

Q3 2021 Earnings Call

Company Participants

- Carlos Victor Cyrino, Director, Investor Relations
- Gustavo Estrella, Chief Executive Officer
- Unidentified Speaker
- Vitor Fagali, Vice President of Business Development
- Yuehui Pan, Chief Financial Officer

Other Participants

- Andre Sampaio, Analyst
- Carolina Carneiro, Analyst
- Flavia Sounis, Analyst
- Marcelo Sa, Analyst
- Unidentified Participant

Presentation

Carlos Victor Cyrino {BIO 21090309 <GO>}

(Foreign Language) after the presentation, we will start the questions and answers.
(Operator Instructions) I now give the floor to Gustavo Estrella, first to start the presentation of the results.

Gustavo Estrella {BIO 18109709 <GO>}

Thank you, Cyrino. Good morning to everyone. Thank you for your presence here. At the call I am now going to the first part, we are going to then highlight first of all, we've had an increase in the load of concession of 2%. We are going to talk about this, but I think it's very positive in the consumption -- of energy in the consumption area. We also have an EBITDA of BRL2.596 million a growth of 32.8%. The net income of BRL1.436 million, a growth of 6.2%.

Our net debt reached BRL15.9 billion and leverage of 1.77 net debt of EBITDA. we have investments in this quarter of BRL932 million a growth of 21%, remembering that our estimate for the year of BRL3.4 billion and it's a big investment for the company. The regulatory asset has reached BRL3.1 billion in September when we close the quarter. The highest value of history. We also had a tariff adjustment in CPFL Piratininga of 12.4% for the consumer now last October. We also concluded the commercial startup of the Gameleira Wind Complex.

We also concluded on October 14 the acquisition of the CT -- CPFL transmission. So we started the process of integration of C3E with CPFL Energia. Another important highlight is the ID IV index B3 as payment of dividends. We also implemented the Audit Committee, which is a requirement of the Novo Mercado. So we started the implementation of the Audit Committee. now in the month of November. We also won the Abradee award for CPFL Santa Cruz and CPFL Piratininga in social and environmental responsibility CPFL energy was also highlighted in reports by Santander as excellent rating and by Credit Suisse one of the 60 companies in the world that are good to invest.

We also were recognized with (inaudible) magazines. So now let's move to the next slide. Well, when we talk about energy sales we had a growth of 2% and concession in 3.5 in the sales in the concession area and if we look at the effect of the concessionaries we would have a growth of sales of 4.4 and growth of the load of 2.4 and here on the right side, you can see the residential less 0.4, basically the effect of 0.5 IGP[ph] temperature. This is a more and more of effect in residential. The positive is the industry which continues demonstrating a recovery and strength with a growth of 9.1% compared to last month and the good news of the performance of the commercial class with a growth of 8.2% in the segment of others. We have a drop of 5.4 and this is basically the effect of migrations and without this, we would have a growth aligned to the year of 2020. Now let's move to the next slide.

Here, we see the commercial segment, we can see the retail where we had the second-largest decrease -- a decrease of 7.2 compared to 2019 and 2020, a partial recovery 2.8%, and the market in 2021. The other class that has decreased the right side of our slide, when we look, here we see a drop in 12% and a recovery higher than the values of 2019%, 30.9%. So the highlight here is that we see a recovery and also a sequence of growth, especially in telecommunications and health.

Let's move to the next slide here, we do the same analysis in the industrial segment. We can see here, an important growth in the accumulated of 2019-2020, a growth of 6.1. That means we have surpassed the growth of 2019. We have a situation, which is of stability in the segment of vehicles. There was a drop of 7.7 and then a recovery of 2.8 and that now we have accumulated 18.1. The other classes metallurgy, we see a growth which is higher than the year 2019, which shows that we are in recovery. The next slide, please. Here we have delinquency and losses. We have a challenging scenario with the delinquency. We have a growth -- expressive growth especially in the second quarter of 2021.

We can start seeing a drop of the levels of delinquency dropping to 126[ph] and the trend continues in the beginning of the fourth quarter. So it is still high, and we start seeing a response in all the actions of the company, collection actions that the company is carrying out. We see and finally, we can see the impacts in the drop of delinquency when we can see here the benchmark, we can see that in general the delinquency pressure being felt with the elevation of tariffs and also high unemployment in the country.

Therefore this is important, this happens not only with CPFL but the companies of the sector in general. The rates of loss we see a drop here in the group CPFL of 9.06 to 8.62 and this is a positive signal -- positive sign and this shows reduction. Let's move now to

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the next slide. Here, in generation, we can see an expressive increase of PLD, compared to 2020 and this reflects what we've been doing in the last months.

Fortunately, we see this being reverted and this reflects an expressive reduction in the beginning of the fourth quarter, but the third quarter we had a lot of pressure. And here you see the GSF in the same line, which was higher than 2020 and this brought a GSF which is negative in the third quarter. The APPS and the SHPPS was also a reflection of the situation. In the wind generation, we have an increase, not only the entry of Gameleira operation and here you can see the comparisons with 2020 and basically this is aligned with the averages that we have seen in the last quarter.

Next slide, please. So now I'm going to give the floor to Mr. Pan and he's going to talk a little bit about the results of the company.

Yuehui Pan {BIO 20609514 <GO>}

Thank you, Gustavo. Good morning to everyone. The EBITDA in this quarter was BRL2.6 billion, a hike of 32.8%. I highlight once again the good result of the segmental distribution with an increase of 43.2%, the largest variation was the market and the tariffs, especially due to the higher IGPM. Another important effect was higher gain of the financial assets of the concession, which had a hike of BRL191 million due to the higher IPCA.

In the third quarter last year the IPCA had been 0.86% and this year it was plus 2.38% in this we had a gain of BRL26 million once more from other revenues. As mentioned in the last quarter this is basically from the rental of POS reflecting the increase of the IGPM during the period. The PMSO had an increase of BRL74 million and it is the main impact with the expenses linked to inflation, an increase of 9.5% but below the IPCA over 10% due to the salary readjustments and other contracts with suppliers. The PDD was higher than BRL73 million. It was a similar level to the second quarter. In the pension plan we had an increase of BRL14 million. The other effects add up to BRL10 million. In generation, the EBITDA was of BRL1.1 billion, a high increase of 31%.

The main effect was the gain with the GSF solution in the regulated market of BRL274 million. Another positive impact was the updates of the prices of the index contracts by IGP-M of -- in the amount of BRL191 million besides this we had a gain of BRL27 million due to the higher generation of energy in our wind farms added to the entry or the beginning of the operation of the Gameleira complex.

On the other hand, we had an impact, negative impact of BRL138 million referring to a higher CapEx due to the substitution of suppliers and this was negative BRL116 million due to the higher PLD and the low level of the GSF.

Other effects added a gain of BRL21 million. The segment of trading services and others had a negative EBITDA of BRL32 million mainly impacted by the margin of commercialization negative BRL83 million. Other effects add a gain of BRL3 million. Let's move to the next slide. We show the performance of the net profit, which was BRL1.436 million during the period, an increase of 6.2 in relation to the same period last year.

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In the financial results, we had an improvement of BRL3 million due especially to the gain of MTM BRL34 million in new fundings in the quarter. Monetary updates of the regulatory 30 million assets and the monetary update on fiscal credit BRL18 million and increases and fines BRL9 million.

On the other hand, the expenses with the net debt had an increase of BRL143 million explained due to the increase of the IPCA and the CDI during the period. A higher payment of taxes is related to the better results in the period and the recognition of fiscal credits in the CPFL renewables. Last year the amount is BRL271 million. In slide 11, we show you the results of the nine months accumulated in 2021, the EBITDA grew 36.2%. We highlight here distribution that grew 42.9% favored by the good performance of the market and the tariffs. Due to the IGP-M and the financial assets of the concession another highlight is generation with increase of 29.3% which is equivalent to BRL560 million due to more wind generation.

The readjustments of contracts and the GSF solution. The net profit increased 29.6% reaching BRL3.5 billion. We also were impacted by the higher debt costs MTM which were partially compensated by fines and increases. Now let's talk about indebtedness. The net debt is a total of BRL15.9 billion and the EBITDA over the last 12 months reached BRL9 billion. The leverage, which is measured by the net debt versus EBITDA was 1.77 times. We highlight that we had still not paid the BRL1.7 billion dividends and the BRL2.7 billion for the acquisition of CEEE-T. In the chart on the right side, you can see the cash position at the end of the third quarter BRL4.9 billion with a coverage rate of 1.81 times. The short-term amortizations and the medium-term amortizations is 3.27 years but low. We have the cost of the debt that increased normally, especially due to the variation of the IPCA and CDI during this period.

However, the real cost is still negative. Now when we compose the gross debt, we can see that the higher exposure is indexed to the CDI 69%, 29% index to the IPCA, and 2% to the TJLP. As for the dividends we have maintained our plan of growth and payment of dividends, where we had a payout of 80% in 2020 representing a total of BRL2.08 billion and in 2021 we announced the payment of BRL3.46 billion representing a payout of 100%.

The CapEx of the quarter was of BRL932 million, an increase of 21% in relation to the same period last year. If we look by segment, we have in distribution, a total investment of BRL821 million destined to modernization maintenance and widening of the network of the equipment in this segment of generation. We invested BRL71 million in the Gameleira and Cherobim projects.

We invested another BRL16 million in Sul I and Sul 2 transmission projects and also for the segment of trading and services we invested BRL24 million to increase modernize and maintenance of equipment vehicles tools and IT in the accumulated vision for nine months, we invested BRL2.646 million an increase of 37.2%. I thank you very much. And now I'm giving the floor back to Mr. Gustavo Estrella. Thank you.

Gustavo Estrella {BIO 18109709 <GO>}

Thank you. So finalizing our presentation, we have some social-environmental actions, the Gameleira Wind Complex. This is a strategy totally aligned with our sustainability plan and a series of actions, social environmental programs that are very relevant in the region and in the area of projects that we are working on. So again a growth of renewable energy and sustainability and all our ESG plan of the company. So this is an important investment now in the month of September, 100% aligned with our strategies. Well, we end our presentation now and we are available for questions.

Questions And Answers

A - Carlos Victor Cyrino {BIO 21090309 <GO>}

Thank you, Gustavo. Thank you, Mr. Pan, for your presentation. So we are now open for questions and answer and this will be done in the order that they come. The questions will be live. All you have to do to ask a question is use the button raise the hand. This is on the bottom part of the screen. We can see that we have questions here. It comes from Carol from Credit Suisse. Good morning, Carol. Thank you for your participation, you can ask your question.

Q - Carolina Carneiro

Thank you for the call. Good morning, everyone. I have two questions, the first one is about the agenda of bidding and capital allocation. For example the CT generation sold and I would like to know what are you going to do in relation to the assets that you've already built this year or what you are -- If what you're guaranteeing is within the ideal and if you were to look at these other assets I mentioned and the second one is about regulation. We saw that now, what about the long-term strategies they had put to vote the public consultation of the losses and the last response of the methodology of losses. So I'd like to understand on your side, the expectation about this loss discussion, which is very relevant for the sector and what proposals you have and what vision you have and if there is any regulatory topic that you believe will be important this year.

A - Gustavo Estrella {BIO 18109709 <GO>}

Thank you Carol for your questions. The first one is about the bidding process. We continue with our strategy of growth and what the market offers us. About the generation, we have a specific interest in the assets where we already participate and will see in the future if there is anything that inserts itself in the strategy of CAPFL[ph]. We then will participate and evaluate these projects and what we have now as a challenge is the integration of CT3 integration. The company during the next two or three months, very much focussed on the integration. It's a big challenge. It's a big company. So we are focusing on this, but we continue looking at opportunities the market will offer to grow. (inaudible) pleased to continue responding.

A - Unidentified Speaker

Hello, Carol. Thank you for your question. As for these losses, this is an important topic for us distributors and we've been talking with ANEEL[ph] about this topic and ANEEL took the cautious decision of discussing this matter was companies. Yes. There, we had a very positive meeting with ANEEL. CPFO has a lot of know-how in this area of losses with the

implementation of technology, calculus methodology, evaluations that we have given the work that we've been doing, controlling losses as we showed in stable numbers, and also with the challenges that we have in the country, but we are discussing this with ANEEL and we are evolving to have and the daring methodology to the situation of the company of the country and the balance of companies.

Q - Carolina Carneiro

Thank you very much for your response.

A - Carlos Victor Cyrino {BIO 21090309 <GO>}

Thank you, Carol. We're moving on to the second question, Marcelo Sa from Itau. Thank you for your participation. Please ask your question.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you for the opportunity. When you talk about growth strategies I think it's clear that you see more opportunities in the transmission than renewable energy and then we see a movement in direction of renewable energy with a more optimistic vision of price. The demand of this type of source. What do you imagine doing long-term. Do you think all this is going to decrease the price or the migration to the free market is going to sustain the prices and of course now we had good rains in October and November? I was talking to some specialists and they think we even have the PLD in December. If this confirms we will have some impact in the price curve. Looking further forward so I'd like to see how you see this dynamic in these challenges of renewable energy. I would like to know what your plans are. Thank you.

Q - Unidentified Participant

I am (inaudible) I'm responsible for this area. Thank you for the question. When we talk about prices, we have been seeing short improvement with favorable weather and rains. We have a relevant drop of prices in the fourth quarter. So when we talk about medium, long term we see the entry of new plants. Especially renewable front[ph] plants and we still have a discount. We've had an excess of plants operating in three, five years. This compresses the price down and long term this depends on consumption. But we see more stable prices. When we look long term, I think this is a bit of the dynamic of the prices in relation to all this. It will depend on the flea[ph] market evolution. But this is the way we are going, what I just mentioned. Thank you very much.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you for the answer.

A - Carlos Victor Cyrino {BIO 21090309 <GO>}

Thank you, Marcelo. Let's move to the next question. The next question is Andre Sampaio from Santander. Thank you Andre for your participation. Please ask your question.

Q - Andre Sampaio {BIO 19422379 <GO>}

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Good morning. I'd like to ask two questions, the first one is a follow-up to Carol's questions about the discussion of the losses. The technical note presented in the conclusion of the technical area, it develops the rule in relation to the Risk Areas where Piratininga CPFL ends by going over 10% in this discussion, I would like to hear from you what is your opinion in relation to this. If this really should generate a benefit for you. And my second question in truth is about renewables as well. I'd like to hear from you, after all these M&As and with the pipeline interest, how would you as a company unlock the potential value of this business from now on. You see the -- what the market is doing with discount. So I'd like to understand what is your plan to unlock this value. And if it wouldn't make sense to do something specific in renewables.

A - Gustavo Estrella {BIO 18109709 <GO>}

Hi Andre. In relation to this issue, Risk Areas in the proportion the Piratininga has a benefit that shows the improvement of the Piratininga situation, especially in the area of the centers[ph] and its environment. So, this brings Piratininga to a more realistic situation. This is positive and yesterday, as I said, we had a very interesting meeting presenting alternatives to consider certain situations of some companies. Even if they don't have -- if they're not the same as Piratininga which also reflects the reality and this was as I said, discussed with ANEEL.

A - Vitor Fagali {BIO 21724555 <GO>}

I am Vitor Fagali, Vice President of Business Development, I'm going to try to respond about renewables. We have a pipeline here to develop over four gigs and we have these projects alive and analysis and the topic here is as of the moment that we understand these projects generate value. They have risk. This suggests did return which is compatible to the company. They goal is to continue developing and continue but this necessarily comes from the premise of feasibility. So we always analyze this, evaluating our renewable park if we grow and how we should advance from now on. But they think to do direct. We have our greenfields here and that's how we understand the opportunity on the financial point of view, we're going to evolve with all of this.

Q - Andre Sampaio {BIO 19422379 <GO>}

Perfect, thank you for the response.

A - Carlos Victor Cyrino {BIO 21090309 <GO>}

Thank you, Andre. We are going now to the last question and the question comes from Flavia from Goldman Sachs. Flavia, thank you for participating. Please ask your question.

Q - Flavia Sounis {BIO 22080011 <GO>}

Good morning and thank you for the call. I have a quick question about regulatory issues. What do you see -- do you see the changes can come -- any deterioration, any increase of the spreads, how do you see this moving forward?

A - Gustavo Estrella {BIO 18109709 <GO>}

Good morning, Flavia. Thank you for your question. The methodology already takes into account this annually with the scenario that we are living through. So we hope that these definitions in the next year will reflect what we're going through now.

Q - Flavia Sounis {BIO 22080011 <GO>}

Thank you. Thank you.

A - Carlos Victor Cyrino {BIO 21090309 <GO>}

Thank you. Flavio. Well, we have no more questions. We are going to end the session of Q&A. If there is any question, the Investor Relations group is available to clarify anything you need later. I would like to communicate now in the middle of December we're going to have our CPFL Investor Day, will still be virtually and we hope all of you will participate. You will receive the official invitation soon. I'm going to give the floor back to Gustavo Estrella for his final considerations.

A - Gustavo Estrella {BIO 18109709 <GO>}

Well, I thank you all for the participation. I think we have an important improvement to alleviate the situation. But I think what clearly is here is precious scenario high prices and this brings us a challenge, especially with the tariff readjustment of the distributors. So I think the readjustment of the cash situation and the size, but we have to deal with this scenario, which becomes improbable with high prices. So we have to deal with this topic, the sectorial topic. It's not only specific to (inaudible) but it is something that we will have to work on in the next few months. We, as I said, we have a big challenge of integration of the CT3 integration. The first 100 days will be decisive for this process. But we are very confident that we made an excellent investment in an asset that for sure we'll have the standards of CPFL energy soon. Sectorially I think we have an expected -- positive expectation of the recovery of the economy. Increase of consumption and evolving of the regulatory agenda.

We have topics that are very important that are being discussed on the table 414, 1917. So the expectation is that short term, we will be able to deal with all these topics, so that we have and we evolve in the sector developments and is in the direction of opening with an organized and planned process so that we will be able to have a long-term vision.

That is our vision, I thank you all for being present. Thank you.

A - Carlos Victor Cyrino {BIO 21090309 <GO>}

Well, we then end the call for the third quarter 2021. Once more, we thank you all for participating. Have a great afternoon, a great weekend, a good holiday on Monday and good bye.

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