

Aegea Saneamento e Participações S.A.
3Q23 Results
November 9, 2023

Operator:

Good morning. Welcome to Aegea Saneamento e Participações earnings webcast to discuss the 3Q23 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 made during this conference call related to the business prospects of Aegea, as well as its forecasts and goals, constitute beliefs and assumptions of the Company's management and are not guarantee of future performance as they involve risks, uncertainties and assumptions, because they 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. Good morning, everyone. Welcome to Aegea's earnings webcast.

Starting with slide number five, where we list the highlights. In the beginning of the 3Q23, we concluded the acquisition of Corsan, starting the investment cycle to universalize the sanitation services in 317 municipalities in the state of Rio Grande do Sul, positively impacting the health and quality of life of 6 million people.

In the 3Q, Corsan started to be consolidated in Aegea's financial statements. Considering the Aegea ecosystem, which is the result of concessions managed by Aegea, we ended the 9M23 reporting growth of 63% in pro forma net revenue, which achieved R\$10.4 billion, and a 66% increase in pro forma EBITDA, reaching R\$4.3 billion.

While we delivered consistent financial and operational results, we expanded our portfolio. In October, we signed the PPP contract with Sanepar, starting the Company's operations in the state of Parana. As a result, Aegea currently serves 31 million people across 504 municipalities and 14 states in Brazil.

Reinforcing our financial discipline and liability management strategy, in October, we had the first disbursement of the long term financing for Águas do Rio. The financing structure for the project

includes long term credit lines, up to 28 years maturity with the Brazilian Economic and Social Development Bank, BNDES, with the Interamerican Development Bank, IDB, Proparco, the local capital markets and the Saneamento Para Todos from Caixa Econômica Federal, reaching R\$25.5 billion in credit lines in total.

The project finance for Águas do Rio fully funds the investments for the entire concession period, bringing social and environmental transformation through sanitation in the State of Rio de Janeiro.

Reinforcing the trust of the financial ecosystem in our business model, we concluded in October an international bond issuance of US\$500 million, maturing in 2031. Underscoring the Company's commitment to sustainability, the bonds were structured as sustainable and sustainability linked bonds, with the commitment to reduce energy consumption and increase racial and gender diversity in Aegea's leadership positions.

In terms of ESG risk management, it remains our focus on water resilience initiatives, working on prevention and implementing necessary measures to ensure water supply in the regions where we operate.

In recent months, we took action to mitigate the effects of the heavy rainfall in Rio Grande do Sul, which included setting up a taskforce to resume services' supply, reinforcing service teams and supporting the affected population.

In Manaus, where the Rio Negro was impacted by drought, we implemented mitigation plans, expanding the capacity of existing structures and setting up backup systems.

Expanding further our initiatives for sustainable water management and circular economy, we signed an agreement with Petrobras to supply reused water to Gaslub. In Brazil, this is the largest water reuse project in an industrial area, which will be 100% supply produced from treated sewage.

With this project, the industrial activity will have a sustainable water source and the potable water, which is currently used by the industry, will be allocated to serve more than 600,000 people, with direct benefits to the local population and the environment.

Moving on to slide number seven, and before going into Aegea's financial results, I would like to pass on a few more details of Corsan's acquisition, which concluded on July 7, through the investment vehicles Sanco and Parsan, in which Aegea holds 75% and 50% respectively of the voting capital.

The total acquisition amount was R\$4.3 billion, and the source of funds was distributed as follows: R\$1.3 billion in equity contribution, out of which R\$327 million by Aegea and R\$978 million by local infrastructure funds managed by Perfin and Kinea. Debentures issued by Parsan reaching R\$3 billion.

Aegea will operate and consolidate Corsan in its financial status through the subsidiary Sanco. Parsan, on the other hand, is jointly controlled with other shareholders and therefore is not consolidated by Aegea.

In the first months of Corsan's operation, we completed 100% of the planned interventions and implemented a series of measures to increase operational efficiency, such as reducing input costs, especially energy, by migrating 55% of the procurement to the free market. We also conducted our voluntary severance program with the adherence of nearly 2,000 employees.

The other strategic pillar was the signing of amendments to the agreements with the municipalities covered by the concession. In this front, our objective is to include universalization targets under the sanitation regulatory framework, extending maturities out to 2062. Among other parameters, the amended agreement set tariff adjustments according to inflationary indexes throughout the contractual term.

In this context, 171 of the 317 agreements were amended, representing 72% of Corsan's revenues and increasing the average concession period from 28 to 32 years.

Moving on to slide number eight, and in line with recent results presentations, I would like to show you the proforma results. This provides a consolidated view of the ecosystem of companies managed by Aegea.

In the 9M23, the Aegea ecosystem reported a year on year increase of 61% in the number of active households, with Corsan adding 3.5 million of active households and Águas do Rio increasing the number of households served by 895,000. The billed volume increased by 43%, reflecting the expansion in the customer base.

In the context of financial performance, proforma net revenue reached R\$10.4 billion in the 9M23, an increase of 63%. Proforma EBITDA was R\$4.3 billion, a growth of 66%. These results mainly reflect the acquisition of Corsan, as well as the increasing billed volumes and tariff adjustments implemented in the period.

In the past 12 months ended in September, the companies managed by Aegea have invested more than R\$3.4 billion, a growth of 1.7 billion compared with the previous year.

Moving on now to slide number nine, we show our proforma debt profile, which in the 3Q23 includes Corsan and Parsan. As can be seen in the table, the proforma financial leverage, according to the net debt to EBITDA ratio, fell from 4.21x to 3.89x. The maturity of the ecosystems' debt, considering the issuance of the bonds and the disbursement of the first long term financing lines for Águas do Rio, was extended to 7.7 years.

Now passing on to slide number ten and discussing our results shown in the financial statements, as from this quarter also including Corsan. Beginning with operating performance, the number of active households reached 7.5 million, mainly due to Corsan acquisition, which brought 3.5 million

active households. In the other concessions operated by Aegea, the number of active households increased by 214,000.

It is worth pointing out here that this number does not include the households served by Águas do Rio, which, as already mentioned, is not consolidated in Aegea's balance sheet. The growth in the number of households was reflected positively in billed volume between the compared quarters and the 9M22 and 9M23.

Moving on now to slide number 11 and talking about our financial performance, net revenue reached R\$2.3 billion in the quarter, a growth of R\$1.3 billion. In the 9M period, net revenues reached R\$4.3 billion, a growth of R\$1.6 billion. This result mainly reflects the conclusion of the acquisition of Corsan, which represented an increase of R\$979 million.

In addition, also contributing to this increase was higher bidding volumes from the remaining concessions managed by Aegea and tariff readjustments, as well as the increase in revenues from services provided by Aegea to the Águas do Rio of affiliate. The average ticket increased by 14%, ending a 12 month period at an annual ticket of R\$1,112 per household.

Let us now move on to slide number 12 to talk about costs and expenses. Costs and expenses rose R\$654 million in the quarter, and by R\$536 billion comparing to the 9M period. This result was a reflection mainly of the conclusion of the acquisition of Corsan, adding a further R\$586 million to costs and expenses.

Excluding Corsan's impact, costs and expenses would reach a total of R\$437 million, an increase of 18%, mainly due to the startup of the new PPP. OPEX per household was for R\$461 reais, an increase of 10% from the 3Q22, mainly due to the impact of Corsan, which registered an OPEX per household of approximately R\$800.

The cost per household in Corsan and other new assets recently added by Aegea, is expected to reduce as a result of the increase in efficiency. Excluding Corsan, Aegea's OPEX per household was R\$386 reais, a reduction of 7.6%.

Moving on, we show some of our operational efficiency metrics. Water losses rates continue on a downward trajectory, reflecting investments and initiatives to reduce physical and commercial losses.

Connection cuts in the quarter averaged 53,000. Connection cuts are an important instrument in the renegotiation strategy, maintaining delinquency rates at levels that we believe are adequate.

Delinquency rate at the end of the quarter was 1.4%. The reduction of delinquency is largely due to the acquisition of Corsan, which carries low levels of provisions for doubtful accounts, as well as the annual revision of the provision rates and renegotiation with customers.

Now moving on to Aegea's EBITDA and net income, in slide number 14. EBITDA in the quarter was R\$1.3 billion, up R\$643 million from the 3Q22. For the accumulated 9M period, the Company reported R\$2.8 billion, a growth of 56% compared to the same period in 2022. This growth reflects the contribution from Corsan, the evolution of the performance from other concessionaires, and the positive impact from Águas do Rio.

Net income amounted to R\$437 million in the 3Q23, and a R\$680 million for the 9M period to date, reflecting growth of EBITDA. This more than offsets the increase in financial expenses due to the increase in the basic Selic interest rate and higher balance in gross debt in the period.

Now moving on to slide number 15, where we will discuss Aegea's operating cash flow. Operating cash flow before CAPEX was R\$287 million in the 3Q23, and R\$837 million in the 9M period, mainly due to the increase in revenue collection.

In the 12 months to the end of September 2023, CAPEX was R\$1.6 billion, a growth of R\$695 million compared to the same period of 2022. Corsan's CAPEX in the quarter was R\$423 million.

Now going on to slide number 17, to discuss our funding strategy. We ended the 3Q23 with a net debt of R\$11.1 billion, an increase of 67% compared to the same period of 2022, mainly due to the capital injections in Águas do Rio and the acquisition Corsan, as well as the increase of overall financial expenses due to the Selic rate increase. Financial leverage measured by the net debt to be debt ratio was 2.47x.

Moving on to slide number 18, and still on the debt profile, we can see that 88% of our debt is long term. Cash position was 1.2x higher than short term debt, and our average debt maturity was 4.1 years.

With that, I conclude our results presentation, and we're ready for the Q&A session. Thank you.

Mariel, T. Rowe (via webcast):

Can you go over your efficient strategy and cost reduction path? Can you share any targets?

André Pires:

I think I am going to talk about some of our strategies there, Mariel. First of all, as we mentioned during the speech, we have implemented a severance package, a severance program, which close to 2,000 people have already applied to. Around 900 people have already left. So this is an anticipation in terms of our objective of cost reduction that we have for Corsan in the next few years.

We had in our business plan, a three year period of time that we would adequate productivity levels and the number of people of the Company. But since we implemented this program, we

accelerated that process. So we are going to see in the long term a reduction in terms of personnel expenses that will obviously start the process of improving overall margins for the Company.

In addition to that, and it is not necessarily related to cost reduction or efficiency, but is related to our strategy and the overall long term security of our plan, which is adjusting the contracts from most part of the cities that we operate in Rio Grande do Sul.

So in the 3Q, the first quarter that we started to operate in Corsan, we have already updated 119 contracts. And if we add this 119 contracts to other countries that were updated by the previous administration of Corsan, we have already 72% of our revenues in terms of cities that we operate adequate to the new goals of the sanitation law, adequate in terms of maturity, so they are all going to 2062, and adequate as well in terms of the regulatory framework, which is basically having their tariffs adjusted by inflation targets on a yearly basis and getting somehow away from the asset base model.

So those were the main initiatives in the beginning of our journey at Corsan.

Mariel:

Regarding Sabesp, has your position about potentially looking at this asset changed after the government announced it will not keep the majority ownership?

André Pires:

Mariel, regarding this is this question, and regarding this opportunity, we continue to obviously follow up the development of this potential opportunity. From what we know at this point, from the public information that is available related to this privatization, the transformation of Sabesp in a corporation, even considering that the government will not have necessarily the majority ownership, for Aegea, what we have to analyze, what have to take into consideration is our capacity to effectively influence the management of the Company as we are doing at Corsan.

So from a conceptual point of view, being a shareholder or a minority shareholder in a corporation is not the type of strategy that we believe that we can influence, or we can be effective. So from what we know so far, from what the model is supposed to be, is something that would not drive a lot of interest from us.

We concluded the 9M23, delivering solid results, which are the outcome of the investments made in the assets that we operate, while we expanded our portfolio, reflecting our objective to reduce the sanitary deficit in Brazil, expanding our operations to new regions and adding quality assets to our portfolio.

In the municipalities and states where we operate, we leave a legacy of health, environmental recovery, income, employment and development, and we remain focused on this purpose.

Thank you all to those who joined us in the earnings call, and we look forward to see you again the next time.

Operator:

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

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