

Aegea Saneamento e Participações S.A.
2Q24 Results
August 8, 2024

Operator:

Good morning. Welcome to Aegea Saneamento e Participações earnings webcast to discuss the results of the 2Q and 1H24. 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 that may be 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 guarantees of future performance, as they involve risks, uncertainties and assumptions, because they relate 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. Welcome to Aegea's 2Q earnings call. Let's start with slide number five, where we list our highlights. Considering the Aegea ecosystem, which is the result of all the concessions managed by the Company, we ended the 1H24 with a growth of 63% in proforma net revenue, which reached R\$8 billion, and 74% growth in EBITDA, which came to R\$3.5 billion.

Regarding our financial discipline, we highlight the Company's deleveraging trajectory with leverage measured by the ratio of net debt to EBITDA ending the 1H24 at 3.7x compared to 4x one year ago.

In addition, in July, we concluded operations that extended the average maturity of the Company's debt, including the reopening of the 2031 bonds with the issuance of US\$300 million in the international market. These bonds have a dual sustainable classification as they are linked to achieving ESG targets for reducing energy consumption and increasing the representation of women and black employees in leadership positions. Additionally, they are classified as blue bonds due to the allocation of funds to projects that have a positive impact on aquatic life.

Regarding our operations, in the 2Q24, we overcame a significant operating challenge due to the extreme weather events in the state of Rio Grande do Sul. Our crisis management mechanism, combined with the commitment of our Corsan employees fully integrated into Aegea's culture, as

well as the mobilization of teams from across the Company, were crucial for our comprehensive response in the state.

We promptly restored water supply in the municipalities where we operate, and voluntarily provided support for the recovery of the supply systems in the capital and other cities not operated by Corsan.

Through a task force that included acquiring generators, installing reservoirs, drilling wells, setting up floating water withdrawal structures, among other measures, water supply was quickly resumed. Within a week after the peak of the water service interruption, services were normalized for over 780,000 properties, about 80% of the total affected during the peak. And on May 24th, services were fully restored.

The total costs and expenses for the establishment of the system amounted to approximately R\$186 million, with R\$115 million allocated to CAPEX and R\$71 million to OPEX. It is worth mentioning that Corsan has property insurance policies with coverage of R\$231 million, as well as civil liability insurance policies with a coverage of R\$50 million. The regulation process with insurers has already started.

Beyond service restoration, Corsan launched a support program for those affected by climate events. Properties impacted by the floods will have a two-month water bill exemption, while customers benefiting from the social tariff will be exempted from payment for six months. Those affected by continuous water shortage were exempted from paying the basic tariff of the month of May, paying only for volume consumption. This exemption program covers a total of 1.2 million properties, or 2.7 million people, in more than 60 municipalities.

Another support measure was the postponement of the tariff adjustment from July 2024 to January 2025. The impact of customer support measures and reduction on volumes billed represent a decrease of approximately three R\$137 million in net revenues in 2024.

Moving on now to slide number seven, to talk about the results. Before going into Aegea's accounting results and following the dynamic of previous earnings releases, I would like to provide the consolidated view of the Aegea ecosystem companies, which includes the associated company Águas do Rio, whose results are booked under the equity income.

The Aegea ecosystem reached over 30 million active households, an increase of 59%. Corsan added 3.5 million households, while Águas do Rio and the other concessions added more than 1.4 million new households.

Reflecting the growth in the customer base, billed volume increased by 40% between the six-month periods. From a financial performance standpoint, proforma net revenue reached R\$7.8 billion in the 1H24, a 63% increase driven by the acquisition of Corsan, billed volume and tariff adjustments in Águas do Rio and another concessions. Proforma EBITDA amounted to R\$3.5 billion, a 74% increase compared to the same period of the previous year.

In the last 12 months ended in June 2024, the companies managed by Aegea invested R\$5.7 billion, a growth of R\$3.5 billion compared to the previous year, including the concession fees paid by Corsan and Águas de Valadares, reaching R\$1.1 billion.

Moving now to slide number eight, we provide an overview of proforma indebtedness which also includes Parsan. As shown in the graph at the bottom left, proforma financial leverage represented by the net debt to EBITDA ratio decreased from over 6x in 2021 to 3.7x in the 2Q24, and it's very close to our most restrictive contractual covenants of 3.5x. This reduction is the result of our capital structure management strategy, prioritizing financial discipline and maintaining the deleveraging trajectory.

Note that our leverage problems are measured based on the financial statements, where the ratio of net debt to EBITDA declined to 2.47x in the 2Q24, from 3.21x in the 2Q23.

The average debt maturity of the ecosystem was extended from 2.7 years to 7.3 years, demonstrating the result of the liability management initiatives aligned with the Company's investment profile, including the reopening of fresh Aegea's finance bonds maturing in 2031.

Now going to slide number nine to discuss our results as reported in the financial statements, which, starting from the 3Q23, also include Corsan's results. Beginning with operational performance, households served reached 8.8 million. As mentioned earlier, Corsan added 3.5 million households, while the other concessions operated by Aegea added over 1.2 million new households. Note that this number does not include the household served by Águas do Rio, whose results are not consolidated into Aegea's financial statements as previously explained.

Billed volume increased by 279 million m³ between the six-month periods, reflecting the acquisition of Corsan and the new operations of Ambiental Ceará, Ambiental Paraná and Águas de Valadares, which accounted for 92% of this group.

Moving on now to slide number ten to discuss our financial performance. Net revenue reached R\$4.7 billion in the 1H24, an increase of R\$2.7 billion compared to the previous year. Corsan had a positive impact of R\$2 billion and the other concessions by R\$491 million, with the highlights to Ambiental Ceará, which started its operations in 2023.

Net revenue growth was also supported by revenues from Aegea Groups services companies to the non-consolidated affiliate Águas do Rio. This includes services provided by Aegea Holding and the Shared Services Center, which are responsible for financial services accounting, HR, supply chain and other services, and by AESAN, an Aegea Group company responsible for executing the CAPEX for Águas do Rio.

Aegea Group service companies provide services to our concessions, and these effects are eliminated in the consolidated financial statements, which does not occur when we consider the services provided to Águas do Rio, which is a non-consolidated affiliate. The Company's average

ticket, which considers only revenue from water and sewerage services, increased by 9%, reaching R\$1.033 per household per year.

Moving on now to slide number 11 to discuss costs and expenses. Note that the 2Q24 results were positively impacted by the Corsan business combination, specifically by the fair value of the acquisition of intangible assets, which have no accounting impact on Corsan's financial statements, but are measured at a fair value and recorded in Aegea's consolidated financial statements.

In this sense, certain expenses incurred by percent did not impact Aegea's result as they were already recognized and booked at the acquisition value of the asset, representing adjustments in how the numbers are reported in the 2Q results.

Therefore, the adjustment of the business combination had a positive impact of R\$74 million on the results of the 2Q24 and R\$178 million in the 1H24. That said, costs and expenses increased by R\$1.3 billion between the half year periods. Corsan's costs and expenses reached R\$1 billion in the period and were partially offset by the positive adjustment from the business combination.

Excluding Corsan's costs and expenses and effects of the business combination, Aegea's costs and expenses reached R\$1.1 billion in the 1H24, an increase of 72%, mainly due to the start of new operations of Ambiental Ceará, Ambiental Paraná and Águas de Valadares, which added R\$298 million to the total costs and expenses.

OPEX per household, including Corsan's costs and expenses and excluding the impacts of the business combination, was R\$548, 36% higher from the previous year, mainly impacted by Corsan's costs and expenses, which are already on a downward trajectory as we implemented an action plan to increase operational efficiency and reduce OPEX.

Excluding the impact of Corsan, Aegea's OPEX per household was R\$489, an increase of 21.5% from last year, impacted by the start of the new operations of Ambiental Ceará and Ambiental Paraná.

On slide number 12, we present some metrics related to our operational efficiency. The water losses ratio continued on a downward trajectory, reflecting investments together with initiatives adopted for reducing physical and commercial losses.

Connection cuts averaged 84,000 in the quarter. Connection cuts are an important instrument used in the renegotiation strategy, maintaining delinquency levels we consider comfortable. In the last 12 months ended in the 2Q24, delinquency ratio was 0.9%, a reduction of 1.2 p.p. compared to the year ago period.

Moving on to slide number 13. EBITDA was R\$2.8 billion in the 1H24, an increase of 84% compared to the same period of 2023. This growth reflects the positive impacts of the Corsan acquisition and the higher volume and tariff adjustment on the other SPVs.

Net income reached R\$682 million in the 1H24, an increase of R\$439 million, reflecting the growth in EBITDA, which more than offset the increase in financial expenses resulting from the Company's higher gross debt.

Moving on now to slide number 14, the operating cash generation before CAPEX was R\$1.7 billion in the 1H24, R\$1.2 billion higher than the same period of 2023, mainly due to high revenue collection.

In the semester, we executed more than R\$2 billion in CAPEX, R\$1.5 billion higher than the same period of 2022. Of this amount, R\$930 million was related to the investments, and R\$617 million was related to concession fees paid by Corsan, amounting to R\$210 million, and Águas de Valadares amounting to R\$407 million.

Moving on to line number 16 to talk about Aegea's consolidated capital structure. We ended the quarter with a net debt of R\$14 billion, an increase of 57% from the 2Q23, reflecting the acquisition of Corsan and new funding operations during the period. Cash balance was 2.5x higher than the short term maturities, and the average term of the debt was extended 4.3 years. Leverage, measured by the ratio of net debt to EBITDA stood at 2.47x.

The charts at the top right of the slide show that the majority of our debt is long term and indexed to the CDI.

With that, I conclude our presentation and now we are available for the Q&A session. Thank you very much.

Operator:

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

André Pires:

We ended the 1H24 overcoming the extreme climate events that impacted Corsan's operations, which was made possible due to the experience and dedication in sanitation that we have developed and applied over the past 14 years.

At the same time, we continue to deliver strong results, driven by our investments in the assets we operate and the strategy that has been implemented by Aegea since its foundation. Our growth and the shared prosperity with the population we serve where possible due to our unique combination of execution capability and credibility to attract capital.

We remain committed to transforming the Brazilian sanitation sector, and will continue to carefully evaluate growth opportunities, guided by financial discipline and creating value for our shareholders and stakeholders.

Thank you to all those who joined us on the earnings call, and see you in the next quarter. Thank you very much.

Operator:

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

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