

Aegea Saneamento e Participações S.A.
3Q22 Results
November 10, 2022

Operator:

Good morning. Welcome to Aegea's Saneamento e Participações earnings webcast to discuss the 3Q and first nine months of 2022 results. With us today is: Radames Casseb, CEO, and André Pires, CFO and Investor Relations Officer.

Today's event is being recorded and participants will be able to submit their questions through our webcast platform.

Before proceeding, we would like to clarify that any statements may be made during this conference call related to the business prospect of Aegea, as well as its forecast and goals, constitutes beliefs and assumptions of the company's management and are not guarantees of future performance as they involve risks, uncertainties, and assumptions because and refer to future events and depend on circumstances that may or may not occur.

I will now hand the call over to André, CFO, who will begin the presentation. Please, André, you may begin.

André Pires:

Thank you very much. Good morning, everyone, and welcome to the Aegea 3Q22 earnings call. We ended another quarter with consistent results combined with an expansion of our market share in Brazil's sanitation sector.

On slide number five, we can see some highlights such as net revenues, which in the nine months of 22 was 28% higher than in the same period of 2021, reaching 2,7 billion, and EBITDA, which grew by 46%, reaching R\$1,8 billion with an EBITDA margin of 66%.

This result was positively impacted by the increase in build volume, especially of sewage and tariff adjustments as well as the results of Águas do Rio which is accounted through the equity income method.

During the quarter Aegea won the two blocks in the bid auction for a PPP of sewage services in areas served by Ceara State Water and Sanitation Company. With these blocks, the Company will operate eight PPP contracts, emphasizing its expertise in this partnership model between the public and private sector and contributing to universal access to sewage services by 2033 in 24 new cities.

Considering this achievement, Aegea will operate in 178 municipalities across 13 states, serving approximately 26 million people. From the operational standpoint, on November 1st, our Non-Consolidated subsidiary Águas do Rio, completed one year of operations with investments of more than R\$800 million and serving 3,7 million active households.

Also, during the 3Q22, we were recognized with several awards, including the Latin Finance Magazine Award in the financing of the year in sanitation category for the issue of a

sustainability linked bond and also Época Negócios 360 yearbook where for the second year in a row we ranked first in the water and sanitation sector besides winning the Vision of the Future challenge.

Moving on to slide number six, we present a few ESG highlights, starting with the environmental pillar, we received the gold seal in the Brazilian GHG protocol program for our 2021 audited inventory of greenhouse gas emissions, which is an important tool to measure and to implement initiatives to reduce emissions, thus positively contributing to the climate agenda.

In terms of renewable energy, we inaugurated four more solar power plants operated by business partners with the objective to supply energy to our operations in Mato Grosso reinforcing our commitment to renewable energy, which currently corresponds to more than 90% of the Company's electric power matrix.

In order to promote the circular economy, we have advanced in projects to reuse sludge, notably using 100% of this sludge from the Mato Grosso sewage treatment station and the PPP Ambiental Metro Sul to produce organic compost for over a hundred local farmers.

On the social front, we surpassed the mark of 450,000 families benefited by social tariff, which means over 1,5 million people accessing water and sewage services at the tariff discount of approximately 50%, which brings more savings, health and dignity for the vulnerable population.

In September our program Respeito Dá o Tom completed five years. Its mission is to reflect in the Company the racial diversity of the cities where we operate by increasing opportunities for black employees. We are now the first company in Latin America to issue a sustainable bond with a target for racial diversity.

To drive the initiatives and the Respeito Dá o Tom, Águas do Rio has a hiring program in the communities, focused on diversity, which has hired over 3,500 people residing in vulnerable communities, representing for many of them, the first opportunity of a formal job.

Finally, as a recognition of our ESG practices, we rank first among sanitation peers in the Sustainalytics ESG rating rank. We also ranked first in the corporate governance, business ethics and community relations categories. This is an important recognition of all our initiative and demonstrates our commitment to create consistent and positive impacts on society and the environment to adopt the best corporate governance practices.

Now moving on to the presentation of our results on slide number eight. Before presenting Aegea accounting results and following the rationale of our previous calls, I would like to show a consolidated view of the ecosystem of Aegea's companies, which includes Águas do Rio results.

As you know, Águas do Rio is a Non-Consolidated subsidiary due to its corporate and governance structure, and its results are accounted through the equity income method. Including Águas do Rio, the Aegea ecosystem has approximately 12,000 employees, an increase of almost 90% from the previous year.

In the nine months of 2022, 7,5 million households were served, more than twice compared to the same period of the previous year, while proforma EBITDA reached R\$2,6 billion and proforma net income was R\$400 billion, also in the cumulative period of the nine months of 2022. Also in the nine-month period of 2022, Águas do Rio registered a 50% growth in household served and a 23% increase in build volume when we compare to the original business plan.

The drivers of this result include an action plan focused on each category of consumers. For large consumers, which account for 10% of total households and contribute to approximately 75% of revenues, we implemented programs dedicated to customer relations, installment of telemetry systems and replacement of water meters.

For other consumers the focus is on strengthening customer relations to the Afluentes and Vem com a Gente programs, providing quality service with regularization of water supply, and eliminating fraud by increasing the number of beneficiaries in the social services.

Moving on to slide number nine to discuss the results of Aegea, as reported in its financial statements. Starting with the operating performance, we registered a 3% growth in households served compared to the 3Q21, reaching 3,8 million units. This growth was a result of network expansions, mainly of sewage, with the PPPs accounting for 54% of the increase in addition to the coverage expansions in other concessions.

It is important to highlight that this number does not include the household served by Águas do Rio, as I mentioned before, which is not consolidated in Aegea's financial statements. The increase in households had a positive impact of 3,5% growth in billed volume between the quarter and 8% growth between the nine-month period.

Moving on now to slide number ten to discuss our financial performance. In the 3Q22, net operating revenues amounted to R\$949 billion, an increase of 22% compared to the same period of the last year. In the first nine months of 2022, net operating revenues reached R\$2,7 billion, an increase of 27,5% from the previous year.

The growth was mainly driven by the increase in build volume as mentioned earlier, the increase in revenues from PPPs due to the higher investments in the nine-month period and also due to tariff adjustments that happened during the period. Consequently, the average ticket per household increased by 13% and in the last 12 months at R\$978 per household. The gross revenue surpassed R\$3,6 billion in the last 12 months, a 22% growth from the same period of 2021.

Moving on now to slide number 11 to talk about costs and expenses. Costs and expenses increased by 22% in the 3Q22 and 26% in the nine months of 2022 compared to the same periods of the last year. The expansion of the portfolio of concessions managed by Aegea and the start of new operations were the main drivers for the increase in costs and expenses in addition to price increases due to inflation in the period and tariff adjustments which impacted the electricity costs as well.

Regarding labor costs, in addition to the headcount increase, there was in the first semester of this year a non-recurring provision for our long term incentive plan. Excluding the impact of this provision, the growth in costs and expenses would have been 16,7% in the nine months of 2022.

In this sense, the OPEX per household reached R\$417, a growth of 18%, mainly due to the costs and expenses with the new operations and not the non-recurring expense mentioned previously. The OPEX per household is expected to decrease with the ramp up of the new operations, increased efficiency and additions of new units.

Moving on now to slide number 12, I would like to present a few important metrics related to our operational efficiency. Water loss rates continue to decline, reflecting the investments and initiatives to reduce the physical and commercial losses and inspection action.

Production cuts in the quarter averaged 45,000. Connection cuts are an important tool in the strategy to renegotiate overdue bills, maintaining delinquency rates at levels that we consider comfortable.

The delinquency rate stood at 4,4% in the 3Q of the year, an increase of 0,7p.p. compared to the same period of the last year. This growth is mainly due to the end of the Vem com a Gente program, in Águas de Manaus, reducing the volume of recoveries compared to the previous periods in addition to the annual review of the index for expected credit losses.

The Vem com a Gente program is a successful initiative at the Aegea, launched in Manaus and adapted and replicated by other concessions such as Águas do Rio.

Em Manaus, during the three years of the program, considering the pandemic period when many initiatives were suspended, the company recovered R\$233 million in credits that had been considered losses, with approximately 106,000 new water households added to the customer base. The investment cycle of the Vem com a Gente program came to an end in Manaus with results that were above expectations.

I will now talk about Aegea's EBITDA and net income on slide number 13. EBITDA in the 3Q22, was R\$644 million increasing 36% compared with the same period of last year. EBITDA in the nine months of 22 was 1,8 billion, a 46% increase from the nine months of 2021.

The growth was driven by the increase in build volume, tariff adjustments, high revenues from PPPs in the nine-month period and the Águas do Rio positive results. EBITDA margin reached 68% in the 3Q22, growing 7p.p. and closing the nine months of 2022 at 66,4%, an increase of 8,5p.p. from the previous year.

Regarding the net income, in the 3Q22 there was a decrease in comparison with the previous year due to the increase in net financial expenses, due to higher interest rates and the higher balance of gross debt. In the nine months of 2022 the reduction in net income was 16,5% due to the same factors that impacted the quarter in addition to a specific nonrecurring financial expense related to the 2017 bonds early redemption.

As mentioned in the previous quarter, the early redemption of the bond maturing in 2024 was part of our strategy to lengthen the average term of our debt and reinforce the Company's cash position. The new bond issue in the SLB format and maturing in 2029 was fully hedged into reais.

Moving on now to slide number 14, where we will now show Aegea's operating cash flow. Our operating cash generation before CAPEX reached R\$273 million in the 3Q22, a reduction by

7% compared to the 3Q21 due to the increase in costs and expenses and tax paid. In the nine months of 2022 cash generation was R\$782 million, up 4% from the previous year due to the increase in revenues collected, which more than offset the increase in costs and expenses.

CAPEX in the 12 months ended in September 30th reached R\$894 million, an increase of R\$207 million from the same period of 2021 due to the portfolio and covenant expansion, especially sewage services.

Moving on now to slide 16 to talk about our funding strategy. We ended the 3Q22 with a net debt of R\$6,7 billion reais, an increase of 79% from the 3Q21. The financial leverage measured by the net debt to EBITDA ratio increased 2,8 times remaining at the comfortable level compared to the more restrictive companies financial covenant, which is at 3,5 times net debt to EBITDA.

Our cash position maintained comfortable and ended the quarter at R\$3,2 billion, in line with our funding strategy and cash preservation in order to meet the necessary investments. The chart at the bottom right of this slide shows that the vast majority of our debt is indexed to the CDI.

Moving on now to slide number 17 and still on our debt profile, we can see that 86% of our debt is in the long term. Our cash position was two times higher than our short term maturity.

The average maturity of our debt ended the 3Q in 4,9 years, almost five years, reflecting the liability management strategy with the objective of lengthening the profile of our debt through the issuances in the domestic and international capital market, including the SLB bond issue and local debentures issued in September, both with terms of seven years and in the infrastructure debentures issued by Águas de Teresina into series with maturities of ten and 15 years.

With that, we end our presentation and we are now available to take your questions, that can be sent by the webcast system. Thank you very much and we are waiting for your questions.

Tomas Barings (via webcast):

Hi, all. Thanks for the call. Regarding the net debt, can you please comment on the reasons behind the quarter on quarter increase from the regularity point of view? Do you see any changes coming from the newly elected president?

André Pires:

Hi, Tomas. Thanks for your questions. Regarding the first question, related to the increase in net debt, there are a few reasons for that. I think the first one is the fact that we increased our CAPEX over the last 12 months. So if you look at our numbers, CAPEX went up by R\$200 million between the 3Q21 to the 3Q22.

In addition to that, there was a significant increase in the Selic rate, in the CDI and therefore all the debt was somewhat impacted by the CDI. Of course, the cash also went up, but the debt had an increase due to the increase in the rates.

Also throughout this period, we also made investments in Águas do Rio so there were some capital injections that were made in Águas do Rio, as expected. In fact, even a little below what we were expecting. But in fact, we had to inject something around R\$580 million at Águas do Rio during the last 12 months. So all of that contributed to this growth in net debt but obviously in terms of net debt EBITDA we maintain a comfortable level.

As for the second question related to potential regulatory changes with the newly elected president, we do not think so. We believe that the sanitation law that was approved in 2020 and regulated during 2021 is in place. We do not have any expectations that there are attempts to change what has been approved in the sanitation law.

In addition to that, I mean, as you know, a lot of the initiatives related to concession, privatizations are taken on a state level or sometimes even on a municipality level. So not a lot of influence from the federal government point of view. So the trend that we have seen over the last few years from our perspective, should be maintained. We should continue to see more initiatives to increase the participation of private companies in the water sanitation market in Brazil.

Tomas Barings:

Regarding ST debt, can you please provide more color regarding its refinancing?

André Pires:

Hi Tomas. Well, in terms of short term debt, we do not have any specific needs of refinancing this year, 2022. We do have some needs in 2023. We will probably continue to access the local markets. Local markets continue to be relatively, I would say, with good demand. We have been able to do some infrastructure debentures with reasonably long term facilities such as what we did in Teresina this year, ten, 15 years.

So we will continue to use this market as a source of funding tactically. However, of course, we continue to follow what is going on in the international markets as we did this year when we refinanced our 2017 bond. It is something that we will follow up to see if there are opportunities during 2023. But we do not have any specific or particular plans related to the international markets at this point.

Tomas Barings:

Regarding the Águas do Rio consolidation, is the end of 2023, early 2024, the expected date for the consolidation to happen?

André Pires:

Hi Tomas. I will answer this question and I see here in the webcast that you asked another one so I can answer both of them. So related to the consolidation, what we are looking today is more 2014 than 2023, the reason being again the cost of debt has gone up. Right. And that pushed a little bit the potential consolidation, I would say from late 2023, early 2024 to late 2024 and 2025. We can expect to push that further a little bit.

Your other question, I am going to read it here. Final question.

Tomas Barings:

Can you please provide an update on the refinancing of the BNDES at Águas do Rio level?

André Pires:

So that is still a work in progress, I would say in very good progress. Obviously, there are a lot of things here that I cannot discuss, but I would say that we are very, I mean, I think we are in a very good position here in negotiating a long term facility for Águas do Rio, obviously with BNDES but other multilaterals as well, with the objective to refinance the bridge loan that was taken for the acquisition which matures in November of 2023, and also to take care of all the all of the CAPEX program throughout the life of the concession.

So, I hope that we have positive news real soon. Okay. Thank you.

Operator:

Thank you. The Q&A session is now closed. Let's go to André for his closing remarks. André, you may begin.

André Pires:

Thank you all for the participation. We ended another quarter delivering consistent results and with recognition through the ESG rating of our commitment to generate consistent and positive impacts for society and the environment, adopting the best practices of corporate governance as well.

Our leadership is based on good examples. Our growth is based on financial discipline. And our goal is to improve health, quality of life and prosperity by expanding basic sanitation throughout Brazil. Thank you to all of those who joined us in this earnings webcast. And until next time. Have you all a very good day. Thank you very much.

Operator:

Aegea thanks everyone for participating in today's event. The earnings webcast is concluded.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the Company hosting this event, which was transcribed by MZ. Please, refer to the Company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript"