# Q2 2011 Earnings Call

## Company Participants

- Antonio Guedes, General Director
- Elie Horn, CEO
- Jose Florencio Rodrigues, VP
- Luis Largman, CFO, IRO
- Ubirajara Freitas, Director
- Unidentified Speaker, Unknown

## Other Participants

- David Lawant, Analyst
- Felipe Rodrigues, Analyst
- Guilherme Rocha, Analyst
- Marcello Milman, Analyst
- Marcelo Motta, Analyst
- Rafael Pinho, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to the Cyrela Brazil Realty conference call for the results of Second Quarter in 2011 [ph]. All participants are connected as listeners only. Later on, there will be a Q&A session for which instructions will be provided. (Operator Instructions) This conference call is being recorded. But the recording will be available at the Company's website, www.cyrela.com.br/ri.

This call is being translated into English. Questions may be asked normally by the participants connected abroad. You can access the results release disclosed yesterday, August 11, at the closing of trade on the BM&F Bovespa stock exchange on the Company's website, www.cyrela.com.br/ri. This conference call, as well as the slides are being transmitted simultaneously on the internet and can also be accessed on the Company's website.

Before we proceed, we would like to clarify that any statements made during this call regarding the Company's business prospects as well as projections, operational and financial goals concerning its potential for growth, are forecast, based on the expectations of the management for the future of Cyrela. These expectations are highly dependent on domestic market conditions, on the general economic performance of Brazil. And international markets and are therefore subject to change.

Today we have Mr. Elie Horn, President, Mr. Ubirajara Freitas, General Director of the Sao Paulo Regional Office, Mr. Antonio Guedes, General Director of Living, Mr. Jose Florencio Rodrigues, Vice President of Finance. And Mr. Luis Largman, Investor Relations and Financial Director. Now I hand over to Mr. Elie Horn. Mr. Horn, please proceed.

## Elie Horn {BIO 1823000 <GO>}

Good morning, ladies and gentlemen. The Company is focused on three pillars, organic growth, focused and profitable, excellence in operating profits. And discipline in our cash flow. We will continue to favor the organic growth in the structure existing today, focused on centers that our presence is consolidated with the best profitability perspectives at lower risk.

The process of recovering the margins is ongoing and our expectation is for gradual increases in the gross margin throughout the year of 2011 in order to get closer to our historic level in 2012. The most recent launches have margins close to our historic margins and as their revenues are recognized, they will contribute to the recovery.

Our excellence project is ongoing with the objective of enhancing processes controlled in systems. We're favoring organic growth of the existing structure. For example, the Company is executing and managing works in Bahia and Pernambuco starting as of August 1st. We've implemented programs and the policies to retain talents in the engineering fields. We're concluding our engineering management system, completely integrated to SAP. We directly control 75% of our sites and are working closely to the sites that are managed by third parties.

We will continue to focus in a strict cash management. We're engaged on a strong work to manage general and administrative expenses, which greatest impact will be verified as of the beginning of 2012. In addition, we're activity working in our processes that support our cash generation plan for 2012. With the strong perspective of cash generation and the gradual evolution of our results into June 2011, we announced the repurchase of stocks program to maximize the value for stockholders.

This is a year of transition, when the Company is being prepared for the new stage in a new market scenario. Despite the current threat of a crisis, we're still investing in the domestic market in its solid bases that remain unaffected. Now Mr. Ubirajara will talk about the operating results.

## Ubirajara Freitas {BIO 15314879 <GO>}

Good morning. On slide five, we'll discuss the consolidated results of Cyrela, including Living. On the Second Quarter of 2011, we've launched 23 new projects, a total of 38 projects in the half of the year. The launches for the quarter were BRL1.7 billion, the volume 47% higher than the same period of 2010. For the first half of the year, the volume was BRL2.8 billion, an increase of 63% compared to the first half of 2010.

The launches of the First Quarter corresponded to 35% of the midpoint of our guidance for launches in 2011 versus 22% for the same period of last year. The participation of Cyrela and the launches was of 79% in the quarter and this value coincides with the percentage for the first half of the year that's also 79%, with a growth compared to the second half of 2010 from 70% to 79% and from 74% to 79%. Geographically, the regions of Sao Paulo, Rio. And south of the country responded for 41.8% of the launches in the period. And the products from Living responded for 38% of the total launches in the Second Quarter 2011.

On slide number six, we'll discuss Cyrela's and Living's sales. At the end of the Second Quarter of 2011, contracted sales were BRL1.7 billion, including partnerships and BRL1.3 billion pertaining to Cyrela's participation, an increase of 8% compared to the same period of 2010. In the first half of 2011, pre-sales were BRL2.7 billion, 2% higher than the First Quarter of 2010. This volume corresponds to 37% of the midpoint of our guidance for 2011 versus 40% of the sales of 2010.

Inventory sales responded for 58% of total sales in this quarter. The states of Sao Paulo and Rio have responded for 81% of the sales in total for the quarter. The products from the high, mid -- mid-high and mid-levels were 72% of the sales in the quarter, Living being responsible for 28% of the total sales of the Company in the Second Quarter.

On slide number seven, we'll discuss our Landbank. In the Second Quarter, Cyrela has acquired 50 new plots of land in the north, south -- southeast. And central west of the country, with a potential PSV of BRL2.2 billion of our current Landbank. Of the land acquired, eight were for the mid and high segments and seven for economic and super economic segments represented by Living. Of the land acquired, 58% were acquired on the swap format. Maintaining Landbank was 78% of acquisitions through swaps.

By the end of June, the Landbank had a potential of sales of BRL45.8 billion. Cyrela's participation in this Landbank was of 86%, equivalent to BRL39.4 billion. Approximately 72% of the PSV of our Landbank referred to units priced up to BRL500 million -- BRL500,000, I'm sorry. The land in Rio de Janeiro responded to 34% of the total Landbank, with the maturation in the midterm. The remaining of the Landbank is concentrated in Sao Paulo with 31%, northeast, 16%. And the other regions with the remaining amount.

On slide number eight, we're going to comment about the units delivered during the period. In the Second Quarter, Cyrela and Living delivered 33 projects, representing 10,400 units delivered. The delivers totaled 51 projects, 14,300 units delivered. From that total, 97% of the units had already been sold. The expectation for the year is that we deliver between 20,000 to 25,000 units.

In regard to the construction sites, at the end of Second Quarter, we had 189 construction sites ongoing, whereby 91 were Living's projects. For the Third Quarter 2011, we will begin with 25 work sites and, by the end of the year, a total of 49. So 60 undergoing the delivery phase during that period, which makes us comfortable in regard to our capacity to execute our sales.

On slide number nine, we're going to talk about transferred units. In the Second Quarter, we transferred BRL601 million, whereby part of that was in the mid and high standard and the others in the Living segment. In the year, we add BRL1.41 billion in the transfers, which corresponds to 6,800 units. Now I'm going to pass the floor to Guedes and he will talk about Living's operating results.

## Antonio Guedes {BIO 17964221 <GO>}

Good morning, everybody. Let's take a look at slide number 11 and we're going to talk about Living's launches and pre-sales. For the Second Quarter, Living launched 13 projects at the PSV of BRL21 million, which is higher than what we presented in the Second Quarter of 2010. In the first half, it's BRL1 billion of PSV, 46% higher than in the same period in 2010, reaching 37% of the volume of Cyrela in the year. From the 6,500 units launched in the first half, 50% are within the program Minha Casa Minha Vida. In regards to sales, Living sold BRL489 million in that quarter and BRL816 million in the First Quarter of this year, which represents 31% in regards to the total Cyrela sales in 2011.

In the first half of 2011, we sold 6,200 units for a total of BRL146,000. And the year segmented for 2011 in the following manner, 38% in super economic segment, up to BRL170,000 per unit in the Minha Casa Minha Vida program, 57% in the economic segment, ranging from BRL130,000 to BRL250,000 and the others in the middle segment from BRL250,000 to BRL400,000 per unit.

I would like to highlight two projects and would then [ph] see down south, one in May with PSV of over BRL6 million and most of it is already sold for the second half -- Second Quarter. 12 [ph] is about the Living's Landbank. For the Second Quarter, we acquired nine new land plots with a potential PSV of BRL727.3 million. At the end of June, the Landbank was BRL12.1 billion potential PSV and approximately 90,000 units with an average price of BRL175,000. 52,000 units are eligible for the MCMV project. We are present in the main market in Sao Paulo, Rio. And the south represents 70% of the Landbank. Now Jose Florencio is going to talk about Cyrela's financial highlights.

## Jose Florencio Rodrigues {BIO 17097582 <GO>}

Good morning, everybody. On slide number 14, we have our financial highlights. Net income for Second Quarter 2011 was BRL1.4 billion, which is higher than the First Quarter 2011 with a variation of the Second Quarter in 2010. In the first half, we had BRL3.6 billion, which is 11% higher than what we presented in the first half 2010.

Next slide, slide 15. Gross profit reached BRL352 billion, which is higher to what presented in 2011. Gross margin had a slight advance in that quarter, 27.7% or 0.3percentage points than registered in the beginning of this year. And adjusted, the gross margin reached 37%. For the quarter, it's in line with the guidance disclosed for the year. The margin reflects the impact of the financial and physical review of the cost in 2010 and of the projects that were launched in 2010. That presents higher margins; however, they haven't had a significant physical evolution yet. The revenues is 31.7% and it has the following breakdown. For the projects that began to be acknowledged after 2010, have a margin of 37% and represents 70% of the results obtained.

Next slide, slide 17, we're going to talk about EBITDA. Adjusted EBITDA for the quarter was BRL190 million, which represented a 13.7% margin. When compared to the First Quarter 2011, the adjusted EBITDA was BRL1.7 billion with lower percentages, mainly because of two reasons -- increased commercial expenses because we had a higher volume of new launches and because there was an increase in administrative expenses because of the Company's strategic adjustment and that will be perceived as from 2012.

The first half of 2011, the adjusted EBITDA reached 14.5% and 2011 is the year of transition. We expect margins above 11% in 2012 according to our guidance. In the first half, net profits reached BRL170 million, which is compared to the same period presented in 2010, mainly because of the cost adjustments that I have already mentioned. The first half margin is 6.6%.

Now let's go onto slide 18. We have the evolution of the accounts receivable. We closed the quarter with BRL12.3 billion in accounts receivable, whereby 12.6% of contracts of the units delivered. So BRL1.6 billion. The receivables of the units under construction increased 6.1% compared to the final balance of March 2011.

The receivables of units already billed were BRL190 million for the quarter and we have a reduction because of the large amount of transfers. And the average for accounts receivables is 2.2 years and construction costs to be incurred for these units is approximately BRL4.2 billion, 33.5% of the receivables related to these units. Now I'd like to pass the floor to Luis Largman. He's going to talk about liquidity and indebtness.

## Luis Largman {BIO 2243185 <GO>}

Good morning. Let's move onto slide number 18, where we have the information about liquidity and indebtness. The net debt was BRL4.2 billion, an increase of 15.5% compared to the First Quarter of 2011. The cash position at the end of the Second Quarter was BRL1.6 billion, an increase of BRL355 million, which responds to 29%. Our indebtness structure remains healthy. 58% of our debt is in financing constructions with SFH, an increase of 13% in the quarter, due to the increase in the numbers of the contracts of financing of construction sites that are ongoing and inside of the First Quarter 2011.

The net debt of EBITDA is four times if we consider the financing with SFH as part of the debt. Without SFH, the Company has a net debt of BRL51 million -- BRL171 million, 0.3 times. The net debt with the SFH of the Company was a total of BRL190 million for the quarter, 61% lower compared to the BRL480 million of the Second Quarter of 2010.

In the analysis of the past year, the cash burn was of 58% smaller compared to the BRL809 million presented in the first half of 2010, reaching BRL341 million. This regarding the payment of dividends, the cash burn and ex-dividends was BRL48 million in the Second Quarter of 2011 and of BRL200 million in the first half of 2011, close to the cash neutral, a clear trend of improvement of cash generation for the remainder of the year.

Before we go to the question-and-answer session, I would like to thank the company and all of the professionals involved in it. I also thank all the professionals involved in the capital market and our investors. And a special thanks to Mr. Elie Horn for all the support provided in this period. We will now move onto the question-and-answer session. Thank you.

# Questions And Answers

## Operator

(Operator Instructions) Our first question is from Mr. David Lawant from Itau BBA.

## Q - David Lawant {BIO 16370172 <GO>}

Good morning. Thank you for the presentation. I have two questions, actually. The first one is about cash burn. The volume of deliveries in the First Quarter, especially -- in the first half, especially the First Quarter, was very strong, 14,000 units. So you indicate that you are expecting the delivery of 20,000 to 25,000 in the year.

So this pace of the deliveries should slow down in the second half of the year compared to the first half. With that in mind, I would like to know from you what we can expect from this cash burn later on because it was very low this quarter. So I would like to understand if, since there will be fewer deliveries in the second half of the year, if this number could possibly get a little higher.

And my second question is I know it's early and I know that the macroeconomic scenario is not in sight yet. But I would like to know what you are thinking in macroeconomic terms. In 2008, Cyrela was the first company to reduce launches significantly and I'd like to know what you're thinking about the current scenario. Thank you.

## A - Jose Florencio Rodrigues {BIO 17097582 <GO>}

David. Good morning. This is Jose Florencio answering your first question. Our expectation in terms of the cash burn for the second half of the year is very close to cash neutral. Because we believe that the number of transfers will actually be greater than it was in the first half of the year. We had approximately 7,000 units transferred in the First Quarter and our expectation is to reach a volume of a total of 20,000 for the year.

So this is already a positive generation. We also have the expectation of the increase in the number of launches and cash anticipations. And we expect that to have a strong impact in cash. And as we also hope and we're working towards this, to have a lot of true sale circulation [ph]. And I'll give it to Freitas. For your second question.

## A - Ubirajara Freitas {BIO 15314879 <GO>}

David. Good morning. This is Freitas. We are paying extremely close attention to the macroeconomic scenario and what the crisis that are happening abroad, how they can impact Brazil, the real estate market and for Cyrela's situations. So far, we don't see anything that may block or reduce or slow down our growth plan for 2011-2012.

We feel that these high levels employment and the increase on the salary mass is making buyers very confident and the market has not reduced significantly. Of course, at the speeds we saw for 2010 and 2009 are not the same as 2011. But this is not due to a crisis. This had already been ongoing and we're very confident with our domestic market and will maintain our growth plans.

Elie Horn David, it's Elie. Against 2008 crisis that was a surprise, the crisis in 2011 is localized. I have the impression that it's not the same and as Freitas said, our plan is to move on forward with our work normally.



## Q - David Lawant {BIO 16370172 <GO>}

Okay. Great. That was clear. Thank you.

## Operator

Excuse me. Our next question is from Mr. Felipe Rodrigues from HSBC.

## Q - Felipe Rodrigues {BIO 16350661 <GO>}

Good morning. I was looking at the release. You talk about rationalization of the expenses of sales of 20% onwards. I'd like to understand how you can do that if it's an advertisement, where you can rationalize it. And if you expect an impact on sales fees. Also, if you can give us an expectation of what you are expecting for S&A for the First Quarter of next year in terms of net revenue or nominal. What would be a good figure for us to work with?

## A - Ubirajara Freitas {BIO 15314879 <GO>}

Hi, Felipe. This is Freitas. We're coming from a progressive work in all our operating units everywhere in the country of decreasing the percentage that we allocate for launches. It used to be 6% in the past and today is around 4%. Of course, this will reflect -- be reflected in the future. But we're working strongly with this, changing our mindset -- the company's mindset -- in terms of commercial expenses.

As you mentioned, that includes media, advertisement, promotion, sales cost. And we have not yet felt any difficulty in the speed of sales. As I said, the market is still very strong and respondent and the consumers are very confident. We're working hard to, throughout 2012, have the whole company reach 4.5%. So it's a strong decrease. It used to be 6%. We want to get to 4.5% in the management control in the project of the company in Brazil.

I'd like to add, in absolute terms, we don't expect a lot of reduction for this year. But we do expect a relative reduction, due to the sales breakdown for the year. So our expectation for this year is that commercial expenses and G&A will be around 5% and 6% compared to sales. And as Freitas said, for next year, we expect 4.5% for commercial and for G&A, 4.5% to 5%.



## Q - Felipe Rodrigues {BIO 16350661 <GO>}

Excellent. Thank you.

## Operator

Our next question comes from Mr. Guilherme Rocha from Credit Suisse.

## Q - Guilherme Rocha {BIO 17303509 <GO>}

Hi. Good morning. I think I have two questions. One is more strategic. I'd like to understand how this new dimensioning of the engineering side to build the new projects that are being launched is being -- reducing inspections of the plan, what measures are being taken. There was a lot of layoffs in the headquarters. So I'd like to know how the execution team is working. And second, I'd like to understand if there's any differentiated sales strategy for that inventory of 18, 19 ready units. I don't remember historically you reaching such a level. So is there anything new that you are considering for the second half of the year?

## A - Ubirajara Freitas {BIO 15314879 <GO>}

Good morning, Guilherme. It's Freitas. I'm going to answer your first question. The second one will be answered by Florencio. In engineering, we took some measures and the major important macro measure that was widely commented about is that we're increasing our construction -- own construction platforms. We are organic -- where we are already are organic and consolidated and we have all the logistics and the ability to execute those developments.

So at the Brazilian level, we have two engineering boards -- corporate boards -- so that we can standardize all the construction process. And we're intensifying and strongly improving labor with intensive training and preparing them in specialization for all our worksites. We're carrying out a long-term plan to -- for talent retention, specifically in engineering. We're unifying processes, standards. And indicators. So we hired the INDG Institute because they're focused on that kind of improvement.

And we're closely improving the management by the worksites that are executed throughout third parties. And all the economic and financial activities from Cyrela's projects in Brazil, the index of the INDG presented compared to Cyrela's actually cost, especially because of labor, is above the INDG presented. So all of the projects now for almost two years have the safety index so that we don't have a burst in work.

We also created a corporate engineering department or unit for the leasing -- for Living, I'm sorry -- for all the development from Living that were conducted in an organic manner. And obviously, we're privileging the standardization throughout the entire country. When we have Living, we're going to value that type of standardization throughout the entire country.

Partial [ph], in fact, there was a slight increase in inventory in this half year. And the inventory is mainly focused in Rio and Sao Paulo and a few work sites. So -- and using a less technical term, what we noticed is that the inventory is melting, actually. So we're selling that very fast. We don't have a specific action plan. We're even selling it at a better price than from the initial list prices. So we should have some profit based on the sale of those -- that inventory.

## Q - Guilherme Rocha {BIO 17303509 <GO>}

Is there any -- thank you. Is there any optimum level for inventory ready to sell? I don't know, you have a lot of things that's ongoing. Do you have like 10% of your inventory that's ready to be delivered, 5%, 10%, 15%, I don't know. And it's a case-by-case basis. But maybe you can look into an optimum level of inventory or ideal level.

## A - Elie Horn {BIO 1823000 <GO>}

This is Elie. The ideal inventory is zero. The ideal inventory is zero. Our idea is to reach zero, if we could, someday. Because inventory is leprosy. It doesn't help you out at all. And we have 750 people that are being trained at the worksites. So at the end of the cycle, we will improve a lot our performance in terms of deadlines and prices.

## Q - Guilherme Rocha {BIO 17303509 <GO>}

Thank you, Elie.

## Operator

Our next question comes from Mr. Rafael Pinho from Morgan Stanley.

## Q - Rafael Pinho {BIO 15321539 <GO>}

Good morning. Actually, my question was already answered and it was in regards to the reduction of SG&A.

## Operator

Our next question comes from Mr. Marcello Milman from BTG Pactual.

## Q - Marcello Milman {BIO 7252528 <GO>}

Well. Good morning to everybody. My question still related to David's question in the beginning about the cash burn. So it's just a doubt -- net debt does not include or, actually, it includes securitization because it's not true sale. Is that correct? And that's the first question. The second question is mainly related to strategy. At the end of 2009, you had a general guidance of growth in launches -- increasing in launches. And also for 2012. So I know, with this new economic reality and the company's economic reality, what goes through your mind about the launches for 2012? Thank you.

## A - Jose Florencio Rodrigues {BIO 17097582 <GO>}

Marcello, this is Jose Florencio. In regards to your first question, in fact, in the first half we're in net debt. So the risk is Cyrela, for the investors. We still haven't done securitization of true sales and we should do that in the second half. In regards to the guidance for sales and launches, we're still aligned with what we have informed. So we believe in that guidance.

## Q - Marcello Milman {BIO 7252528 <GO>}

Okay. Could you remind us about that guidance for 2012, please?

## A - Jose Florencio Rodrigues {BIO 17097582 <GO>}

BRL8.7 billion to BRL9.8 billion.

## Q - Marcello Milman {BIO 7252528 <GO>}

Thank you.

## Operator

(Operator Instructions) Our next question comes from Mr. Marcelo Motta from JPMorgan.

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

Good morning. I'd like to know if you could give us some details about the repurchase program and, if you have done that yet, what has happened to the program. That's it. Thank you.

## A - Unidentified Speaker

Marcelo, it was a -- we had -- got an approval with the board. 5% of repurchase and we've done BRL70 million until now, a bit more than 1%. Right now we're hindered by that because of the blackout period.

## Operator

(Operator Instructions) Now that we have -- there are no more questions, I'd like to pass the floor to Mr. Elie Horn for his final remarks.

## A - Elie Horn {BIO 1823000 <GO>}

I would like to thank everybody, our employees, our partners, especially Luis Largman, for all these years of dedication. I'd like to reiterate that 2011 is an important year for our company. It represents a year of transition so that we can prepare ourselves for a new phase. We still believe and bet on the domestic market because of the fundamentals. Thank you very much and I'll see you next time.

## Operator

The Cyrela conference all is closed. We would like to thank all for participating and wish you a good morning. Thank you.