last year, that is year-on-year. The highlight's transmission. And in terms of equity equivalents, basically we have CELESC with 28.8%. It represented BRL19.4 million in our results. And therefore, we have this recognition in our financial results, which in a way results into a positive consequence of the reduction (Technical Difficulty) drop in CDI and IPCA.

And now I'm going to turn to Miguel to talk about the new dividend policy that was announced together with the results of the quarter.

Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, thank you, Henrique. I think it is clear that we had a quarter, operationally speaking, that I would say was quite solid with results obviously affected by the pandemic. But above all, I think the word that stands out in the results is resilience. We persevered, we focused on minimizing impacts in our operations in the context we were all going through and we see the impact of our actions. Even costs, the efficiency that we were able to resume in this quarter in our cost structure management -- are a result of our focus and the way that we systematically addressed each one of our cost structures, adapting our organization to the new reality and to today's situation -- current situation. So much so, that we closed some of our units in Sao Paulo, where we had institutional representatives. And we left offices and are now rethinking our new model in terms of institutional representation for Sao Paulo for a Company and how we are going to allocate our human resources in the City of Sao Paulo.

Now if you allow me, I'm going to the last part of the presentation, which is to give you a bit more color on the changes that we made in our dividend policy. Basically, the changes have the objective of giving more clarity, more transparency in the end of the day to our investors with regard to the cash flows that we pay out in the form of dividends. And this safety does not remove flexibility, and you saw in the communications that we made to the market. But it gives us and to you maybe a clearer view on our operations. So basically, this change in the dividend policy is based on two principles, capital discipline and guarantee return to shareholders.

In capital discipline, there is a commitment of us approving investments that will have a minimum profitability. And the way we measure this profitability is in the ratio between the IRR and the walk of each initiative. That is a premium of 40% over the average cost of capital. So this was going to be our main criteria to approve investments and that's a focus on the Company's priority growth. There is networks that we call (inaudible) transmission and distribution networks and growth, which is the new downstream as we call it today. And we focus here on solar energy, but other products that in a more encompassing manner are included in this energy transmission, electric, everything that has to do with this transition to a new energy paradigm. So investment strategy with clear approval criteria and very precisely focused on our priority segments.

Also, our guidance in terms of organic growth. And here, we have two segments, distribution and generation. In distribution, the Company's commitment to continue to make investments of 1.52 times the reintegration quota. In the past, we had lower level of investments. And now gradually, we are stepping up in terms of organic investment in our distribution company. And in transmission, our commitment is to look into organic greenfield projects, especially by taking part in auction. So basically, this is again, clear guidance on how we view organic growth.

And finally, in capital discipline, the commitment that I believe has been very critical in our strategy of being willing to engage into low-volatility projects in regulated markets with long-term contract. That gives us a cash flow predictability. And therefore, it is the Company's preference in being in this segment of low volatility. So these are the three most important points of what we consider capital discipline.

As for return to shareholders, three very important points. The first is just making it clear what is a minimum dividend payout, which is not incompatible to what our dividend policy has been so far. We have to the policy with the commitment of paying at least 50% of the adjusted net income. And what we are saying now is that, this commitment is backed by an amount that is going to be much lower than BRL1 per share. That is as written in our policy. The dividend is going to be amount of -- 150% of adjusted net income or the minimum payout in Brazil, which is 25%. And with that, we have a floor of payout that shows an important message to our shareholders. So that it's very clear that we do commit to have a minimum payout of dividends.

The second thing is that we have the commitment to basically pay us the remaining free cash flow. The Company has the ambition to continue to grow. It has investment plans. It see investments in the future in regulated network, the new downstream. So this is not a message that we do not have a prospect to grow. We do have the prospect to grow, but if by any means there is no growth contracted, what the Company is going to do is to get back to shareholders in the form of a special dividend payout or share payback the remaining event. This is a commitment that was not clear in our policy and now is in a clear explicit manner in this new dividend policy.

And finally, and I'm going to go to the next slide, because I think it is better explained on this slide. We have a commitment to keep our leverage between two times to three times with a target between 2.5 and 3. So the objective would be for the Company to have its objective leverage between a net debt/EBITDA ratio of 2.5 times to three times, but the minimum ratio that, again, it is a floor that will be two times that EBITDA ratio. This future prospect of showing our commitment for the years to come is very important at a time where the Company does not have full visibility on its investment from '22 onwards.

So we could be tempted to model Company capital structure with progressive deleveraging. This is not our objective. We want to keep an optimized capital structure for the coming years. And so we are giving clarity and visibility to this interval in between two times to three times net debt/EBITDA ratio, so that no one has any questions about our capital structure in the years to come.

Henrique already mentioned, we are at two times now. So if it is the case that the Company has an ambition to have a much higher leverage rate, but we cannot be below two times. And that, I think is a commitment that optimizes our capital structure. And finally, for the year of 2020, just ground all that because, of course, we have already paid a dividend of 2019 this year.

We had a decision of the Board of Directors of EDP Brasil, and please go to the next slide. So we start, as of today, a share buyback program, about 24,900,000 shares of the Company. This amount, as you know, together -- the Company has about 2 billion [ph] shares that it could use for its long-term incentives. That is the Company-bought shares to be able to pay them to its management team, officers, first-line leaders and directors. So in addition to these 2 million shares that we have in treasury, the possibility of buying 24,900,000 shares approximately to ensure that we are not going to go over the cap about 10% free float with the program.

And here, again let's see the Company's awareness of this new dividend policy that is clearer to the market and is complemented to the share buyback program. So altogether, I think they will give more visibility and flexibility that will be necessary for the Company, so that the Company at each point in time can drive its resources to the investments it wants to make, but also giving a guarantee to shareholders that when investments are not committed, that the remaining cash flow of the Company will return to investors, will return to the market. I think this was a very positive and important step to us all.

And obviously, we are at your disposal to answer any questions or -- that you might have or any additional requests for clarification. Well, all that said, I'm closing my presentation, and I will open for your questions.

Questions And Answers

A - Marilia Barbosa Nogueira {BIO 22039088 <GO>}

Thank you, Miguel, Henrique. Okay. Just to start with the Q&A. In addition to Miguel and Henrique, we have Joao Brito, our Network VP; Dyogenes Rosi, our Energy Planning Officer; and Vicente Falconi [ph], our (inaudible) Officer. We have some questions already. I'm going to ask them.

The first comes from Carolina Carneiro from Credit Suisse.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon. We saw a good performance in the quarter, which in a way was justified for less extra hours and less travel expenses. I would like to know if you are going to continue these savings because of your digitalization structure?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Okay. I'm going to start the answer and then if Henrique wants to complement please, be my guest. Carolina, thanks for your question. Indeed, this is a set of initiatives, remember that we talked about 50 initiatives and most of them are focused on reducing costs. Some of these initiatives, as I mentioned have to do with this new working model. The market is talking about the new normal. So we have initiatives, as I mentioned, which is to rethink the use of offices -- all our fixed costs that are related to travel expenses, consulting, communication. So there is a rethinking of cost structure as a whole.

I think, I mentioned that before, we have a mission that is between BRL50 million to BRL100 million of cost reductions. So today, we are in between, but it can even get to three digits in terms of cost reductions. And as Carolina, very well said, some of it can be definitive. Our commitment today, as you know, is to always -- in a recurrent manner, and we have been doing that systematically with good results. The Company has been really optimizing its results. We have an OpEx over net margin of about 26%, 27%. When we compare to our competitors, we are one at the lowest levels in the industry. So it's thematic work to reduce cost. But I would say, Carolina, our commitment today is to be systematically below inflation. That is to have real gains that enable us to do a bit low inflation in the long- mid-term.

And I think this is something that we hope to reinforce and continue to sustain a cost evolution below inflation. Henrique, do you have anything to add?

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Carol showed the 8%, that of course maintained. Of course, there are many things that are not going to be maintained. There are gains that were captured in our time line. So Miguel mentioned, we probably have 1.5% to 2% gain in the crisis in terms of what we are rethinking in a consistent manner. We believe that we have gains that go beyond this quarter, but we cannot keep all these savings, we have to be a bit more cautious about that. But there are things that I would like to mention. There are behaviors that are induced by the crisis with the means of payment, for instance, that are very positive. In Sao Paulo, we have more than 51% of our invoices that are being paid by automatic debit. So it went from 42% to 51%.

In Espirito Santo, also a positive evolution, but at a much lower level, 24% to 29%. So these are behaviors that we believe are going today. And that helps the Company, if the Company facilitates those interactions, and it is something that we can seize benefits. The digitization is a new pathway. This is not something that we just did in during the pandemic. We've come a long way and the results could -- markets reacted well to that. And so we continue on our journey to digitization.

A - Marilia Barbosa Nogueira {BIO 22039088 <GO>}

The second question comes from Pedro Manfredini from Goldman Sachs.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good afternoon everyone. I really (inaudible) the announcements of Friday were very interesting. We encourage other companies to follow the same path. I just have a question about the choices. BRL1 per share and a leverage between 2.5 and 3. With the CDI at normal levels, don't you think that the 2.5 is going to be closer to 3? And finally, extensions, do you have any plans to go into the gas market? Thank you very much.

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Thanks, Pedro. I'm going to start answering, but then I'm going to turn to Henrique. And I'm going to start with your final question, Pedro. With regards to the gas market, effectively, in the past, we did consider that gas generation as an option. But today, as you have seen, EDP Group and EDP Brasil has been more and more assertive on green energies. Gas is a transition energy. We think it's necessary and important to the Brazilian matrix to have gas energy to be able to complement intermittent generation with base generation.

And in the case of gas, it can also work with some kind of flexibility. But right now, strategically speaking, EDP has a bet on renewable energies and that's why we are focusing on solar energy. We believe there are huge opportunities in Brazil, and growth is going to be exponential. So we are going to continue to focus on renewable energies, most particularly on solar energy. So right now, gas energy, generation of electric energy with natural gas is not a priority, it's not in our radar to have investments in this area right now. Even our commitments are towards decarbonization, de-coaling, so the business ambitions is really to contribute to a decrease in our temperature. So again, we are betting on renewable energy and less on fossil fuels or fossil fuel associated energies.

Natural gas is an energy that is less impacting the oil or coal, but still, we consider it as a transition energy. And we are no longer focusing on this kind of energy. As for the dividend policy and the numbers we selected, well this was a very detailed work developed by our financial and IR teams. It was a true deep dive, the result of many months of reflection. So the numbers are the numbers that we understand as compatible to the Company profile. And above all, that can keep a debt profile that is the point of our strategy. That is to systematically being considered by rating agencies at the upper quartile in terms of credit quality in the Brazilian market.

And we also understand that the leverage levels that would enable us to be at this level of credit quality would be between 2.5 times and three times net debt to EBITDA ratio. So we believe that this is an interval that gives flexibility to the Company, but that also ensure -- allows for a risk profile of quality. And therefore, a credit risk that is very much controlled by the Company. And so this is the result of this several dimensions. BRL1 per share, one again, this is the minimum amount.

So when the Company projects the future cash flows, we understand that this amount will enable us to meet the criteria of 50% of the net adjusted income. So these are amounts that are compatible to Company projections for the future, ensuring the minimum payout of 50%, but removing uncertainties. Just imagine that there is one year that this amount is more affected. We can reduce uncertainties of investors and pay a minimum. And then on top of this minimum, and I think this is the flexibility of the Company, to complement the minimum with a special dividend payout or a share buyback program. So this BRL1 is compatible to the 50% payout of the net adjusted income. And we'll work as a floor that can be complemented by the Company, if that's the situation. I don't know if Henrique would like to add to the answer, but I'm going to turn to him.

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

I think the questions are excellent. When we -- I chose the number, but the question always come up, why those number? I would say that we are having comfortable growth. We have our distribution lines, we have the transmission. We have our numbers revisited after the COVID with growth in cash and EBITDA and this growth as we complete our transmission lines. And remember, this BRL1 per share is the floor. It also -- it's important to tell the market something that we believe is important. Sometimes, what is this 50% of the net adjusted income? What are we talking about? So we have a confidence in a number that is easily understood. It is the floor, and it is BRL1 per share. And it is easy for everyone to do their math. So I think it's a consistency with our numbers, and it is easy to quantify, in this -- message to convey.

In terms of leverage, of course, our objective is 2.5 and 3. We are talking about interest rates. We do have this scenario. We do not want to change our risk profile. There are companies that live comfortably with a higher leverage. We historically have kept this more conservative leverage, and then our objective is 2.5 and 3. But the floor is important that the remaining cash flow is going to pay down to shareholders. If you took the calculation without investment, you might go beyond the two times. And so we want our gross EBITDA because we are delivering transmission lines, we have distribution as contribution. And then the increase of leverage becomes more difficult because of the investments being made. And therefore, it's important to make this statement of two times. So we even keep two times, we'll have to have additional payout of dividends, a special payout or share buyback programs as we define clearly in our policy. So we thought it was important to make it clear, to make this statement to the market and to show deleveraging. And we are not going to deleverage beyond two times. And our projections were based on real life. And then basically, this is a guarantee that we are offering. We do not want to deleverage beyond two times. And that's why we decided to do that. I hope, I have answered. But anyway, if you have any further questions, don't hesitate to ask.

Operator

Our next question comes from Gabriel Francisco an Individual Investor.

Q - Unidentified Participant

Thank you for the opportunity. Could you tell me, what is the Company's concern in terms of delinquency? Should we expect them to go up?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Joao Brito, our Distribution VP, perhaps can answer those question.

A - Joao Manuel Brito Martins {BIO 17231643 <GO>}

Well, thank you, Miguel, Gabriel. Thanks for your question. Well, we are obviously in a difficult and challenging scenario. And I think our results has been consistent with our actions since the beginning of the pandemic, and the delinquency in results we have had so far show that. First, we never communicated the end of the cutoff. We never sent this message to our clients in terms of energy cutoff. Also, we had a very strong presence in the region, both in the press and the social media, how important it was to the Company, reinforcing digital channels as the safest way to pay electricity bills. We continue the regularity of our readings.

We continue to visit clients to give their bills as correctly as in the past. We continue to send SMS to our clients to talk about the effectiveness and the maturity dates of each bill. And because we had the teams that fighting delinquency in preparation. And we now have a reinforcement of these teams from maintenance teams. So basically, some teams that were working in maintenance were transferred to delinquency -- to fight delinquency. So we are expecting to have numbers that are worse than last year, but the idea is to minimize the impact as much as possible. And also negotiation of debt, we have our digital agency, our digital brand to give customers a certain ways to negotiate their debt and use our digital channel, that has a lower utilization cost and is more interesting to us. So these were the auctions that we took that somehow enabled us to have delinquency rates that were not as bad as we expected. And we believe that now towards the end of the year, we are going to have a slight improvement in that. So I hope, I have answered your question, Gabriel.

Operator

Our next question comes from Paolo Mazzuco [ph].

Q - Unidentified Participant

How does EDP monitor the growth of solar energy in the residential segment?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Thank you, Paolo. This question is very interesting, because, basically, this is a new market that EDP is -- has been getting into in the past two years. We believe that the market is a market that is still going to show exponential growth in the coming years. And Brazil has very particular characteristics that makes this market quite interesting. Brazil geographically is a huge country. And so far, we have new restrictions to install a solar project. We have solar levels that are record in the world. If you compare to solar levels in Brazil to Europe or Germany, for instance, where solar energy is very popular, very usual, well levels in Brazil are twice the amount that we see in other countries, as I mentioned, in Europe. So effectively, this is a market that has huge potential.

EDP believes as a group, that the B2B market that is large corporation market is a market that to us is a priority market. Obviously, B2C market, that is business to consumer, is a market that we intend to work in. But right now, the Company focus is to serve clients -- large clients in what we call B2B segment with whom we are developing projects in terms of installation of solar plants. These are plants that are not high scale. They're 100, 200 megawatts -- they can be between 1 and 20 megawatts. That is, we have a geographic scale that is quite significant and are very important to address the needs of large clients. An example, shopping malls that are all over Brazil, interested clients that want to turn their portfolio a bit greener. And therefore, have some kind of solar energy. So we are not only looking at the distributed generation market, but also high production markets. And therefore we have quite ambitious objectives to grow our business in this area.

Now to answer your questions, we are looking into this market, it's a market with huge potential, and it is a market in which we want to have a quite relevant position compared to the competition.

Operator

Our next question comes from Itau.

Q - Marcelo Sa {BIO 16454581 <GO>}

Why do you think you grew less than other competitors? And the buyback program, do you have -- you have a period of 18 months. Do you have any fear that after the 18 months, you have not enough shares that were bought?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Okay. I'm going to start to answer your questions. About the share buyback program, we have the authorization of the Board to buy about 24,900,000 shares. This is a decision that will depend on the shares themselves. We have a maximum limit that as we have price gaps and if price is above that, it makes no sense to purchase the shares. But we do not see any reasons for the Company not to fill out this objective. In terms of prices, the Company believes that this is a good investment. These are assets that we know the risk is known as well. So in our opinion, it makes sense for the Company to allocate results and to enjoy the profitability that is implied in our stock prices. As you know, our shares responded to the announcement quite quickly. But in our opinion, we are still trading at a discount. So the share buyback program continues to be quite good to us. I don't know, if Joao or Henrique would like to add to that?

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Okay. I'm going to add to that, and then Joao perhaps can complement my answer. Basically, to tell you what we are doing -- well, Marcelo, thank you very much. I think that what you said is very interesting. In terms of other companies, if you think of the companies that are operating in the State of Sao Paulo, bad debt was not really different from ours. Other companies exposed to the different markets in the North and Northeast had different results, but our results compared to those companies that are located in the Sao Paulo region. And I think that we did our homework.

I would be quite cautious in terms of evolution of bad debt in terms of what is to come in terms of results. Of course, this is a factor of concern throughout the business in Brazil if the risk of credit increases and that can impact us. So I think this is something that is a concern for us all. And one note that perhaps is easier for us to clarify. If you think of how we have registered -- register our losses, we have this concept of expected loss. Sometimes it's very difficult to measure the impact immediately. So you have to -- you have an average. We haven't seen a huge degradation in our delinquency levels a long time. Sometimes you had some fluctuations about by month -- but basically, sometimes the information we've received, that numbers were even better than pre-COVID times. Well, all that to say, Marcelo, that perhaps it's a bit early to say that these numbers that we see are our definite numbers.

I would ask Joao to add a bit to that, but I think that he can explain how active we have been to control those initiatives.

A - Joao Manuel Brito Martins {BIO 17231643 <GO>}

Well, thank you very much, Henrique. Well, in addition to the initiatives I mentioned, we are continuing the regions and the visits to our clients. We never communicated that we were cutting off energy lines. We have the digital channels to talk to our clients. We wanted to keep communication with our clients by means of SMS, communication to the press, our presence in the social media. So all that contributed for us to present better results in the topic.

Also, we have a daily monitoring in terms of collection rates, what it was like compared to previous periods and how we could work on different customer segments and in the different regions. And of course, we are to be cautious because we know there is a possible higher unemployment in the second half of the year. So we are managing this topic with caution, but we are also enjoying the decrease that we have in maintenance to have more teams to monitor billing and collection. And therefore, present better results in terms of bad debt, using technologies that enable us to have more productivity in field groups, optimizing our routes and also steering some of these groups to work on bad debt.

A - Marilia Barbosa Nogueira {BIO 22039088 <GO>}

Well, thank you very much. We are now closing the Q&A session. Any questions that were not answered on this webinar are going to be answered by e-mail. I thank you all for attending, and I'm going to turn to Miguel for his final remarks.

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, Marilia, thank you very much. I think this webinar is a bit longer than what we had expected. So my final consideration is just thank you for those of you that kept here until the end, and see you next quarter. Thank you very much, and keep safe.