

## Q2 2018 Earnings Call

### Company Participants

- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Director
- Ricardo Perez Botelho, Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Andre Sampaio, Analyst
- Kaique Vasconcellos, Analyst
- Marcelo Sa, Analyst
- Maria Carolina Carneiro, Analyst
- Murilo Freiburger, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Welcome to Energisa S.A. Conference Call to discuss the Second Quarter of 2018 Results. All participants will only be able to listen to the call. We will then begin the Q&A session when further instructions will be given.  
(Operator Instructions)

This conference call will be taking -- will take place in Portuguese and simultaneous translation will also be provided into English. This event is also being broadcast over the Internet via webcast.

This conference call contains forward-looking statements that are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those in the forward-looking statements. Such statements speak only as of the date they are made, and the company is under no obligation to take them in light of new information or future developments. Economic conditions and other factors may impact the actual company results.

I'll now turn over the conference to Mr. Mauricio Botelho. You have the floor, Mr. Botelho.

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

Thank you, operator. Good afternoon. I would like to thank you for taking part in this Q2 results. Ricardo Botelho; Gioreli De Sousa, VP of Distribution; Alexandre Nogueira; Claudio Brandao, Finance Director; and Mariana Rocha, IR Manager.

Let's move on to slide three. The first highlight is consolidated conception, up 2.5% when compared to Q2 of last year, accrued in the year 3% growth. Financial highlights include adjusted EBITDA of 653 million, and net revenue of 103 million, up 38%. Another highlight about debt, the net debt/EBITDA ratio is now 3 times from 3.2. Total investments amounted to 825 (sic) million, a 23.5% (sic) drop in the semester, because we have the four cycle of price adjustments. And one of the highlights is that we were awarded 19 trophies or rather we were awarded the 19 lots of the auction, and that's a result of Lot 26 that was awarded back in April 2017.

On to slide four, this is quarter-by-quarter consumption evolution. As of 2016, we can see that the market is picking up. It's a growing trend of 2.5% growth. When you take into account the unbilled sales, that would be a little less, that would be at 1.9%. Let me point out that in April and May, we had good months, very positive months, 4.8% and 4% respectively. But back in June, we felt the impact of the truck drivers strike, because that impacted the economy overall. There was a 1.3% fall in consumption. We ran some simulations internally to analyze consumers' consumption. The growth will be at 3.9%, if not for that negative impact.

We've had substantial growth and some concessions, you can see that in the following slide, slide number 5 now. Mato Grosso do Sul, 8.5% growth, led by stronger rural activities by using bins [ph] and also from the industry, led by the food industry in particular. In South -- in the South and Southeastern regions, all classes, all industries contributed with the highlight going to the food industry, metal works and wood products, in particular. In Tocantins, the decisive factor was in the non-metallic minerals industry and a major consumer coming back. In Mato Grosso, we had growth in the quarter despite that strike effect I've already mentioned, we had drops in industrial and residential segments. But the driver here was the temperature. Cold spell affected the entire region. As you can see in the chart at the bottom, growth -- the behavior were or was similar, up 3% compared to the country that grew by 1.3%.

On to slide six now, these are losses. On the left, total losses, 11.85% of the injected energy. Small increase, 0.04% when compared to the previous quarter. This minor increase was again influenced by the truck driver strike and slower economic activity, and a variation in the unbilled sales. But that might be going back to normal trends in the second semester.

As I said, Mato Grosso was the most affected state, but we are still working hard to reduce those losses. We hired additional staff a year ago. We are now boosting our inspection activities, though we are committed to achieve the regulatory standard soon. We've had constant reductions. I'd like to point out, Mato Grosso do Sul, 1.3 percentage points below the regulatory standard.

Moving on to slide seven now, this is the delinquency rate. This is the percentage between PBT and the billed sales. These are provision reversions, but without non-recurring items the indicator would be at 0.61% compared to 0.31% in June 2017. Let me point out that for the sixth quarter in a row, that rate is below 1%, that's non-recurring items as I said.

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On to slide eight now, service quality indicators. All companies are below the DEC limit. Out of the new distributors -- distribution companies, only Mato Grosso do Sul above that standard. But it's slowly going back to the standard. We had a two-hour reduction in past two months. Marginal results (inaudible) concession showed some improvement at the lowest monthly indicators in history. So we're slowly going back to the standard. We had a consistent DEC improvement in Tocantins at the average, showed more than 10-hour reduction when compared to 2017 numbers. Our concessions have been bidding or having been breaking their own records in Paraiba and Mato Grosso do Sul, in both indicators, including Mato Grosso do Sul under Energisa management.

Moving onto slide nine, let me now talk about the Abradee Award results. All nine distribution companies were competing in 11 categories, and these are the highlights. Among companies with more than 500,000 customers, the award was given to ESS. Among those other 500,000 customers, Energisa Borborema, Minas Gerais and Nova Friburgo where tied.

On to slide 10, I mean, I'll take about PMSO. It was a 7% increase, most of it as a result to labor claim compensations in Mato Grosso do Sul, a 19 million payment was made. It had been provisioned in previous quarters, but there will be a reversal of provisions. We had larger teams hired as well to improve quality and service. And also in Energisa Tocantins we hired new employees as well, and other third-party services. Operational expenses including legal fees was a 4.9 drop in expenses in the quarter, despite having that variation between 4% and 7%, depending on the index you use.

On to slide 11 now, we had the EBITDA for the quarter. This chart shows us that the adjusted EBITDA is at 39%. Let me give you some non-recurring examples on the right, that's part and parcel of the EBITDA. Compensatory costs has been at a constant level, and then we had the VNR effect as of 2016. It was considered revenue and impacted the EBITDA BRL106 million, and a minor reversal of effects that took place Q2 last year. Again, not considering non-recurring items, the quarter EBITDA is up 21% compared to the same quarter last year.

Let me point out that the EBITDA growth has negatively impacted by the unbilled sales market. To start with the unbilled sales in the second semester is always negative, because usually we move away from a first semester, that is hotter, and we have milder temperatures later in the year. And we have additional impact of the strike, as I mentioned, and consumption that we had expected in late May. So we have that reversal in June. Although even this is a temporary effect, and the market will pick up actively the following months. I think it is also important to say that, when you look at the unbilled line in the past six months, it's relatively small impact there.

Now slide 12, net income. When we compare to the initial quarters, it's up by 38%, but the effects are non recurring, 31% for gross revenue. In the quarter we had more financial expenses, especially for the networks that have been incorporated. The impacts come from Energisa Mato Grosso, despite the reduction we have been about a 180 million since last year.

On slide 13, indebtedness, 8.3 billion late Q2. The net debt/EBITDA ratio is now down from 3.2 to 3 times. The cost is improving, the debt cost. And on the right, this is by type of index. The 78% is indexed to the CDI where we're benefiting from lower interest rates.

Now slide 14, investments. In the first semester we are at 825 million. As we said, a 24% drop, given the end of the price adjustments conclusion in Mato Grosso, Mato Grosso do Sul. The transmission business, investments amounted to 47 million in the year. We are advancing the environmental licensees. Let me update you on these projects. We are still within the time frame schedule Energisa Para, that is valid for both Paraiba and Gerais. These are the lots that were awarded back in April 2017 as to environment licensees. Inspections have taken place. Impact analysis are underway, and we expect to being granted the license soon. On the land front, the negotiations with landowners affected by those transmission lines -- transmission lines are also underway. As to Energisa Para to of the lots awarded last year. We are signing concession contracts now in September. But we are currently conducting topographic studies, everything is going according to plan.

On slide 15, we draw a comparison between regulatory EBITDA and reported EBITDA. In the past two months, without those known recurring items, for the consolidator of the group, we are above the regulatory EBITDA, 33% above. 29% of these companies are above the regulatory, coming from 24% back in December 2017.

Well, this concludes my presentation. Thank you for attending. And then we move on to the Q&A session, please.

## Questions And Answers

### Operator

Thank you. We will now begin the Q&A session. (Operator Instructions) Mr. Murilo Freiberger from Bank of America would like to ask a question.

### Q - Murilo Freiberger {BIO 17385357 <GO>}

Good afternoon, everyone. Good afternoon, Ricardo. I actually have two questions, if I may. The first one has to do with PMSO. Could you give us some color on what happened on Mato Grosso and Tocantins? Now that you have hired people, but could you give us an indication of what the outlook will be for the following quarters?

And the second question is about delinquency. Several companies in this industries -- in this industry had been suffering a lot, but you have controlled that. Could you give us some more detail on what the measures are being taken to keep that low delinquency rate?

### A - Unidentified Speaker

Ricardo is taking other call. I'll try to share our answer. In case of PMSO, we had more staff hired in Mato Grosso, 5.7 million total, and the same thing happened in the Tocantins. We are replacing third-party services. We're hiring our own employees. As I mentioned during

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the presentation, you have more staff, but at the same time you have a reversal in labor compensation. We are working very hard in Mato Grosso do Sul in particular, almost 19 million in the second semester. But that amount had been provisioned. So when you look at the account, overall expenses even down a little bit. This issue in Mato Grosso do Sul may come back again in the next quarters. We are still addressing the labor compensation issues, something that we have inherited, but we're still -- but we are tackling it. For the PDV, we had some one-off events in 2017, the SANECAP case, and then the CODEVASF case, of course, that impacts the numbers. But we are working hard to maintain delinquency rates low. We shut down service if necessary. We analyzed several pieces of data, whether you shut down services early on, or you postpone it, so this is something we're working very hard on a daily basis to keep that indicator as low as it is. I don't know whether --

Thank you, Gioreli [ph]. What I can say, I think Mauricio summarized that pretty well, especially fighting delinquency. It's been changing a lot of things as of last year, trying to improve measurements and address those that can actually yield a better cost benefit ratio. Tocantins, Paraiba, Mato Grosso do Sul, we have more rooms, we have integrated teams, sales and legal departments, monitor these activities on the field. So we have gained speed and integration with -- and more accuracy to implement those actions.

We're now rolling out in advanced analytics project. We ran a pilot in part of Paraiba, and now we are scaling that up, and we are going to roll out to other companies. It's a very interesting project. We'll be able to assess credit risk of every consumer, and we can customize actions, and you can apply those actions that can yield better results at the lowest possible cost. The (inaudible) something implemented we did late last year, and we are now installing the analytics. So it's a self actions implemented to fight delinquency.

**Q - Murilo Freiberg** {BIO 17385357 <GO>}

Thank you. Thank you for the answers. That was great.

**Operator**

Next, Maria Carolina Carneiro from Credit Suisse, is now asking her question.

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

Good afternoon. Thank you for taking my question. You mentioned that volumes were impacted by the truck drivers strike, and other specific conditions that hurt the average growth rate when compared to other quarters. And we now are -- we're now starting a new quarter. After the effect what's your take on the outlook for the next quarter? And again, own build energy that hurts your first or this last quarter. Do you have any outlook for the following quarter? My next question is about the fact that you're trying to reduce the incorporated companies remainder to reduce the impact of the company. How can you reduce that number actually? Would that impact future projections?

**A - Unidentified Speaker**

Okay. Let me address part of that question. As to the market, we believe that this was a one-off event. But I guess, over, things are going back to normal, and of course, that impacts unbilled sales. Going back to business as usual, because the market is again going back to -- this is something we can feel now. As to incorporating networks, of course, we have that impact, as it's adjusted by the index IGPM. So this is going to end, but still you have to make those adjustments.

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

I understand. Thank you.

## Operator

Mr. Kaique Vasconcellos from Banco Safra is asking his question now.

**Q - Kaique Vasconcellos** {BIO 17317373 <GO>}

Good afternoon. Thank you. I have two questions about the company's growth strategy. Selling assets at distribution of Eletrobras, it's a difficult bill to be voted before the election. Is this asset still attractive before the voting? On the 31st, you have the minus 6 auction. Are you going to be participating? What's your take on the generation in your capital allocation strategy?

**A - Unidentified Speaker**

Ricardo will tell you -- will be using that question.

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

Hi Kaique, this is Ricardo Botelho. Let me talk about the PLC first. PLC 77, that's the bill that has to be voted in the Senate, and it's -- and we all know and the press, that's going to be voted before the elections. The PLC, they get in the way of that auction. For those companies that have the fuel oil, all companies in the North. There is a company that has no restraint on the PLC, but there is a legal restraint as of that injunction that would forbid the sale of that asset. These are two constraints that we see it. We wouldn't be part of that bid. Before we address these two issues, we keep on considering the possibility of all assets of Eletrobras, and that's an individual analysis. As to the A minus 6 [ph], yes, we do have projects in our portfolio. We're considering possibility of taking part of that auction. One is a wind project, we've had for quite some time, but we are extremely concerned about the demand. Demand will be very weak, which can indicate very low prices. And then, our projects wouldn't be attracted to it or wouldn't be attractive, but we're still considering that possibility. But we keep paying attention to this issue.

**Q - Kaique Vasconcellos** {BIO 17317373 <GO>}

All right. Thank you very much.

## Operator

Mr. Andre Sampaio from Santander would like to ask a question.

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**Q - Andre Sampaio** {BIO 19422379 <GO>}

Good afternoon. My question is about the debt spread. You believe that spread can improve on a short-term basis. Company has been reducing its debt, but the spread level is still high.

**A - Unidentified Speaker**

Hi, Andre. Yes, we have been improving it. Issuing we had CT1 plus 1.1%. We've had debt rate to AAA overall for the country. In our results you carry previous credit with higher spread. As these papers mature, we have a better overall rate, that's why you have -- you still see that difference, but it's going down, the spread is going down.

**Q - Andre Sampaio** {BIO 19422379 <GO>}

Perfect, thank you.

**Operator**

Mr. Marcelo Sa from UBS would like to ask a question.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Hi. Thank you for taking my question. Let me follow up on Carol's question about the unbilled sales. Could you give us further detail on how you book these numbers, because I've talked to several customers and they all see it differently how to handle unbilled sales. Does that make sense when you look at the adjusted EBITDA with the unbilled sales? I believe it does, that explains part what'll happen in Q2, but based on Q1, you had a better EBITDA, because we had an effective -- positive effect of unbilled sales, now EBITDA is slower because you have 63 million of unbilled sales. But the Q2 EBITDA would have a positive effect of price decreases. We would expect a higher EBITDA. So here's my question. Does it make sense to adjust EBITDA based on the unbilled sales to conduct that analysis? How do you treat that in your accounting practices? And my final question still around the same issue. You looked at what you reported in the unbilled sales in recent quarters. And when you divide unbilled revenues divided by the volume of the unbilled sales that you report, theoretically you'd have the implicit average, it's a very volatile number. It's not relatable, and it's not consistent throughout the quarters. How do these two things talk to each other, so to speak?

**A - Unidentified Speaker**

Let me try to explain what happened. Unbilled energy, let me give you an example. In a month of 31 days, we have 31 days of service. (Technical Difficulty) received 20 days were built because of the calendar or for any other reasons. So you have to estimate those three remaining days. We do have a system that looks at the previous consumption of the previous month and they are the system estimates, the consumption of those three remaining days.

When prices go up or when they go down, we may incur in some distortion, because it cannot be 100% accurate. It's a system that looks back and makes a projection of those

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three remaining days in my example. So there will be distortion and there are some taxes involved. When you divide the volume, of course, you are bound to have some distortions.

The first thing to do in my view is the standard. In 12 months, unbilled sales is not or are not relevant. The other thing we should focus on one quarter and take that as a benchmark for the other, so I don't think that's the way to go. I'd rather look at the past four quarters, the last 12 months, and then unbilled sales is part and parcel process, it's a revenue that you have. It is considerable, but it's not as relevant when spread out throughout the years, 15 million [ph], that's substantial and again I rather look at the bigger picture.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Thank you.

**A - Unidentified Speaker**

When you take the past 12 months, 99 million of unbilled sales for Q2, 78 million the previous quarter. It wouldn't be less volatile.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Thank you. Thank you so much for your input.

**Operator**

Now, I'd like to turn it over to Mr. Ricardo Botelho for his final remarks.

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

This quarter results show that we are consistently delivering our distributors -- our distribution companies results. So we have been results focused and the providing excellent services, providing special recognition. We were awarded the Abradee Award, indicating that we are leaders in the markets we operate. We were awarded another lots in the previous auction, so we're according -- we are evolving according to plan, and we are committed to becoming one of the best and most respected companies in Brazil. We keep considering opportunities for growth, while maintaining appropriate allocation capital, generating value to shareholders and maintaining the sustainability of our business as we have always done in the past 113 years. Thank you so much for attending this conference call. Good afternoon.

**Operator**

This concludes Energisa S.A. conference call. You may now disconnect.

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