Operator:

Good morning ladies and gentlemen, and thank you for waiting. Welcome to Aeris Energy's 3Q22 earnings conference call. Today, we are joined by: Bruno Vilela, CEO and Bruno Lolli, Planning and Investor Relations Officer.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during Aeris Energy's presentation. After the presentation, we will begin a question and answer session, when further instructions will be given. If you need any assistance during the conference, please send a message in the chat box located on the right side of the screen.

Before proceeding, we would like to clarify that any statements that may be made during this conference call regarding the Company's business prospects, projections and operating and financial targets are based on the beliefs and assumptions of Aeris' Management.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they refer to future events and, therefore, depend on circumstances that may or may not occur. General economic conditions, industry conditions and other operating factors may affect the Company's future results, leading to results that are materially different from those expressed in this presentation.

Now, I would like to turn the floor to Mr. Bruno Vilela, who will present the results. You may proceed.

Bruno Vilela:

Good morning, everyone. Before I begin, I would like to give a brief update on our macro view for the business, and then we can spend more time discussing Aeris' results.

As everyone knows, the COP is taking place in Egypt, and a large part of the matters being discussed there are related to renewable energy interactions, both for energy security in Europe, as well as the global slowdown.

So, I believe this matter has already been widely discussed and aligned with all of you. Regarding the Biden package, what we have been hearing is that the US market will grow as of 2H23.

We already see a big movement happening and some of the negotiations we are having in contractual extensions, or for new contracts, are related to this resumption of growth in the US market, which had been flat in recent months.

Now, let's move to the first slide. On this slide, we would like to highlight the reduction in leverage. This was possible because of our disciplined management in working capital, which reduced our leverage from 3.2x in the previous quarter to 2.8x.

Another point that also affects our current leverage and will allow us to further reduce this 2.8x, are the changes in client projects. Clients have been making many changes to blade designs and this significantly increased our WIP, which are the products in process. You will also see that the occupancy rate of our factory also reduced significantly this quarter.

These changes are negotiated since clients have contractual clauses allowing them to request changes in blade designs, but Aeris has an "open book" right to cover the costs this creates for the Company. This can be costs related to increase in labor, or higher financial costs due to an unplanned increase in WIP, which are the products in process.

And last but not least, we've been talking a lot about quality, that it is one of Aeris' greatest values and a fundamental assumption for business continuity. We made a few changes to the Company's internal structure and created a specific quality department.

So, now we have a Director that is exclusively dedicated to quality. He has vast experience in the aeronautical market, worked a lot at Embraer, joined our team and will begin to contribute in about 35 days. His name is Alexandre Negroni, and on behalf of the entire Company, I would like to welcome him onboard and say we are excited about this quality focus for our business continuity.

Moving on to slide 3, where we will discuss the numbers for the quarter. We had a net loss of R$25.9 million in 3Q22, and an accumulated loss of R$53.3 million for the first nine months of 2022. In 3Q22, we also had a ROIC of 10.7%, investments of around R$30 million, net revenue of R$625 million, which totaled R$1.8 billion in the first nine months of 2022. EBITDA was R$65 million in 3Q22, and accumulated R$186.2 million in the first nine months of 2022.

Now, I'll turn the floor to Bruno Lolli, and I'll return at the end to answer your questions.

Bruno Lolli:

Thank you, Vilela. Good morning, everyone. I'm going to start with slide four, where we always show the Company's long-term vision and the investment cycle to capture value.

So, we can see that since 2019, starting in 2020, we've had a very relevant investment cycle, both in terms of expanding production capacity and in the need for working capital for growth.

This cycle is slowing down in 2022 and will remains at a much lower levels in 2023. Once the investment cycle closes and becomes stable, we move into the value capturing phase of this investment cycle.

We made many changes in 2022, as Vilela already commented, in client relationship, mainly regarding changes to products and changes in suppliers, and this affects the short-term value generation. We project a much more stable production in 2023, much more mature. In 2023, as we'll see later in the presentation, we should operate with at least 15 lines, all of them mature.

So, in this period, we expect to have an important recovery in return on invested capital to start generating positive bottom line results.

Now on slide five, an had an important change in the maturation of large lines in relation to the previous quarter. So, we migrated invested capital from non-mature lines to mature lines, and had a slight migration in terms of EBITDA growth.

This explains why this quarter's return in mature lines dropped from more than 20% to 15.8%. In addition to this recent maturation of invested capital for certain relevant lines, we also had, as Vilela said, a more important change in mature lines this quarter.

Lines that had been mature for a long time dropped in volume, and I'll talk about variations in revenues later on, but lines that were mature for a longer time delivered lower volume, lower revenue and, obviously, a lower dilution capacity for fixed cost in this quarter. Despite this, we were able to maintain margins and returns reasonably stable, even if slightly lower than originally projected.

Moving on to slide six, we will talk about revenue growth. In this quarter, revenues dropped by around 4% compared to 2Q22, and the original projection was that revenue would grow but that did not occur because of the change in production plan for these mature lines due to changes in projects, as Vilela already mentioned.

The volume delivered in megawatts was very stable, and most of the drop in revenue was related to the average price, remembering that in 3Q22, we also had an important component in the average exchange rate, in the ratio between the dollar and the average real in 2Q22. So, as the dollar in 2Q22 was much lower than the average for the year, we had this drop in average price in 3Q22. As the average exchange rate in 3Q22 was much higher, and we have already passed this on to 4Q prices.

So, we expect to have an average price growth again and, obviously, with the growth in volume, we will also grow the projected revenue for the 4Q of the year, and may even reach the guidance range, which remains unchanged this quarter.

Another important highlight was the growth in the services division, mainly in the United States unit. During this period, the Company began to perform more relevant contracts, and we are not having any environmental events that prevent services from being provided there. So, this growth is projected to continue for the next quarters.

Today, the relevance of the services division in the United States in relation to the Company's total services is more than 80%, and we project this growth to continue to be more intense in the service division of the United States than in Brazil.

Moving on to slide seven, we show this relationship between price per megawatt in Reais and the cost of direct materials. So, looking at this historical view since the start of 2019, this price adjustment is quite natural, it is foreseen in all contracts. In this previous quarter, we can see that the drop in the average price is also accompanied by a drop in the average cost of direct materials.

Now on slide eight, EBITDA for the 12-month period in 3Q22 was the highest in the Company's history, reaching R$253.6 million. EBITDA for the quarter was R$64.8 million, with a margin of 10.4%. Looking forward, in terms of guidance, since that it is unchanged, we have an EBITDA above R$85 million projected for the 4Q.

This is based on the assumption that these problems we had in 3Q22, regarding the increase in the manufacturing cycle, will be resolved in the fourth quarter. In the current position, they are already well advanced, and we are very close to reaching the original rates. We have until the end of the year to remove the excess inventory in process and to meet the targets established for the guidance.

Moving now to slide nine, we will discuss the evolution of the Company's investments. In this quarter, we invested R$32 million and, when we revised the guidance and increased the CAPEX projection, much of this was related to additional investments to increase production capacity in the finishing units.

So, historically, production bottlenecks have always been in the lamination and infusion units, and what we are noticing for these larger blades, mainly due to changes in design, is that the finishing unit now has a longer manufacturing cycle that requires more finishing positions and labor cost, which require additional CAPEX.

In some cases, we also need to renegotiate with the client for this increase in investment, by Aeris, is remunerated by the client.

Going to slide ten, Vilela also mentioned, at the beginning of the presentation, our disciplined working capital management. Since the beginning of this year, we had an increase, of R$240 million, in raw material inventory, as well as an increase in the average manufacturing and inventory periods.

So, this increases the need for working capital but, on the other hand, the Company has been making efforts to improve its relationship with suppliers, in terms of average payment terms. Specifically, in this quarter, this increase in average manufacturing time for the more mature lines was offset by an increase in advances from clients.

So, we were able to offset this increase in inventory in process, which was R$190 million for the first nine months, being more relevant in this last quarter because of advances from clients. So, revenues did not occur but it did not affect cash flow in this period. The Company maintains a very healthy cash balance and, when this revenue occurs, we will have normalized values for the growth in working capital needs.

Now, let’s discuss our cash position and debt amortization flow. We ended the quarter with just over R$850 million in cash, with little debt amortization obligations for 2022 and 2023.

So, we have a very comfortable position since the operation starts to generate results greater than financial results, and this is expected to happen in the next quarters with volume growth, when we will begin to have a net operating cash generation with few obligations to amortize bank loans.

Moving to slide number 12, Vilela also mentioned that we had a much lower occupancy rate this quarter, and this is totally related to the lower revenue from lines that have been mature for a longer time. And this lower revenue is a consequence of these project changes that we already mentioned.

So, in this quarter, we were projecting a 100% occupancy rate, of about 1.4 gigawatts, and we delivered a little more than half of that. Even so, adjusting prices for the current exchange rate, our backlog is slightly over R$10 million and the average power for the wind turbines covered in this backlog is almost 5 megawatts.

In terms of evolution of our production lines in this quarter, we had the decommissioning of a very old line originally installed in 2013, and we had two product changes in this line, the last change was at the end of 2019. In total, this decommissioned line delivered more than 2 gigawatts, not this line specifically, but the products of this line, and we had other lines with this same model in the past, delivered more than 2 gigawatts.

In 4Q22, we are going to decommission another two lines, and this was already foreseen. The Company will start operating in 2023 with 15 mature lines, and we are negotiating with a specific client the addition of, at least, one additional line in 2023, for a product we already produce. In practice, the base scenario is to produce between 15 and 16 mature lines during 2023.

The Company is also making efforts to negotiate a contractual extension for lines ending in 2023, for at least until the end of 2024. So, we expect to spend, at least, two years operating our current lines in mature status, and this contributes significantly with the growth of the return on invested capital.

And, we are always warning that more intense changes in projects create non-mature phases during the mature period, and this is renegotiated with clients, passed on to them. In this quarter, we were negatively impacted by these changes and we are now negotiating to pass these impacts on to clients.

Now, finally, let’s move to slide 14. We maintain our guidance projection, which indicates very strong results for the 4Q22. So, the projection is to deliver from 3.2 to 3.6 gigawatt in 2022, with net revenue from R$2.6 to R$3.1 billion, an EBITDA from R$270 to R$340 million, and CAPEX between R$95 and R$135 million.

With this, I conclude the presentation we prepared for today and will turn the floor back to Laís, for our question and answer session.

Lucas Laghi, XP Investimentos:

I’d like to understand if this difference of 95% in utilization capacity of the lines to 55% this quarter, if this difference is being offset by some mitigation effect, if there is a contractual clause that allow the loss of production to be mitigated, given this drop in utilization rate.

And to better understand this pricing dynamic, you mention that up to 60% of production has a certain guarantee of return. Since the result was lower, how does this risk look, given that you are much below what was reported in the 2Q22, and below the capacity limit. These are the points I’d like to understand regarding utilization.

Bruno Lolli:

Perfect, Lucas. Good morning. The answer is yes, the contract actually provides for variations, all contracts have price variations according to capacity utilization, mainly in the added value component, actually, only in the added value component for the established price.

For one of our clients, we already started the year with an occupancy rate much lower than originally projected in the contract, and we already had an amendment that corrected the price for these rates that were below 60%.

For another client, we had a bigger change now in 3Q22, most of the drop we had in terms of utilization was in revenue, let's put it this way, but the blades continue to be produced, so we had a lot of costs in materials, and with this our work-in-process inventory grew.

This makes it possible, for example, that in 4Q22, or even in the 1Q of next year, that utilization rates for this client will be above 100%, which will make our revenues be higher than foreseen in the contract.

So, the global impact, let's say, the impact over these two or three quarters, this change in client, will define an average occupancy rate which will be considered when pricing this impact during this period.

Lucas Laghi:

This client, what it was already mature line for a longer time?

Bruno Lolli:

Yes, exactly.

Lucas Laghi:

One last thing from my side, but looking at 4Q22, I just want to understand how has the operational improvement been for these lines that matured more recently. For the two lines that matured in 3Q22 and the one line that matured in 2Q22. And how is the maturation process of the three lines that are expected to reach the maturity stage in 4Q22? That's my last question. Thank you, everyone.

Bruno Lolli:

Perfect, Lucas. The lines that technically matured in 2Q22 and 3Q22, which have been installed for more than a year, still deliver results a little lower than a typical mature line.

This is due to slightly lower volumes and higher costs, especially in finishing stations, so we are also adjusting the entire cost and price base according to the stabilized production for these lines.

The lines that will mature now in 4Q22, in practice, are delivering even better results than these other lines that matured in 2Q22 and 3Q22. So today, at the end of 3Q22, we already saw an important evolution for these three lines that are now maturing in 4Q22.

And the projection, executing all the plans we have to improve lines that matured during the year, is that 2023 will have mature lines, both from a technical point of view and in terms of delivering results.

Lucas Barbosa, Santander:

Good morning, Vilela. Good morning, Lolli. I have two questions, I'm going to ask the first, then I'll wait for the answer and I'll ask the second. The first is: Could you give an update on the production of blades for offshore turbines? Did you advance in the discussion with the client, any visibility on the offshore demand in the United States, etc? Then I'll ask the second question, thank you very much.

Bruno Vilela:

Good morning, Lucas. How are you? Negotiations are still going on, they are ongoing, nothing has been concluded. The market is a very heated market in the United States, in Brazil it is starting as we know, mainly due to this issue of green hydrogen, but the negotiation has not advanced much.

We are partners, setting up factories abroad, or even producing in Pecém/CE. Analyzes are being carried out, but there is nothing very advanced yet.

Lucas Barbosa:

Perfect, Vilela. That is very clear. Thank you. Let me ask my second question. Regarding the energy crisis in Europe, I would like to understand if there is any angle that you could benefit from this.

Do you currently produce any blades that are commonly used in turbines in Europe, and that somehow would make sense? Would it be possible for producers to import this blade product from Aeris? Have you had discussions to supply the European market?

Bruno Vilela:

Lucas, yes, we have already sent blades to Europe for the models we are producing. The current bottleneck in the European market is not for energy demand, but it is in terms of regulation and this you will see in the COP news. You will see this is what is being widely discussed, how to make this regulation of renewable energy in Europe more flexible, make it less bureaucratic.

And yes, the models we are producing are compatible with the European market, and our contract already allows clients to send the model or blade we are producing to wherever they want.

They never specify for us if next year's demand will be for blades to be sent to Europe. They are aware of our production capacity, they know that they can place the purchase order for the production capacity and they send the products to where they have demand.

What we're seeing are discussions to extend contracts and models, but we don't know precisely which market would be served. It could be, yes, for the European market, as well as for the American market and the Brazilian market, which is very heated.

Lucas Barbosa:

Perfect, Vilela. If you'll allow me a follow-up on this question for Europe. Do you have any idea, in the last few years, regarding wind installations in Europe, of how much is Offshore and how much is onshore? A ballpark figure, so that we have an idea of how you could benefit.

Bruno Vilela:

Lucas, this would be a big guess. I prefer to search internally here in the reports we buy, and give this information to you later on. I'm not going to risk guessing because it would be irresponsible on my part, since it would be a very big guess.

Lucas Barbosa:

No problem, Vilela. Thank you and have a good day.

Ygor Bastos, Genial Investimentos:

Hello, everyone. Good morning. I have a question related to productivity. It was a bit difficult for us to measure. I remember a while ago, you announced that you were hiring Falconi to focus on your increase in productivity, in your relationship with employees.

I would like to understand how we can try to capture this increase in productivity because, when looking at the number of employees you need to produce 1 megawatt, that number ended up being a little distorted due to manufacturing problems with the assemblers. That is one point to mention.

The second point, if you will allow me, is how are you also looking at cost per employee? Given that scenario for 2023 and 2024 onwards, well, at least for the next four years, the indicator is that we are going to have slightly more aggressive readjustments in terms of employees.

I'd like to know how you are planning for this and if anything will be done besides gains in productivity. I think that's the first point. Then I'll ask another question. Thank you.

Bruno Lolli:

Good morning, Ygor. Yes, we have a greater complexity in analyzing cost and productivity evolution throughout the year, due to these more frequent changes in projects and in suppliers, a point that we ended up not exploring so much. But, whenever the client brings a new supplier there is an adaptation period, especially when it comes to materials related to the infusion process.

So, there is an adaptation period where we are less productive, and we apply the foreseen contractual clauses to correct prices. So, throughout 2022, we had a lot of changes, both in terms of product and supplier, and this compromises a clearer analysis on productivity.

To guarantee that we don't delay deliveries, we are also putting more resources into the finishing process and, to reduce work-in-process inventory, this working capital ended up being more relevant this year, with the cost of capital rising in Brazil.

It is not that simple for us to make this analysis. Our projections for 2023 are clearer, based on the assumption that production will be more stable for the mature lines next year.

In terms of inflation, in fact, when we exclude cost of direct materials, our costs and expenses associated with payroll represent up to 70% of the other costs and expenses. So, salary inflation turns out to be a relevant topic that we have to deal with.

In practice, since it is a value-added component of the price, it ends up being totally adjusted with the IPCA, at least on an annual basis. So, even a slightly higher inflation that affects our costs is offset by this annual price review of the value-added component.

Ygor Bastos:

Perfect. And if you will allow me a second question, I would like to address your backlog. I would like to understand, at least for 2023 and 2024, if you can tell us how much of this is concentrated for exports and how much is for the local market? Just so we can fine tune our assumptions. Think that would be great. Thank you.

Bruno Lolli:

That's clear, Ygor. Contractually, clients have the right to purchase blades for any location. They produce at Aeris and need to inform us the destination of the blades at least 6 months in advance so that we can conduct the whole drawback process so we avoid taxes associated with importing materials when exporting blades.

In this sense, the clearest view we have is for the 1H of next year, and the concentration of deliveries to the domestic market is very high. So, our current view is that we will have more than 95% of deliveries in 1H23 for the domestic market. It's much more an estimate, a forecast, that in 2H23, we will have a slightly higher volume of exports, but the domestic market will still dominate.

It's really a guess. I would risk saying that we will have, a least, 80% of deliveries in 2H23 also for Brazil. For 2024, it is really uncertain because clients can review plans and, if we have the expected growth in deliveries to the United States and Europe, this can be rebalanced for exports, which may reach up to half of the Company's revenue.

Ygor Bastos:

That's perfect, thanks Lolli. It helps a lot. Thank you and see you soon.

Victor Haidamous Rampazzo, Joule Investimentos (via webcast):

Do you already have an update on the addressable market, and the market share of Aeris for the coming years?

Bruno Lolli:

In fact, this is an important matter. When we look at market size, in terms of addressable market, we always say that it is the world minus China. In recent years, we saw installations of something between 40 and 45 gigawatts per year, with projections until the middle of the decade, that this would increase to more than 50 gigawatts per year.

So, when we consider this entire addressable market, it depends a lot on the wind turbine models that are sold in each location, and when we have available capacity to deliver this model, since the client will always choose the model that has the lowest cost at to meet the sales it has at that time.

In terms of market share, we are uncertain to affirm this right now, mainly because there is a large variation in the number of occupied lines for our biggest competitor, which is TPI.

We have a clearer view of the 15 or 16 operating lines in 2023, and TPI significantly reduced the number of occupied lines for next year. And we don't see clients making investments to increase their own capacity. So, with no significant change in the outsourcing ratio, we can see Aeris growing in terms of market share next year.

But, going back to what I said before, this is still quite uncertain and it has a parameter that makes it difficult to monitor market share for very short periods, which is our case, because we measure market share by comparing what we produced and invoiced against what was commissioned in the period. So, at the limit, we could have a market share of more than 100% in some regions, due to the way we calculate and the limitations this calculation has.

Our proposal is to make an adjustment to the calculation of market share for us to compare the wind farms that were commissioned in that period, which used the blades produced by Aeris. So, this could be a solution for us to have a much more assertive market share. Currently, we are delivering just over 3.2 GW this year. And the projected delivery of the addressable market this year remains above 40 GW.

Daniel Dutra (via webcast):

In practice, what is the maximum blade size that Aeris is currently capable of manufacturing? And, can you comment on the Company's research and development?

Bruno Lolli:

In terms of maximum size, when we expanded to meet the Siemens Gamesa contract, specifically, which was the biggest expansion we had after the IPO, the buildings and circulation area at the Company were already set up to manufacture blades of up to 120 meters.

When we look at the offshore models in the world today, we have blades between 110 and 120 meters. So, the investments made since 2020 and 2021 are already designed for this blade size, they are already optimized for blade sizes between 80 and 120 meters.

We have research in development, and a good part of what we invest in R&D is for the development of tools, methods, and inspection processes for us to have a more optimized production process.

I would like to remind you that our client defines the design of the blades, we collaborate with design in certain cases, but our main focus is to develop and optimize manufacturing processes and that is where most of our investments in R&D are made.

In addition, we have a team dedicated to new businesses, and this team has been developing processes and products for other markets, always focusing on energy transition. These new businesses have been evolving satisfactorily within the Company, relationships are happening with major market players and, as soon as we have a contract signed in this regard, we will announce it the market.

Eduardo Rosa, 4UM Investimentos (via webcast):

What is the Company's vision in terms of risks and opportunities with the entry of a Chinese player in Ceará?

Bruno Vilela:

Good morning, Eduardo. We are seeing a big move by Goldwind, which is a wind turbine manufacturer and a possible potential client. It was the only company that recently announced an MoU with the state of Ceará, but we know they are talking to other states as well.

So, there is nothing concluded yet, where Goldwind will finalize or build its installations. Goldwind is a potential client because it does not manufacture blades. It is not a competitor. We already produce a turbine and blade model they are going to use in Brazil.

We already signed the NDA and are preparing commercial negotiations. So, we see it more as an opportunity than a risk, but we still don't know if it will be installed in Ceará.

Caio, Banco Inter (via webcast):

Can you give a better explanation for the dynamics of working capital used in the quarter? What is the Company's expectation regarding working capital for the coming quarters?

Bruno Lolli:

We always address working capital evolution very closely with the client. So, we have important changes in inventories. I have to remind you that our cycle from purchasing materials to using the raw material lasts around five to six months. So, any change in the production plan with a notice shorter than five or six months, if this change is for less, it will create excess inventory in that period.

The way we manage this, in practice, is: whenever the change came from the client, we try to compensate for this, either through price variation, charging for this excess inventory, that is, through customer advances, which is what happened with more intensity during this quarter.

For the coming quarters, we expect to reduce the inventory level of materials, improve turnover and, even more importantly, reduce work-in-process inventory. And, therefore, we will be able to return these advances. We are going to invoice the blades that the customer paid for in advance and therefore make up for it.

Operator:

The Q&A session has come to an end. I would like to turn the floor to Mr. Bruno Vilela, the Company's CEO, for his final remarks.

Bruno Vilela:

Well everyone, thank you for your attention and time. We've already talked a lot about results and some of Aeris's directions, and I would just like to quickly give you a macro view of the market.

When we talk about demand for wind energy generation, it is clear to everyone that it is growing at an exponential growth, either because of energy security or due to cleaner energy generation. So, this demand exists.

Today, for you to have an idea, wind energy is the cheapest source of generation in the vast majority of countries. I won't say it is for all of them because we don't know, but in the vast majority of countries wind power generation is the cheapest.

So, what's going on now? Demand is high and energy is cheap. When you look at the first player of the supply chain, which are the turbine manufacturers, they are, or were, operating with tight margins and, most of the time, with losses. All of them have already reported price increases, so turbines will be more expensive.

Will this reduce demand? No, because wind energy will continue to be the cheapest, because it was much cheaper to start with. So, there will be a natural rebalancing in the supply chain. Turbine manufacturers have already raised prices; now component suppliers will have these negotiations with turbine manufacturers. What does this macro view show us? It shows there will be a total rebalancing of the wind energy chain.

Demand exists, what we don't need is to suffer with the uncertain and rising inflation, interest rates. I won't say rising, but at very high levels, so this rebalancing needs to happen. And this is what we are focusing on now, these are our efforts, to reverse this loss in the very short term.

This is more of a macro view, showing that the demand is practically infinite and that this rebalancing has already began. With that, we see that the turbine manufacturers have started to climb out of “the valley” and will certainly reach the peak in a short period of time.

That’s it, guys. Thanks again for your time and have a good Friday.

Operator:

Thank you, Bruno. Aeris Energy’s conference call has now ended. I would like to thank you all for your participation. Have a nice day.