

## Y 2021 Earnings Call

### Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive officer
- Ricardo Paixao Pinto Rodrigues, Chief Financial and Investor Relations Officer

### Other Participants

- Alex Ferraz, Analyst
- Fanny Avino, Analyst
- Gustavo Cambauva
- Marcelo Motta, Analyst
- Pedro Lobato, Analyst
- Ygor Altero, Analyst

### Presentation

#### Operator

Ladies and gentlemen, good morning. Thank you for holding and welcome to MRV's Fourth Quarter and 2021 Results Conference Call. Today with us we have the CEOs of the company, Mr. Raphael Menin; and Eduardo Fischer; and the Chief Financial Officer and Investor Relations Officer, Ricardo Paixao.

We would like to inform that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question and answer session when further instructions will be given. (Operator Instruction)

Now I would like to turn the floor over to Mr. Raphael Menin, CEO of MRV. Mr. Menin you may proceed.

#### **Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Good morning, everyone. Thank you for attending one more conference call of the company. Today for the closing of 2021, I would like to talk about the five subsidiaries as well as the our prospect for 2022. I'll start with AHS which is the company that accounted for the largest growth, and had an important role in our bottom line. In 2021, the company doubled its size in terms of production, we entered new markets, but what's most important, we were able to deliver projects with the higher gross margin.

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It's also important to highlight that the cap rate when we sell the projects has been reduced quarter-on-quarter. So we presented a gross margin above 50% in the sale of the last project, which was Lake Worth. The less projects sold in the year. So with results much better than we presented in the business plan of the company and the yield on cost was also good.

So looking at 2022, we expect to triple production and maintain the strong pace of sales of the projects with a gross margin close to 40%. The US market in this segment that we operate is really at a high and the demand for apartments made by AHS is very high. We've been able to charge rentals that go way above inflation rates given our technology and standardized construction, we're able to beat the US inflation.

So the cap rate is much better than we expected. The cap rate compression that was presented in the business plan of the company that we spoke about the yield on cost of 7%, 6.8% and cap side of 5.2% we have a yield on cost, close to 8% and a cap rate of 4%. So the gross margin expected for the company has increased significantly when compared to what we had planned or posted before. So we are more optimistic. We have allotted more human resources and financial capital to accelerate AHS operations even further.

When the plan was presented in a midst on the half of 2019, we had an investment thesis with a target of 5,000 units per year. This figure will certainly be reached in production in 2023 in a much shorter term than we had presented given the size of the market and the market features will continue to grow and reach much better figures than we presented in the business plan in 2019.

And given the nature of the business and this good prospects, and the US exchange rate compared to the dollar we believe that AHS will account for more than 60% of the net income of MRV&Co. And this is a subsidiary that has a very little impact and our share price and it's a company that's separately is worth a lot more than our share prices reflects in Brazil. And looking at 2021 and 2022 I believe will be a year with similar characteristics with gross margin under pressure we saw INCC of close to above 20% in the last two years and since the program did not go through any price adjustment, and the low income customer has low capacity to pay more, because all the income is committed. The economics of FGTS funding programs has decreased, not only for us, but for many other companies. The margin reached 20% in the fourth quarter and our capacity to transfer prices not significant. There will be an adjustment of the program in April that we -- when we expand but given our estimate since we sell at a higher income bracket within the program there would be, if you consider above inflation, it will only be 1% to 2% adjustment. So we won't recover margins, on the contrary margins could be even reduced in the Casa Verde e Amarela CVA program which is funded by FGTS.

We are very organized. We analyze it every quarter. So at MRV there won't be any rupture in the gross margin of the business. Again it will be a tough year with low returns, low yields on the CVA program. On the other hand, we see an abrupt reduction in the number of new contracts per month. We used to have 30,000 new contracts per month, in the last four months this has followed to 15,000 units per month. So these program for of FGTS funding has decreased in lately the smaller companies are not able to launch new

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projects in the segment some medium companies started to operate in the medium-income segment.

So there was a quick change in terms of the supply in that segment. On the other hand, we, there is a huge demand because Brazil has a very serious housing problem. Those who know the outskirts of the cities and the low income areas of Brazil know that there will be a constant demand for the next decades, I would say. So if a better adjustment is made considering the last year's then the projects will rise again because the demand is there, it's gigantic. But currently, there is a total mismatch between the payment capacity of the customers and the fact that the program was not adjusted according to inflation. The last adjustment to the program occurred seven to eight years ago when inflation was around 50%. So this is a program that it's completely out of balance today. But the demand for that segment is huge, as I repeat. So we may be -- we may need to reduce the operation in the CVA program, but today we have tools we didn't have in the past. We have five lines of products, AHS that we are allotting more human capital, financial capital, accelerating operations abroad, and we have been a more conservative in Brazilian operations, unfortunately, because the prospects are more for the future, but today, it's very unbalanced as the CVA program.

Urba was launched in the market in the middle of 2020 since then everything that was presented in the business plan was strictly delivered the margin has been -- has doubled year-on-year. We delivered very core products. It's very different segment, we operate in. We have very little competition. In 2020 we were able to continue to grow 100% a year and that's what we expect in 2022 to have another leap and double the company size. We believe that the company will continue to grow and year-on-year it will gain relevance within MRV&CO.

Now Luggo, last year, we made a very interesting -- we signed the transaction with Brookfield to sign at least 5,000 units to Brookfield and we see the demand for Luggo product is really impressive. We're able to lease up in the very short term 90 days. We are able to almost complete the lease up with a very high NPS. So we are delivering a new housing solution for Brazilians with lots of technology, services, and it's very easy to rent the apartments in a very democratic price. So we created a new product in Brazil that has a growth avenue that is huge for coming years. I'm able that we're able to address another funding source increasing one more income bracket in our business. And knowing that interest will be more comfortable there will be exit of Il's[ph] we know that the real estate funds this is a very hard period now, but it will come back in '23, '24.

So this is a subsidiary that will be very significant within MRV, and now in 2021, it has grown Sensia and these two lines of products that excess FGTS funding have a higher margin than the CVA program and in our growth plan it will grow when compared to 2021 at good margins. People asking, what about the interest rate, of course when interest rate increase we financed below 7% of customers. Today we are close to 9% for interest rates. So MRV come doesn't take actions. Looking at the short-term, we believe that the market for a Class and Sensia is an important market that was not given enough products.

So we see very little competition in this segment of MRV&Co, we'll be very assertive launching this products in the correct locations with high demand, little competition,

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knowing that you will be a bit tougher in 2022, but we know that in the next year given the characteristics of our economy we see that the private sector is improving, deleveraging of the public government companies. So it is much more controlled now than it was in 2013 and '14 with the high increase in public spending, or government spending.

So we believe that the prospect for SBPE is slightly above Casa Minha Vida. So this products that range from BRL300,000 to BRL500,000 in the right place, we'll invest in that assertively because it will be a very important subsidiary for the MRV market. It's important for everyone to understand that we are now a holding company with a broad operation in the real estate market in Brazil and in the United States.

And given our history, our capacity to deliver excellent earnings we'll be very wise in allotting capital correctly in coming years to accelerate subsidiaries that are more profitable, and be more conservative in other subsidiaries. With the capacity of choice that only MRV has today within all the listed real estate companies.

So this will place us in a very different position with more, much more advantageous when compared to other companies. So we're very happy because in one specific subsidiary the year was tougher, 2022 will be tough as well, but we remain very confident given the demand for millions of housing units in the real estate market. We're able to operate in several markets with several funding sources and be able to correctly allot of financial and human capital of the company to the right subsidiary. This will make a company that's much different from other listed companies in Brazil.

Now Kaka will speak about the financial figures.

### **Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

Thank you, Rafael. Good morning, everyone. I would like to start by highlighting the increase in revenues. We had a 7% higher when compared in a year comparison. As you may know, 2021 was a challenging year with high increase of construction costs INCC, which pressured our margins in the quarter as well as for the year.

The curve sales SG&A were within plan and there was a decrease when you look only to MRV operations. The main highlight was the earnings from AHS and Luggo that is recognized. At the end of the day, we ended up with the yield of BRL914 million in the year and the growth of 16% when compared to 2020. As for the platform, half of the profit came from FGTS funding which shows that we'll be able to diversify the funding, according to the strategy and this is only the beginning. We are very happy that the platform is increasing a lot.

Now we can move on to the Q&A session.

## **Questions And Answers**

### **Operator**

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Thank you. (Operator Instruction) Our first question comes from Alex Ferraz from Itau BBA.

**Q - Alex Ferraz {BIO 18651758 <GO>}**

Good morning, Rafeal, Fischer and Ricardo. Thank you for the presentation. I have two questions. First is regarding the opening comment about the prospects that you see for Casa Verde e Amarela, CVA with the margin pressure given the cost overview, I would like to learn more about two points. How do you see the cost dynamic now in March is a month of uncertainty, or do you expect higher material inflation? And if there is a subsidy review and curve will you consider migrating to lower income brackets, maybe the margins will be higher because of subsidies or maybe it doesn't make sense, because it's much more challenging to operating that income bracket.

And the second question is about AHS. There is an informal guidance compared to what you see in terms of cap rate and yield on cost. According to those assumptions, do you expect any issues in the US regarding inflation and interest rates? Is this conservative, or much more aligned to what you see right now? And there may be pressures in the future too on the market. Thank you.

**A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}**

This is Fischer speaking, Alex. Good morning. Answering your first question. In fact what we have been doing is neutral cost pressure. Inflation in the last months has been low. There is an inflation, but it's not as it was in the second half of '20 and 2021, now it's a bit more under control. But there are some important events this year that may cause some impact. We always keep an eye on that. And that's the message that Rafael mentioned in the beginning that there is no cost rupture happening as things happen, we see margins dropping for two years now because of the current cost format. That's a bit more under control, which makes us more optimistic in terms of pricing that could improve our margins in the long run.

As for lower income brackets what has happened in MRV as well as at the market in general, lower income brackets have lost their purchase capacity almost completely. The average income bracket that we are working with now is growing strongly in the last 12 months, even if this new curve brings a strong growth, I still see that this customer has a purchase capacity that is very limited and therefore the companies have a very limited capacity to transfer costs, even with the new curve because costs increase have been so violent, and it has happened, Alex in imports that don't change according to the standard of the construction such as concrete and steel.

So these cost dynamic doesn't favor lower income brackets, and it's also the most affected part of society with the effects of inflation. So I don't see that migrating to lower income brackets will solve our issue or provide us higher margins. It's quite the opposite, and the entire market feels the same way.

**A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}**

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Now thank you, Alex for your question. Now as for the operation in the United States. Yes, there was inflation in the US market and as you may know, we are completing -- we're building with concrete and steel, and it was much lower than inflation rate for those materials then for wood, but we have been able to increase the rental value above inflation. As for the increase in interest rates we have observed in terms of market dynamics that the cap rate doesn't go up in the same proportion of the long-term interest rate. There is a decrease in spread. So very comfortable with the figures we shown you. There even a bit more conservative when compared to the last sales we posted with the higher gross margins, higher than the target of 39 that we posted for 2022.

**Q - Alex Ferraz** {BIO 18651758 <GO>}

Okay. Thank you both for the answers.

## Operator

My next question comes from Gustavo Cambauva from BTG Pactual.

**Q - Gustavo Cambauva** {BIO 17329406 <GO>}

Good morning, everyone. I would like to ask a question following up on the Casa Verde e Amarela CVA program. Given the dynamics that you see more pressured margins. How do you envisage launches in this program? What do you estimate for 2022 any type of decrease? Are you going to focus on other segments? Could you somehow, give us an idea of the size of PSV within the CVA program in 2022?

And my second question is about cash generation. In this fourth quarter, there was a higher cash burn and during the year, you were talking about advances of in terms of purchasing materials and higher funding to, or financing to customers. For 2022, do you see the opposite trend because costs have been more stable or will you start to reverting that or will you continue to advance purchase materials in advance? And how do you envisage the cash generation capacity for 2022? Thank you.

**A - Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Hello Cambauva, this is Rafael speaking. Well, I'll first talk about fee FGTS funding program, the CVA program. Today, we're able to make the best choices for the company. We don't give guidance regarding volume, but I may say that we being more selective in terms of launches than we were last year. The fact that we launch, we won't launch products with the gross margin that won't provide any return for the company. So we expect to maintain the size of the operation of this subsidiary of the company in 2022 provided that we are able to obtain a minimum profitability, will it be reduced regarding 2021, yes it may. We're always pay close attention to the matrix of cost and sales price. It's currently unfavorable, of course in some cities and some products the equation is a bit better, in other cases, the equation is worse. But in 2022 if there no new change to the CVA program will have to be more selective, there is no other way around it. But we -- MRV's company that likes to grow. We are present in more than 100 locations in Brazil. We see a huge potential market ahead of us. We must be very responsible regarding the company return cash.

So being more selective is the approach, and let's wait and see what comes next. But again, I would like to highlight that we have other subsidiaries Luggo, Urba, Sensia and AHS mainly. So having the capacity to be more conservative regarding one subsidiary and more aggressive with the other one and that may be inverted in the next year. So we will accelerate the growth of some products and be more conservative in some areas of products in MRV.

Let me talk to Kaka, to talk about cash generation.

**A - Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}**

Well, in terms of cash generation, we started the year with more comfortable in terms of decreasing the inventory of raw materials, and of course the idea change a bit, when the Ukrainian and Russia war started. We are now anticipating advancing purchases especially steel and stocking to guarantee the continuity of operations, and to get protected from any increase in prices. We see the amount paid in the portfolio in 2021 compared to the granted volume, it's pretty much the same. This portfolio has the correct price adjustment of IPCA inflation rate plus one. So if we saw the portfolio pro-soluto for the fourth quarter of last year, and this year we have other rounds planned to happen, especially in the, mainly in the second quarter of this year. This is a way we found to maintain the customer portfolio lower and convert trade receivables into cash faster.

**Q - Gustavo Cambauva {BIO 17329406 <GO>}**

Okay. Thank you very much, and have a good day.

**A - Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}**

You too.

**Operator**

Our next question comes from Ygor Altero from XP Investments.

**Q - Ygor Altero {BIO 21419045 <GO>}**

Good morning. I have two questions. First, I would like to understand what do you think are the trade-off between PSA and gross margin for 2023? Are you working with smoothly to privilege margin? And what about the launches of 2022, if you could comment on how do you see the affordability dynamics in this segment? Casa Economica offering TR plus 8 plus 9 that interest rate there still appealing. Would that make sense? Thank you.

**A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}**

This is Fischer speaking. Margin well, the pricing in our industry is really a work of art. It's made apartment by apartment, project to project according to the demand. Traditionally what has happened is that the sales oversupply is much higher than the speed of the construction. So we -- you have to think of margins is something important. What has happened in the last quarters is that the margin has become more significant, more

important. So we see the VSO dropping a bit, but still this speed of sale, sales over supply will be above the construction speed.

We try to optimize margins, so answering your first question, margin is our main driver in terms of trade off. In terms of affordability, there is affordability of our main business, which is low income, CVA, Casa Verde e Amarela which has worsen as Rafael mentioned because customers have limited income and is highly affected by inflation and the program was not adjusted. So it's, of course, it is less affordable, affordability decreases.

On the other hand, there is a high pressure on costs. So this person loses even more affordability. So I am skeptical regarding that income off of BRL1400 having a growth in volume. I believe it's quite the opposite. So within CVA I see migration to higher income brackets. I believe this will continue to happen in 2022, which for us is very good given the quality of the product we have, the flexibility we have to please or provide products that are suitable to that income bracket will be pioneers in that area. As for affordability above that range you're right, rates have increased, but that movement is not being a component so strongly still. At the same time this people who have some purchase capacity that can't tolerate a bit, increase slow increasing, low increase in prices.

So, bearing in mind something that in these projects where we are above IPCA, we see a very forward scenario in the areas we operate. We see very little competition in the price range that goes from the ceiling of CVA up to BRL400,000, BRL500,000. This is a market that doesn't have much to supply. So, that creates a lot of opportunity for growth even in a scenario in which the affordability of these customers is being lost with time.

I hope, I have answered your question.

**Q - Ygor Altero** {BIO 21419045 <GO>}

Yes, Fischer, it's very clear. Thank you.

**Operator**

Our next question comes from Pedro Lobato from Bradesco BBI.

**Q - Pedro Lobato** {BIO 21923304 <GO>}

Good morning. Thank you for the presentation, for the question. I would like to understand the dynamics of cost control. What are the main specificities and differences that you see in the purchase materials process with your suppliers? Thank you.

**A - Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Pedro let me try to explain this in a more clear way. Of course, we have a budget that is made with a very in-depth analysis. When we launch the project our budget is already met, ready with the high-precision rate. It considers some inflation towards the future that are decided by us. We had such a high increase in inflation in a short period of time. So it was not that accurate, but the format is the same. As for suppliers, we try to sign



agreements that are good with the time horizon that is determined and we considered some scenarios.

In the past, we used to look -- we had a steady inflation rate. So we wanted to have shorter-term contracts to make the most of opportunities that could arise. Now we --it's the opposite we want longer-term contracts. We have Kaka has explained what we are doing to protect ourself, especially in terms of inventory we have construction products in stock to that we could advance purchases, because we are afraid of higher price increases, especially in steel prices as discussed this week.

So usually we tackle that issue of supplier with inventory, with our stock of products. This is the tool that we have better control of.

**Q - Pedro Lobato** {BIO 21923304 <GO>}

Okay. Thank you. It's very clear.

## Operator

Our next question comes from Marcelo Motta from Banco JP Morgan.

**Q - Marcelo Motta** {BIO 16438725 <GO>}

Good morning. Could you comment on the AHS pipeline for sales. You said that there is a project under negotiation and nine other projects under development, of course, the idea is to sell the project when it's completed and rented to maximize return, but given the weakness of the segment in Brazil maybe you could sell it in the US before completion? Let me try to understand the role of AHS now in 2022?

**A - Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

This is Kaka speaking. As for sales of AHS developments there is one sale to be completed in the end

Of the first quarter or beginning of second quarter of '22 and three other projects that will be sold into the year end, that would provide us number of units similar to what we had last year.

In our initial plan in sales we're supposed to be higher in 2021, then would drop in 2022 due to the valley that was replaced by a plateau when you compare '22 to '21 with AHS because the US market is very high, is very -- there's a lot of activity and so there is a stable number of projects there, with the same volume but better margins. We're able to have a better cap rate than we had planned before.

**Q - Marcelo Motta** {BIO 16438725 <GO>}

Okay. Thank you.

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## A - Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}

You're welcome.

## Operator

(Operator Instructions) The next question is from Fanny Avino from Santander Bank.

## Q - Fanny Avino

Good morning. I have a simple question. The adjustment of IPCA may not be sufficient to improve the margins of the company. Well, how are the conversations with the government or FGTS and all the stakeholders to have some potential improvement for this year? Are you having any conversations, or maybe we should expect it for next year with the new administration? Do you -- could you give any color on that? Thank you.

## A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hello, Fanny. Good morning, how are you? Well, as I mentioned in the opening statement the program was not adjusted or corrected for inflation in the last six or seven years, and in this period inflation was very high, especially in the last two years. So this is a program that's completely unbalanced. It does not depend on any funds from the government, and it's size has been reduce month after month and in the last four or five months, the number of contracts have been half the amount expected in the budget. This has had a huge impact in the country, on the industry.

So some conversations have started between the Ministry and the council of (inaudible) funds. This conversation has been going on for three or four months now and an adjustment to the program is expected to be announced in April. The adjustment will be very small, a more aggressive adjustment in a lower income bracket won't change much. It will be an adjustment much, much lower than what it should be. If no new adjustment is made to this program through -- during the share, it's very likely that we'll see the lowest number of sales or contracts of a CVA program in the last 13 or 14 years since the program was first launched. So where we see it, the very negative, on a very negative note, because to really make a significant change to the pace of the program to go back to the 30,000 units per month, it would be needed to change the rules of subsidies and interest rates. So that things would adjust better.

When the project was launched the minimum wage was BRL500. Today it's twice as high and the rules are almost the same. So today there is a mismatch between subsidy interest rates income and the price of the product. Of course, that it's good to have some adjustment. April will present some adjustment, but it's much very low when compared to the issues that the program has faced lately. The ministers that participate a very competent, but they have a very broad agenda Casa Economica has a CEO (inaudible) that's very good, but his agenda is so broad as well. It's always a good dialog a constructive dialog but there is a delay between conversations and change and the actual result.

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So it takes some time. So we do not believe that a new adjustment will be made in the short-term that will allow the program to go back to the sales volume of 30,000 units per month. If we could extract any positive conclusions from the scenario is that competition today is much, much lower than it used to be two years ago. This is an industry in which companies that operated only in this segment are much more fragile. So the more organized and sophisticated companies will have an advantage in, when adjustment is made. The longer these adjustment takes the more fragile, the weaker, the companies that depend exclusively on Casa Verde e Amarela program will be. So this is a public government area that's people highly qualified, very capable, but they have a very broad agenda to look at. So, there is time between the discussion and the delivery, the execution. So we believe there will be some more months of low contract levels or maybe still this year or next year there will be some adjustment to bring Casa Verde e Amarela to a good balance, again.

### Q - Fanny Avino

Okay. Thank you very much for your answer.

### Operator

(Operator Instructions) This concludes the Q&A session. As there are no further questions I would like to turn the floor over to Mr. Eduardo Fischer, the CEO of MRV. Mr. Eduardo, you may proceed.

### A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Thank you. There are two or three points that we believe important to highlight. First of all, I said the during this call, we have spoken about how do we address the costs and our concern with budgets we have been an engineering company for 42 years now. So we do all we can and we have situations under control, even in challenging times such as today.

We see the company with no risk of rupture and this is what we've been saying in all these years. The second point Rafael has mentioned how the program has lost its capacity to execute what it used to, but something we must consider is that housing in Brazil is such an important topic.

We're about to start a period of presidential elections and this is the time when actions take place, that could change the game. I've seen this happen before. This is an industry that generates many jobs and there is a wide supply chain attached to it. So I'm optimistic, when I look towards the future because this is an important moment for the economy. And the other comment is pride. I am proud, because we have created in the last three or four years many of the movements that today give you the peace of mind that the company may continue to grow, although that was questioned three or four years ago, and these moves that we made proved to be very right and very little companies have the capacity to do so. We have always been a company that concentrates on operational excellence and that allowed us to take important and brave steps that became important point such AHS, Urba, Luggo these were winning steps that we took in the past and now provide us with important earnings and results, and we will continue to lead this company forward in the future. MRV& CO, they used to be a dream three or four years ago. Today

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is a consistent reality that allows us to continue to grow and be, have the ambition to have a much more profitable and even bigger company in the near future.

So despite considering 2022 as a challenging year in Brazil, we feel proud for everything we have built in the last four or five years. So, I would like to close with this message. We are now navigating in a challenging environment, but we're able to create in the company options for you to continue to grow and continue to be a profitable business.

Thank you very much for attending and we see you in the next conference call.

## Operator

MRV's conference call has ended. Thank you all for attending and have a good day.

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