

Aegea Saneamento e Participações S.A.
4Q22 Results
February 24, 2023

Operator:

Good morning, and welcome to Aegea Saneamento e Participações earnings webcast to discuss the 4Q and the year of 2022 results. With us today is Radamaes 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 the beliefs and assumptions of the Company's management and are not guarantees 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:

Good morning, everyone, and welcome to the Aegea 4Q22 earnings webcast.

On slide number five, we can see some highlights, such as net revenues, which in the 4Q was 18% higher than in the same period of 2021, reaching R\$975 million, and EBITDA, which grew by 14%, reaching R\$679 million. We ended the year with 25% growth in net revenues, reaching R\$3.7 billion, and EBITDA grew by 36%, reaching R\$2.5 billion.

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

The Aegea ecosystem, which comprises the concessions managed by Aegea and therefore includes Águas do Rio, registered net revenues of R\$8.3 billion and EBITDA of R\$3.6 billion.

In December, Aegea announced the winning bid for the Corsan, the water and sanitation company of Rio Grande do Sul state, which operates in 317 municipalities, serving more than 6 million people. We partner with infrastructure fund managers Perfin and Kinea in this project, which demonstrates Aegea's capacity to operate as an investment and capital attraction platform for investors in water and sanitation.

Also in December, we participated in a consortium with Engop Ambiental and won the public bidding process for the solid waste management services in nine municipalities in the metropolitan region of Cariri, in Ceará state, with a total population of approximately 350,000 people.

With these winning bids, Aegea will operate in 489 municipalities across 13 states, serving more than 30 million people.

Focused on the liability management strategy, Águas do Rio signed a long-term financing agreement with BNDES for a credit line of up to R\$19.3 billion, and a term of up to 28 years. Considering the required funding needs by Águas do Rio to universalize sanitation, the Company will also have other sources of financing that are currently under negotiation, including international multilateral agencies.

Finally, we will present a few ESG highlights. In the environment pillar, and talking about the environment protection and preservation, we ended the year with 97% of all electricity consumed generated exclusively from renewable energy sources. As part of our initiatives aiming at water resilience, we saved 20 billion liters of water through the water loss reduction program. Making a connection between water resources and circular economy, Águas do Rio signed a contract with Petrobras for the supply of at least 29,000 m³ of recycled water per year.

In the social front, from an inclusion standpoint, we reached 506,000 families registered in the social tariff program, which grants discounts on tariffs for low-income families. For many of these families, the benefit represents not only access to the service, but also their first proof of residence. Therefore, by increasing the number of beneficiaries, we bring citizenship, dignity, health and quality of life to them, while reducing delinquency and commercial losses.

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

As you know, Águas do Rio is a non-consolidated subsidiary due to its corporate and governance structure, and its results are counted through the equity income method. It is worth remembering that Águas do Rio operates in the state capital in 27 municipalities in Rio de Janeiro, and its start of operation was November 2021, thus completing its first year of operations in November of 2022.

In 2022, Águas do Rio registered a 52% growth in households served and a 28% increase in billed volume when we compare to the original business plan. These results demonstrate Aegea's capacity to outperform the initial expectations, given its commercial excellence, history and turnaround track record.

Including Águas do Rio, the Aegea ecosystem has approximately 12,000 employees, an increase of around 43% from the previous year.

In 2022, 7.8 million households were served. Proforma net revenues was R\$8.3 billion, an increase of 120% versus 2021, EBITDA of R\$3.6 billion, a growth of 72% compared to the previous year. The proforma net profit was R\$557 million.

It is worth mentioning that we are at the beginning of the Águas do Rio concession, and we have a long path of growth ahead of us.

Moving on now to slide number eight to discuss the results of Aegea as reported in its financial statements, starting with the operating performance, we registered a 3.7% growth in households served compared to the 4Q21, reaching 3.8 million units. This growth was a result of a network expansion, mainly of sewage, and of the Company's new operations, especially the operational startup of the sewage concession in Crato, State of Ceará.

It is important to highlight that this number does not include the households served by Águas do Rio, as I mentioned before, which is not consolidated in Aegea's financial statements. As a result of the increase in households served, billed volume grew by 5% in the quarter, and in the year over year comparison.

Moving on to slide number nine to discuss our financial performance, in the 4Q22, net operating revenues amounted to R\$975 million, an increase of 19% compared to the same period of last year. In 2022, net operating revenue reached R\$3.7 billion, an increase of 25% from the previous year.

The growth was mainly driven by the increase in billed volume, as mentioned before, and also due to the tariff adjustments and rebalancing. Consequently, the average ticket per household increased by 13%, ending the last 12 months at R\$737 per household.

Moving on to slide number ten to discuss costs and expenses. Costs and expenses increased by 12% in the 4Q22 and 22% in the year 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 higher construction costs, in line with the higher volume of investments in PPPs, and the non-recurring provision for long term incentive plan.

OPEX per household reached R\$406, an increase of 17%, mainly due to the costs and expenses with the new operations. The OPEX per household is expected to decrease with the ramp-up of the new operations, increased efficiency, and also additions of new units.

Moving on now to slide number 11, 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 options. This reduction

resulted in 20 billion liters of water saved during the year, which is enough to supply around 500,000 people for one entire year.

Connection cuts in the quarter averaged 44,000. Connection cuts are an important tool in the strategy to renegotiate overdue bills, maintaining delinquency rates at levels that we consider comfortably.

The delinquency rate ended the year at 3.6%, a decrease of 0.2 p.p. compared to 2021, mainly reflecting the annual revision of the provision rates.

Moving on now to slide number 12, I will comment Aegea's EBITDA and net income. EBITDA in the 4Q22 was R\$679 million, increasing 14% compared to the same period of last year. EBITDA in 2022 was R\$2.5 billion, a 36% increase from 2021. This growth was driven by the increase in the billed volume, tariff adjustments, and by the Águas do Rio positive results. Net income in the 4Q22 reached R\$114 million, a reduction of 49%.

In the year, recurring net income, which excludes a nonrecurring financial expense of R\$40.2 million related to the early redemption of the 2017 bond, was R\$457 million, a reduction of 22%, mainly due to an increase in the financial expenses caused by higher interest rates.

Moving on now to slide number 13, where we will discuss Aegea's operating cash flow. Our operating cash flow before CAPEX reached R\$312 million in the 4Q22, increasing by 9% compared to the 4Q21. In the year, cash generation reached R\$1.1 billion, 5.5% higher than 2021, driven by the increase in revenue collection, which more than offset the higher costs and expenses with new operations and taxes paid.

CAPEX in 2022 reached R\$974 million, an increase of R\$187 million from 2021 due to the new operations and the expansion of coverage networks. Considering Águas do Rio, companies in the Aegea ecosystem CAPEX was R\$2.1 billion.

Moving on now to slide number 15 to talk about our funding strategy, we ended the 4Q with a net debt of R\$7.8 billion, an increase of 55% from the 4Q21. The financial leverage measured by net debt to EBITDA ratio reached 3.15x, below the Company's more restrictive financial covenant, which is 3.5x net debt to EBITDA. The chart at the bottom right of this slide shows that the vast majority of our debt is indexed to the CDI.

Moving on to slide number 16, and still on our debt profile, we can see that 86% of our debt is in the long term. Our cash position was R\$1.9 billion, 1.4x higher than our short-term maturity, while the average maturity of our debt ended the 4Q in 4.8 years, compared to 3.5 years in the 4Q21, reflecting the liability management strategy with the objective of lengthening the profile of our debt through the issuance in the domestic and international capital markets, such as the issuance of the seven year bond and of infrastructure debentures by Águas de Teresina in two series, with maturities of 10 and 15 years.

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

Thomas, Bering (via webcast)

Thanks for the call. I have a couple of questions. Can you please comment on the status of the acquisition of Corsan? Is that fully completed? How much equity are you going to inject in 2023-2024? Are there any lawsuits or extraordinary provisions we should be aware of?

Can you please provide a CAPEX guidance for 2023, ideally with the breakdown of Aegea, Águas do Rio and Corsan? Free cash flow for 2023, it looks like it's going to be negative, and you would need some additional funding. How is the Company thinking about this?

Can you please provide an update on Águas do Rio funding by multilaterals, for example, BNDES?

André Pires:

Let me try to go one by one. First of all, the status of the acquisition for Corsan, it is not fully complete. Basically, one of the main points that we needed to overcome was the CADE, the antitrust body approval, which happened two weeks ago. So on that front, on the antitrust front, we are clear.

There is still a couple of lawsuits, questions about the privatization process that are impeding the final signature of the contract. Our expectation remains that this should be all over by the first half of March. So by mid-March, we are expecting that we will be able to finalize and to complete the acquisition of Corsan.

How much equity are we going to inject in 2023-2024? Basically, the structure that was set up for the acquisition of Corsan was the creation of a holdco. This holdco is 70% debt, 30% equity, and this equity is basically split between us, Perfin and Kinea. So we do not have a lot of equity intake. For Corsan, there's no expectation that, after this acquisition, we will need additional equity, especially because Corsan generates cash at a relatively low leverage. According to the 3Q22 financials, Corsan's net debt to EBITDA is 0.7x. So they are relatively unleveraged, and we do not see any particular need for additional cash in addition to the cash that is going to be used for the acquisition that, again, in our particular situation, is not meaningful.

Question number two, can you please provide a CAPEX guidance for 2023, breakdown of Aegea, Águas do Rio and Corsan? Thomas, we do not give guidance on that numbers, but we can give you some vision about that.

In terms of Aegea, we do not see nothing that is materially different from what we have done in 2022. Águas do Rio is entering a phase of increasing pretty much its CAPEX to comply with the contract guidelines related to the expansion, especially of sewage network and connection. So

we should expect increasing CAPEX in Rio for the next few years. And Corsan, looking specifically at the *edital*, the official document for the acquisition, the expectation of CAPEX throughout the life of the concession, which 35 years, is R\$12 billion. This R\$12 billion, 80% of this amount should be done in the first ten years of the concession. So we do not expect nothing much different than that.

Free cash flow for 2023 looks like it's going to be negative. Additional funding, thinking about this. Basically, we do not have any material amortization in the 1H23. Most part of our refinances are in the 2H.

Something that is very important is that we signed the long-term financing contract with the BNDES for Águas do Rio in the end of last year, so we are pretty much set for the long-term balance and financing for Águas do Rio for the next 30 years. That takes a very large funding needs for the foreseeable future, so this is taken care of.

Also, for the Corsan acquisition, we had structured the acquisition through a guaranteed funding from eight banks that was signed also in December. So now, when we signed the contract, we have this funding guaranteed.

So we are not left with a lot of specific needs for 2023. But obviously, as we have done in the past, and looking as the situation today is paying off, we continue to look at liability management opportunities. So if there is an opportunity to further lengthen the profile of our debt, to increase our average duration from five years to even further, we would take this opportunity. So there is this opportunity, especially in the international market, something that we would, obviously, consider.

The funding by multilaterals, as I mentioned, we signed a contract with BNDES up to R\$19.3 billion, and we are aligned to complement this funding with other international multilateral, which are all of them in their final stages of approvals.

I think are pretty much covered your question. Thank you.

Raul (via webcast)

Can you please update on the regulatory environment in Brazil after the Lula government took over? Are Aegea's existing PPP contracts or concessions impacted? Will tariffs still be linked to inflation?

Can you please update Aegea's ADR funding plans for 2023? How much cash injection is planned for Águas do Rio in 2023? After Americanas, does Aegea still have access to Brazilian local debentures market and bank loans market?

André Pires:

Those are two different topics. I will try to answer the two of them. Regarding the regulatory environment, I think the first thing that is very clear is that there is no intention, from what we can understand, from the new government, to change the sanitation law.

In spite of all the discussions, I think that has been made clear by this current government that they do not have any intention to change the law that was approved by July of 2020. And in that particular situation, we assume that this is the case.

However, there are some specific, what we call 'infra-legal' terms or definitions that are being discussed. There are some questions, for example, to increase the limits of the PPPs from 25% to 100%. Apparently, there is a consensus on that between the current government, the public and the private companies as well. So those are specific points of the law that are being discussed, which seem to, in our view, make sense.

In addition to that, there has been also discussions related to the transition period of the program contracts, the contracts that have been with public companies having a longer transition period, as opposed to what the sanitation law expected.

All of that, in a sense, does not mean to us any specific change, or threat for the current legal situation of our contracts or PPPs, for that matter. So we do not see that this can jeopardize what we have been doing.

We continue to see the tariffs still being linked to inflation, in the second part of your question. We do not believe that there is risk that this is going to be the case. And we continue also to see that the current approach from this government and from the market in general continues to be to consolidate the business environment for sanitation, and actually continue to attract funding from capital markets in general terms.

There has been a clear intention of the government to continue to allow capital markets to keep on funding the water and sanitation sector.

As for the second question, Raul, funding plans for 2023, I think I mentioned in the answer to Thomas' question initially, but as I mentioned, we do not have a lot of particular needs for 2023, but we see that, if there are opportunities from a liability management point of view to keep on lengthening the debt profile, we will consider.

It is not that we do not have funding needs, is that most part of the funding needs have already been, in a way, secured with the long-term financing with Águas do Rio signed in the end of last year, and the term loan that was taken to the acquisition of Corsan, which were all secured in December of last year.

In terms of cash injection for Águas do Rio, we do have some cash injection needs that are linked to the business plan of Águas do Rio, and, in addition to that, they are linked, and at the same time, they are expected in the long-term financing. Nothing that is different than what we have injected in cash in 2022 for Águas do Rio, it is similar.

After Americanas, does Aegea still have access to Brazilian debentures market and bank loans market? The market, as you know, is adjusting to the situation. Since we do not have no maturity in the 1H and no major maturities of the year, we are not facing this situation as we speak. But our expectation is that there will be, yes, capacity in the markets for a few companies like ourselves, especially as things progress towards during this this 1H. So we do not feel ourselves without access at this point.

Participant, T. Rowe Price (via webcast):

Can you provide CAPEX guidance for this year and talk about potential acquisitions?

Can you talk about finance lease and plans for international market issuances?

Raul (via webcast):

Any concessions coming up for bidding in 2023 that you would be interested in? How are M&A plans looking toward 2023?

André Pires:

Potential acquisitions and M&A, we are following up what is happening to the market. We saw the first example of a privatization of a water and sanitation company with the privatization of Corsan, which we ended up being successful. Obviously, we will be following up if other companies would come to the market, it is something that we definitely are going to take a look.

We are not expecting any movement for the next few months, or even for 2023. If you take, for example, Corsan as an example, their process, which started with an attempted IPO, took over a year.

So even if some current state governors have intentions of bringing their companies to the market, and some of them have mentioned that, we believe this is going to take some time. But obviously, it is something that we are following up, but we do not see a lot of activity in 2023. Maybe next year onwards.

I think I talked about the funding strategy for 2023 and funding needs. Plans for international markets issuance, again, it is something that we came around a year ago for our seven-year bond, which was a very important deal for us, and we continue to see the international market as a very interesting, very deep and very important source of funding for a company like ourselves

that continues to grow, and that continues to have ambition to contribute to reaching the universalization goals in Brazil.

So, the short answer to that is, if there is an opportunity that makes sense for us, obviously, we believe that we have the obligation to consider. So we are monitoring the situation as we speak.

Participant (via webcast):

Can you talk about the funding expectation on the multilaterals?

André Pires:

Again, just to be precise, we have signed a contract, again, with BNDES for up to R\$19.3 billion, and on this whole program, we have some other international multilateral that should contribute to an important portion. Since we do not have the final announcement from them, I do not want to talk about numbers. Obviously, the numbers are important, but they are obviously lower than the BNDES, but they are significant to us. And even more important than the value is the fact that we have at least three other international multilaterals participating in the whole facility, which confirms the importance of these investments, especially its ESG impact in Rio de Janeiro, in 27 municipalities around Rio.

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:

We ended 2022 with qualified and consistent growth, based on financial discipline and advancing in our operating and financial results, as a result of the improved performance and investments in our operating assets.

Lastly, we are confident in the results to be pursued in this year. We remain focused on providing quality sanitation to Brazil, and on leaving a legacy of health and dignity for people and development and prosperity for the municipalities where we operate.

Thank you to all of you who joined us in this earnings call, and until next time. Have a good time and thank you very much.

Operator:

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

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