

Q1 2019 Earnings Call

Company Participants

- Alexandre Nogueira Ferreira, Regulatory Affairs and Strategy Director
- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Director
- Ricardo Perez Botelho, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Kaique Vasconcellos, Analyst
- Maria Carolina, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the conference call concerning the results of the First Quarter of 2019 of Energisa. The audio recording of this conference is being transferred -- broadcast through energisa.com.br where you can find the presentation for further download.

I would like to inform you that the listeners actually they will be only able to listen to the presentation as oppose participating at this point there will be a Q&A in the end. (Operator Instructions) This teleconference will be actually in Portuguese by the management of the company, and there will be a simultaneous interpreting.

We would like to point out that statements that actually may arise concerning business perspectives of the company projections and operational goals as well as financial ones are based upon planning and forecast by the Senior Management and Board of Directors of Energisa and information will be available.

Future developments are based upon uncertainty of the market and future events that are not foreseeable depending upon circumstances that may or not occur. You should have clear at all points that economic conditions, the industry, as well as other operational factors may affect the future results of the company that may lead down to results that are different from those expressed here in this presentation.

I would like to pass on the floor to Mr. Mauricio Botelho who will start the presentation. Mr. Botelho, floor is yours.

Unidentified Speaker

FINAL

Good afternoon, ladies and gentlemen. I would like to thank you for taking part of our conference call for the 1Q of 2019. Mr. Ricardo Botelho, CEO; Mr. Gioreli, VP of distribution, Alexandre Nogueira, VP of Regulations; Mr. Brandao, Director of Corporate Finances; Mr. Mota, Direct of Generation, Services and Transmission, Utilities, and our team of IR, Investor Relationship.

I'd like to invite Q&A upon the end. As well as in the 4Q of 2018 numbers actually will be based upon recent information. And we have the financial aspects, we have pro forma values that we shared back in 2018 that are confirmed now and we have forecast as well.

Please turn to slide number three. Operational highlights with good performance of the market. 4.6% and other points that we had expressed a year is rather stable with financial highlights. BRL905 million in that order with profit in the order of BRL958 million. Liquid profits EBITDA rates 2.7 fold and it's important to mention.

As mentioned in all meetings the BRL1.7 billion concerning the combination of business surrender and that were actually acquired in the end of 2018. If we were to consider a different scenario we would have different numbers. That's why I'm pointing out the factors here.

Our debt level once we have negotiations actually always very clear and as per planning 3rd of May now we have the 11th mission of the ventures in the order of BRL500 million TSA plus 4.52% yearly with investments of -- till April 2016. We have as we can see in the presentation. Debentures that were based upon Ceron and Eletroacre with the combination of those two energy distributors.

We have April 30th here Petrobras has been, has taken interest in acquiring part of Ceron and we have June 6th as a very important data have come in, please note here. We have the signature of contracts and the proposal of the acquisition of Algar, and Mr. Botelho will mention at the end of my presentation on that. Let's go to the slide number four. We have here the energy provision market growing by 4.64% and Brazil grew 3.7% -- 3.5% actually. Highlights for the center is growth in the order of 7%. We have Mato Grosso do Sul actually with the greatest growth 8.8% due to climate and we know that the consumption actually in the food industry, minerals, and such actually have had their own trend.

We have 6.8% of growth in other areas as well due to variations of climates and such. We have furthermore high temperatures influencing the growth of 6.7% of energies in the Southeast of Brazil. Mato Grosso, 5.8. We have here the company's Eletroacre with minus 1.4% or 3.6 gigawatts influenced by the bank holidays and all relevant factors in 2018.

Total losses of the Group. We have the indicator here considering 11 distributor of the Group in the order of 13.54% of the energy injected in or 0.4 percentile point beyond the regulatory framework. This has not taken into consideration in Ceron and Eletroacre actually. Total losses represent 11.53% or 0.1% above the regulatory framework below actually and corrected.

FINAL

We point out Energisa Mato Grosso do Sul, EMS with improvement in the order of 1.10% compared to March 2018 with better performance in our history of concessions. Energisa Mato Grosso, electrical losses dropped 0.39%. The concession actually, the drop was with regards to March 2018 concession is still diminishing its GAAP in relation to the regulatory framework with 0.22 percentile of our goals. Energisa Paraiba as per 2018, we have had losses compared to the regulatory framework reminding you that both companies went through regulatory reviews concerning the drops that we had with efforts for us to regain our purpose. We have Eletroacre, that is still doing well compared to the regulatory framework.

Let's go to slide number six. Let's talk about quality indicator. The concession actually of Ceron DEC with all distributors of the Group below of the -- quality of regulatory framework. Many of this concessions continue to take down their own historic record making new milestones with indicators of quality such as in the case of EMT, ETO, Tocantins, Nova Friburgo, Paraiba, Sergipe, Mato Grosso, Mato Grosso do Sul and among others such as Energisa Tocantins among the company's recently acquired, we have Eletroacre that remains below the flexible indicators DEC and FEC, Ceron, now with the increase of that in comparison to 2018 due to the conditions of the market in terms of maintenance and such and the higher levels of rainfall in that region during that period.

After the acquisition of these two companies, we are preparing a turnaround plan, so that we can turn around this indicators with implementation actually allowing for the turning around and getting back to our objectives. We have our two concessions actually. One that is currently undergoing auditing for the adaptation and so taking that to the standard of the market as per deal standards of last year.

Our DNSO pro forma without Ceron and Eletroacre. We will go into the financial aspects. This regarding results that are two concern Ceron and Eletroacre. 4.2% in the quarter aligned with inflation rates of the periods, which were around 4.6. Good share of increases and expenses has had to do with the hiring of new talents, readjustment of wages, new activities staying on -- taking on such as the shared services center appealing internalization of activities of developing of IT systems.

On the other hand, our talent or HR front, we had made improvements in labor-related action against us or even indemnizations mainly in Mato Grosso do Sul. The reduction has to do mainly with investment in consultancy especially for ESA Energisa Holding, Mato Grosso. The lineup material was influenced majorly by the consumption of equipment of EPP, personal protective equipment, the collective and the fleet of Tocantins, Energisa Tocantins, Paraiba. We have had in Mato Grosso several actions decreasing numbers actually.

Now slide number eight. Our trimester last -- trimester EBITDA rate 22.4% increase without considering Ceron and Eletroacre with BRL558 million of profit. I would like to point out that we didn't consider the effects actually not recurring detailed in the annex of this presentation with the EBITDA rates growing by BRL47.6 million with the addition of BRL190.2 million and the installment be up the distributor.

FINAL

Cash flows such as IFRS 15 that has to do with the accounting for new energy transmission structures, mainly in the lineup combination of businesses besides the margins for the energy transmitters among the effect non-cash flow. There was the a clear understanding of the market actually. Next, we are comparing a EBITDA rates for the regulatory framework according to the 12-month without Ceron and Eletroacre here.

In the consolidation of the Group, we're above EBITDA framework and the regulatory framework in the order of 33%, we point out the acquisition of companies such as Grupo Rede or Rede network group, network group and free translation with 31% above the regulatory framework prior to 20% in March 2018. In September 2016 below Re-IPO, the acquisition of Grupo Rede that were below and above if I'm correct here, the Group Rede indicating the recovery as successful one of the Group.

Slide number 10. Still with the EBITDA pro forma 120.1% and we'll see why in the annex attached files to this presentation actually. There is no annex in this presentation, but there are files attached. We are taking into consideration the credits from the state of Tocantins in the order of 26.4 million liquids from taxes.

That's our debt levels. We have to take into account the acquisition Ceron and Eletroacre BRL11.2 billion. I would like to point out that, in that number, we have the adding up of the number BRL541 million and BRL1 million different to the milestone market-to-market bonus of subscription to debenture of Energisa and the debt of the balance of the debt actually include in that bonus in the order of BRL600 million instead of the -- that we have that we have an effect, that will be the reduction of BRL1.2 billion in the liquids debt. The graph to your left, we see the decrease in our debt was based upon CDI rates, and we are actually working based on base interest rates.

We go to a slide number 12. Investments group with the quarter in the order of BRL546 million besides that what I've pointed out the results disclosed in the last quarter of last year. We have a guidance for investments for 2019 in the order of BRL2.75 billion. In the segment of transmission, we have invested around BRL50.5 million. In slide 13, concerning the provision investments. We have projects that were acquired in April 2017. We have Energisa Goias and Energisa Para I initiated -- work initiated in September and October 2018 with two projects already obtaining licensing for installation.

We have started negotiations with all related areas with most of the payments actually accomplished less than 2% for the final clearance. The physical advancement of the construction work is according to the numbers here 51% and 43% for Energisa Goias, Energisa Para I, with regards to Energisa Para II, we have the law that was actually acquired in the auction of June 2018 or the bid in the contract for a concession was signed in September 2018.

After six months the license for installation for implementation was -- got on May 6, 2019. We have started the development of topographic studies as well as the regularization of the areas that are public within the environment the A&D areas.

The basic project that was approved along with ANEEL, which is the regulating body along with ONS are evolving quite well in our landowner's negotiation, we have agreements undergoing with good advancement.

And 80% of the areas actually we have got clearance, and Energisa Tocantins, ETO, actually had a lot purchased in September 2018, and we have started the basic project, studies for the development and environmental licensing with a concession signed on March 25, 2019. Those four lots actually adds to an RAB of nearly BRL107 million with CapEx estimated in the order of BRL1.5 billion.

Now we have Mr. Mauricio with the next pieces of data. Thank you. Mauricio?

Mauricio Perez Botelho {BIO 2105889 <GO>}

Good afternoon, ladies and gentlemen. I would like to invite you to look at slide number 14 about Alsol. We assess the chain, the supply chain of this factor and we signed a contract for the acquisition of the control of Alsol and renewable energy. It's a Brazilian company with close capital and private capital in Uberlandia Minas Gerais state and it depends upon -- it is for the production of solar energy with other renewable energies such as biogas, biomass, wind energy, and hydroelectric energy.

Furthermore, the operation has conditions that proceed our acquisition with approval of CADE, but by the time the article of association under the new model is finalized. We have 87% of Energisa, 10% to Grupo Algar and 3% to Gustavo Buiatti with the founder of Alsol that will -- who will remain in as a Chief Technology Officer in the company.

Mr. Buiatti is a Electrical Engineer with Ph.D. on semiconductors from the Politecnico di Torino, Italy with both Ph.D. in Electronics and the Patterns, Electronics Patterns from Alstom Transport transfer and he is requesting actually has submitted for 13 patterns.

The distribution energy, GG, in Portuguese has made major advancements with photovoltaic panels, batteries, intelligent devices allowing for growth independent on public policies and subsidies and such and Brazil motivated mainly by incentive towards the compensation tariff, fiscal exemption, and major differentiation for conventional tariffs has done the -- has caused the growth capacity or DG, development and growth between January 2014 and May 2019 to be in the order of 29.4% with 85% of the installed capacity in GG or DG in English which is from photovoltaic sources.

The market is rather -- it is still very green. It used to be ripened. We aim for a market that has 6,000 small size companies with providers installation kits. It's not a market that has a major player that allows us to be very competitive in terms of global companies also have round 90,000 photovoltaic plates installed throughout Brazil with results in the order of 25 MWP, 531 facilities implemented mainly in Minas Gerais states, but we are present in 12 states. We have the growth at rates above that of the country.

We foresee the growth for the upcoming years along with ANEEL forecast with a foreseeable market growing by 53% annually between actually 2018 and 2023. We cannot

ignore those segments and we believe that will allow us to make advancements that are proper with proper internal training to provide proper offer of new services and products in this segment.

Slide 16. We have few more numbers concerning Alsol besides 25 MWP concerning solar distributed generation. We have biogas, bio-diesel storage consumer units. We have our own distribution system. We have many generation distributed upon biogas, bio-diesel, and storage on lithium batteries.

Among the main projects, I would like to point out the main system of generation distributed based upon photovoltaic energy with many generations that is distributed from biogas, as I said, point that out again. I would like to point out that the net revenue of the company was BRL51 million and the company had BRL1.5 million in profit

Slide 17, we see here renewable energies as per Alsol. We have B2B, B2C public bidding for sales and installation and we have the rental model as well or the concession models for our consortium members. As our clients actually demand more Energisa has set to be a company focused on our main purposes without a kind of proper analysis of the market.

We should not move on, Energisa has to go where clients want us to be, and the company has evolved technologically, which has to do with the technologic and regulatory transitions with new business models with technologies that are emerging and are possible. The partnership with Algar Group actually a company, and a company with mining of telecommunications, telecoms, and technology. Alsol has also signed with the Group that the Group is thinking of the Energisa transition. I would like to wrap up the presentation.

Now I would like to pass onto Q&A.

Questions And Answers

Operator

Thank you. Presenters and stockers we will start now Q&A. (Operator Instructions) Ms. Marie Mendis from Credit Suisse would like to ask a question.

Q - Maria Carolina {BIO 16342681 <GO>}

Good afternoon. It's Maria Carolina. I have a question concerning the process of tariff revision extraordinary from Rondonia and Acre state. First to be updated concerning the process of judgment of what the basis will be, if we were to consider May for instance where we have to expect that we had -- your process actually wrapped up for us to analyze the assets portfolio and it starts working with FRF with proper indicators. If you could actually comment on that with a more precise process concerning information, especially, when it comes to the request for revision. You focused on the cost analysis of the companies and the legacy that they brought along now with concerning new distributors would like to have further information because we see that we have like

contract ceasing that actually cost a little bit to the company and with this new company actually you had to be to review and you have to review your best practices and your general practices with Energisa in these two companies.

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

The first question, I would like to pass on to Alexandre who is more prepared to deal with the regulatory framework.

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

Good afternoon, Maria. Concerning compensation and tariff framework. We'll have in December, the revision of tariffs of Acre and Rondonia. The administrative process is ongoing. We have part of it to be wrapped up by May, early June. We have, probably, we'll have early July or early August within that period the actually updated portfolio of assets. I think that next one is to Mr. Mauricio.

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

Concerning the programs for Acre and Rondonia in January we started a process that was for encouraged retirement. Concerning your question and we had a PDV program developed for the companies. Concerning the last company to be totally turned changed especially. We have internally named (inaudible), which is encouraged retirement and PDVs will have a less kind of diminishing of the burden of Eletroacre, Ceron cut down by 25% with last 25% in our labor force in the company.

Q - Maria Carolina {BIO 16342681 <GO>}

Thank you.

Operator

(Operator Instructions) Mr. Kaique Vasconcellos from Safra Bank would like to ask a question.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Good afternoon all. Thank you for the presentation. I would like to understand your EBITDA. I understand that you still have a few negative areas. What can we expect through DSN Holding. The upcoming months of this year. What are your expectations? If you could share with this.

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

The effect, the negative effect, that we had in the early stages of the acquisition with -- of this new companies. In (inaudible) home -- that helped us review our procedures and we have to make a proper and you have to present a clear portfolio of products and services, and we had a marking compared to the general market, a difference in the order of BRL28 million, but this is a portfolio of products and services that is long running and long term and that's why we have this expectations and have had this losses.

Operator

(Operator Instructions) I'd like to pass on the floor to Mr. Ricardo for his final remarks. Mr. Ricardo, the floor is yours.

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

My final remarks. We are making major advancements in the planning that we had for this new -- this first quarter. We have achieved quite a few results as we have seen.

As mentioned by Alexandre we have to review the compensation program and planning and we have revision in December this year. 81% of our planning has been accomplished and we are certain that when we are to look at ourselves in the like of the competition. We are more than prepared to deal with that. We are rather happier with the advancements of the energy transmission lines, as I shared with you here.

We benefit from the acquisition of these groups, actually, what we have gained with what the -- we have seen the deadlines that we expect actually, and we have maintained a rhythm within our growth upto what we can where you can afford in terms of scalability. I would like to thank you all our shareholders.

Operator

And ladies and gentlemen, the first quarter of 2019 conference call is adjourned here. Please disconnect your lines now. Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.