Q1 2022 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, Executive Director of Finance and Investor Relations

Other Participants

- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Fanny Oreng Avino, Analyst
- Gustavo Cambauva, Analyst
- Marcelo Motta, Analyst
- Ygor Altero, Analyst

Presentation

Operator

Ladies and gentlemen, good morning. Thank you for holding and welcome to MRV's First Quarter of 2022 Results Conference Call. Today with us we have the CEOs of the company, Mr. Rafael Menin and Mr. Eduardo Fischer; and the Chief Financial and Investor Relations Officer, Mr. 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 question-and-answer session when further instructions will be given. (Operator Instructions)

Now I would like to turn the floor over to Mr. Rafael Menin, MRV's CEO. Mr Menin, you may proceed.

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

Good morning, everyone. Thank you for attending this -- one more call to listen about the results of MRV. Well, we have good things to tell you in this conference, especially resulting from our subsidiaries and AHS certainly is the subsidiary that has been posting stronger results.

We have disclosed recently a plan to reach 12,000 units per year. In order to attain that figure, we will need to address the capital structure of the company. Given that it will be a growth in a very short period of time and we need a lot of capital to go from a company of 2,000 apartments per year to 12,000.

On the positive side is that the capital markets in the United States is very mature. This class of assets, there is a high demand for it, and in our transactions we've been attaining very good results much higher than what we had planned in the budget of the company two years ago.

Rental and housing. It is the highest -- strongest pain in the US, although it may seem strange in the large cities. This has been a large problem, despite the very low unemployment rates in the United States currently.

There is a mismatch between the value of houses and the value of rental when compared to the income of middle class in the US and that has created an amazing opportunity for AHS to operate in this market of Sunbelt, Florida, Georgia and Texas and we also look in some other states, but mainly the consolidation of the market the large market present in these three states. The combined GDP of these three states is $3.5 trillion or twice the GDP of Brazil. That shows the strength of these markets and the potential of them.

I would also like to highlight the performance of Urba, a subsidiary that we tried to go public two months ago and to launch to market and what was promised two years ago, we delivered strictly the same figures, very good margins growth of land bank, growth of launches and sales.

So it is a company that has had a very good path and today we are convinced that it can grow much more than its current size. It's a very good product with very little competition. There is no good operator with what national scale doing that.

So in the growth avenues that we have created by MRV in the companies or in the cities we're present for a long time, it will serve in this market with little competition where there are few companies with good quality. It delivers a very different product and it's well recognized in the markets.

It is operating. We had thought Urba would be 15 lots per year and today we are convinced that we can reach a higher figure much higher than 15,000 per year. So when we look at the development of low income development operation doing 40,000 units per year, that could be Urba that will be MRV, and if we add Luggo that also has had a very good performance with more -- in the -- when signing the contract with Brookfield, we have additional funds.

I am absolutely certain that MRV&CO is positioned as very different real estate company when compared to the competitors in the Brazilian markets. So this is the good side that gives us reason to be very optimistic for future years in the company.

On the other hand, we must talk about the result. That's mean much lower than our historical performance in the CVA program. The CVA housing program. It accounts for

40% of our business and we've had margins much lower than our historical margins in this segment. As you all know, the sales performance was very strong in 2020. We were quite aggressive commercially speaking in 2020.

In 2021, the performance was also good and we were aggressive in sales and when we sell, we transfer it, the units almost simultaneously, and therefore the prices are not updated and we were surprised and the whole world was surprised by a very high inflation rate, not only in Brazil, but worldwide.

And that has caused the economic developments from 2020 and 2021 mainly had a tragic performance in terms of margin. So we saw margins dropping quarter-on-quarter and that has happened since 2020 and now we've reached the second quarter '22 with the gross margin below 20%, which is much lower than our historical pattern.

It's worth highlighting that our background after IPO. We've been listed for 15 years now and certainly MRV has been the company that has delivered the best results, the most organized result with lower dispersion of values more linearity.

We have a very low margin in stock and what we expect is for the company to capture future cost, but of course some new things may happen, but if nothing else happens, we do expect to have a smaller gross margin in the next quarters, but then going up after that.

Further, we see a gross margin of new sales, which is nothing, but the margin of that seasonal sales showed in the first quarter. This margin is growing and we closed the first quarter with a margin of 23%. In April, it is now 25%, and in May prices increased a bit more and we intend to place this gross margin at the level of 30% and for that to happen prices have to be raised about BRL10,000 when compared to what we have now.

And this will be possible due to two leverages. The first one is the lack of supply in the industry because most companies are no longer operating in this segment, which is very bad for the country because Casa Verde e Amarela program, the low income housing program, it used to be account for 30,000 units per month, and it's now 15,000 units per month half the budget.

It has half the budget in a program there is no public funds. It depends on adjustments of the rules. So that it will go back to its performance that we projected according to the budget in the beginning of the year. So we expect certain corrections in the rules of the programs in coming months.

And when this happens, we can be quite confident that we'll be able to deliver a margin for new sales around 30%. And then obviously some time in the next year while also report the gross margin of the CVA segment around 30%. And in this period, the subsidiaries will continue to grow at a strong pace.

And if you make the calculations, you can think of AHS making 12,000 units per year at an average ticket of $350,000, Urba posting $2,000, Sensia and Luggo growing a lot. And at some point in time, the subsidiary that I call this economic segment posting 40,000 units per year at a gross margin of 40%.

And when that happens, we'll certainly have figures that are much different from the current ones, much higher and more significant than any other real estate company has ever reported in the Brazilian market. So of course we have to look at the capital structure in the short-term, the low return, we are delivering in this economic segment. We have planted a lot of good projects and we will reap the fruit in coming years.

We have to work hard in 2022, but the seeds have been planted and I'm sure that these trees will grow and flourish in coming years and we'll be able to have a very good harvest as the projects mature.

And now I will turn the floor over to Kaka for him to talk about the financials of the company.

Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}

Thank you, Rafael. Good morning, everyone. Now I would like to go over some details and results based on numbers. Some important events that we have observed in this first quarter of '22. First, I would like to highlight this larger sales of MRV&CO, in the first quarter, we had another sale of AHS product of BRL240 million.

There was some question about recurrence of results in the US subsidiary. In the last six quarters, five of them we had sales in the US operations. So if you transport this space that we've seen in the US. We had Oak Enclave with the VGV of 600 PSV of 684 million. We sold another portfolio of MRV and the first operation of its kind, which is selling portfolio for Urba.

Urba is even more significant than MRV in this quarter, given the size of the operation. We're able to place more than BRL100 million in the cash of Urba, our development company. And this is very important for Urba because we have an aggressive plan ahead, so these sale of platform of portfolio will be very important to consolidate the segment and to fund a large portion of the future growth of the company.

On the page number three of the release, we have a chart that shows how Urba is becoming more relevant in our results. It had a CAGR of 78% in its sales volume in 2019 and towards 2022. And in addition to its large potential growth, this operation has a high gross margin, close to 40%, and an excellent demand, more plots of land.

Now talking about AHS, also on page six of release, we have a growth of the sales volume of AHS. We had a gross volume of 60% in the period. We have 65 million in construction, which is a significant figure, but when compared to AHS, 12,000 units and that was $4 billion in VGV, PSV.

Now we can consider the Q&A session open.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Mr. Gustavo Cambauva from BTG Pactual has a question.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hello. Good morning, everyone. I have two questions. The first is whether you could comment a bit on the Brazil operation? What do you imagine to have in terms of launch volume for this year both in terms of volume, maybe this difficulty in operating in CVA program will reduce the volume of launches this year, and also the mix of products, because we've seen that the other lines of business SBPA, Urba and Luggo are gaining more share when compared to CVA. Does this -- will this continue and/or this improvement -- this recent improvement in the program will make you look at CVA more carefully. And my other question is about the sales of receivables portfolio. What are you envisaging in terms of recurrence of the sales? Because you have a high amount of -- large volume of portfolio there could be, so to help the company invest in other lines of business. So I would like to know whether it's possible to structure this type of sale to have it happen every quarter or is something specific? How much more sales of receivables could we expect for the rest of the year? Thank you.

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

This is, Gustavo, Fischer speaking. Thank you for your question. The first question, I'll answer and then Kaka will answer the second one about portfolio. Well launches in CVA in the first quarter were lower in fact and that does not affect our strategy for the year 2022. We have been more selective in launches aiming at better margins and we also have a challenge of cash generation. So we are balancing the launches to the demand that doesn't affect our figures for 2022. Another aspect to be consider is that, that many launches we made in sales we made are in cities where we are close to the limit of the program and we migrated some of these sales to SBP naturally as the prices increased. So the mix distribution may make you think that CVA is decreasing. But this is not the case. Our goal for the year has not changed. And you may remember that we have been making an effort recently to migrate the products to the essential line. It has increased the number of launches and this line has will always be part of the program. So our strategy doesn't change looking forward. What changes is the mix. What we used to call core business in the first is no longer the core. Core is now this platform that we have. So we will see more growth in SBPE, in Urba and AHS as well as Luggo, but that does not affect the strategy of launches of CVA. Especially if in fact the plan is reviewed, the CVA program is reviewed, which is the everyone's sentiment that it will happen because the program is performing lower than expected. So there is money in excess of FGTS program for subsidies. So our strategy towards the program doesn't change. Now Kaka will answer the other question.

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

Hello. We had a pro-soluto sales of 40 million, now 66, our own portfolio was not pro-soluto was a Flex portfolio. Of course we fund the customer directly and the first quarter '22 and for MRV we have a recurrent plan to sell receivables. Right now we're working on an operation of -- in the transaction of a large amount of receivables to be sold. It's maybe I don't know if it's going to be recurring like every quarter, but our goal is for the trade receivables not to grow throughout the year. Since we're providing more credit facilities or credit lines to customers, we need to do this type of transaction to leverage the company et cetera. So in the second quarter will be around 200 million, 300 million in sales of pro-soluto portfolio again. As for Urba, it was the first time we're able to pack receivable of Urba to sell BRL100 million and for Urba we could think of a recurring transaction every quarter. As we sell and have more receivables we'll pack them and sell them to the market and tell the market about it. So that's the reality of the company from now on. This type of transaction will be more often recurrent of transaction. In the second quarter, we will have something for MRV and then to the end of the year another transaction.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay, great. Thank you for the answers. Have a good day.

Operator

The next question comes from Bruno Mendonca from Bradesco BBI.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Good morning. Thank you for the presentation. I have two questions. I'd like to start talking about land. The fitting of lands to new projects, the projects that the in terms of -- with this volume of launches you've plan to have from now on to what extent can you guarantee that this new launches are not deriving from the desired margin with the land bank you have in-house or will it depend on higher prices? For the second quarter, do you have something significant in order to have a margin that so different from what's been reported maybe some different types, some processes that are different or different material to deliver such better margins. And the second question is about cash burn. For Brazil, we've had two last quarters with a strong cash burn in advancing the purchase of materials, but probably you have delayed receivables from cash. The truth is, we don't have visibility for normalization of the supply chain, materials et cetera. So this question will be limited to Brazil. We can talk about AHS later, but I would first like to hear about Brazil. Thank you.

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

Bruno, this is Fischer speaking. I'll answer the first question and have Kaka answer the cash management question. Land bank, the way we build the land bank tends to protect us in terms of margin. First, we work with a swap. So the cost is linked to the price of the apartment. So you are somehow protected. Another part of the land is paid cash. So if there is a condition in which the price is not adjusted, we're naturally protected. In some situations the paid cash where it is adjusted for inflation, we're going back and negotiating the terms again. So on the land bank side, I don't see any problems. The main point when you -- in terms of margin formation is the price. So we are making an effort to review prices and raise prices. We've been able to do this quite well. And the market has responded in an interesting way, as Rafael mentioned, in the beginning competition is decreasing, so except for Sao Paulo, what we have seen Brazil worldwide is that the market is decreasing in the program, which helps us in terms of pricing. Because the supplies are clearly smaller. So being able to raise prices without affecting the liquidity. This causes current launches to happen at the margin that are considerably high that explains your question. Yeah, that's an answer to your question. We have a margin that captures all that supply of sales -- or the amount of sales made in 2020 and 2021 at a condition that's different, costs that are different. Now pricing is much higher and we're able to launch at much better margins than we are reporting now. So overall this is what's happening. Kaka will answer the second question.

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

Well in terms of cash burn, we have 30%, 35% generates a certain cash and the margin of 19%, 20% generates a different cash. So the first relevant point is to say that while our margins are tighter, cash generation will be naturally smaller. But even so it should converge to net income. So why is it not converging to net income today. We have had an increase in accounts receivable that we are trying to remedy by selling the portfolio and selling future sales of portfolio will provide better cash balance. Another point is this inventory of raw materials. We've seen a lack of supply recently, but that has been solved, but we continue to see pressure for increase in the price of raw materials. So this strategy of keeping high inventory levels is making sense so far. And the other important point is for example Luggo. Logo burned cash in the first quarter. So it's natural because at a high growth rate to cash -- to burn cash until the developments are ready, but we do have a good expectation of sales of two developments with receipts from Luggo in the second quarter. So it will go from a cash burn to a cash source of cash in the second quarter. So as we are able to recover margins that will help to generate cash as well.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Okay. Great. If I could make a follow-up in terms of land bank that Fischer mentioned in the beginning. There are two topics that caught my attention. There are some indexation to IPCA and the contracts of land, this been negotiated, how much could that affect the margin from now on? And Fischer if you could provide more color in the swaps, if you are working with a percentage of PSV, it will be locked, right? So if I'm not -- if I'm understanding it correctly, the material remains more expensive. So you're renegotiating that or on average the land and as a percentage of final result after materials? So I'm talking about the lands that are already in-house in the land bank?

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

Okay, Bruno. So let's start from the beginning. Some indicators -- we do have some inflation indicators in land bank. This has been reviewed when IPCA started to go up and inflation. We started reviewing the new contracts and new contracts are very well protected against that. And we do -- we did go back to negotiations in reviewing for old contracts. So this is not a problem and we've been able to negotiate -- renegotiate them. The feasibility cause in the contract protects us from launching projects in a situation that some favorable for the company. So that's not an issue. In terms of the exchanges or swaps we make most of them in a financial basis or in that case, the owner of the land receives a percentage of the PSV. That's the standard approach. So these loss of margin could happen in terms of cost and maturity dates. But that's not a problem because we -- it's an operational issue that we work with prices and since prices have been raised more than costs have increased margin is growing. So that's not a problem. I hope I have answered your question.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Great. Thank you very much.

Operator

The next question is from Andre Mazini from Citibank.

Q - Andre Mazini {BIO 20377100 <GO>}

Good morning, everyone. Thank you for the call. The first question is about AHS, the US market. It's really a hot market. In Florida, we hear anecdotes of growth of 40% year-on-year. A lot of migration to the Sunbelt area, but maybe the financial market things are not so warm. (inaudible) other peers have had a sell off 30%, 40% this year. So, of course, you want to capitalize, but in terms of valuation, you post almost $700 million for AHS and these companies that I mentioned and the market average has reached 1.6 times the book, six months ago, now it's much lower. So what do you imagine? Of course (inaudible) growing a lot. So capitalization would come at a very good multiple 1.5 or 2. On the other hand, as we mentioned, the sell off is going on at 600 bps, so BIPs. So and Brazil has fallen by half in terms of units produced and number of players. Since you are in many cities, 160, that changed the dynamics when the -- in Sao Paulo with a lot of competition and demand and an average town has half the players that we had at the peak of the program of My House, My Life program. So you are in around 60 or 70 towns in this new scenario of the program?

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

Okay. Andrea. Good morning. First regarding -- just when we disclosed the transaction in the beginning of '20, our business plan assumed the gross margin of 28%, making 5,000 units per year. What has happened since then, you are right, the real estate pressure especially in the Florida market has caused rentals to raise to increase 30%. Will that happen again in the future? No, it's not very likely, because there will be balanced. So supply will go up more than the demand and then rental prices may go back to historical levels or grow less, but the fact is that the gross margin of the company today has been above 45%. In a country with the cost of capital that is very low and reminding that the sales expenses are very low, because transaction is a B2B transaction. So the sales fee is much lower then this causes the final return of AHS to be exclusive at higher -- very high levels. So we don't have in the business plan, the gross margin of 45%, but it could be 38% or 30%. Yes, so we will certainly have a gross margin in the next two to three years, much higher than it was presented in the business plan of the company. And today when we buy a new plot of land we don't make the pro forma imagining a new increase in rental prices above inflation. Especially in Florida, Andrea, we stress the pro forma to have a more conservative scenario. And we have seen that even with the stress test, profitability has been above the one we had forecasted in our business plan. As for the capitalization, we've seen a good demand, the operation is very -- has been very good assessed. And very well assessed then we in the next 90 to 120 days we have a very good multiple in terms of NAV. I cannot speak of evaluation, because the competition, the competitive process is taking place right now. So above a -- a little bit above $1 billion that there is no business on our side. So the basic figure or the lower figures will be close to 2 billion. This is -- I cannot say that this is what we seek, but above 1 billion. We don't make business. There is no deal. So we do have a very good expectation and we have a post money of 20%. We can bring very good capital to AHS and mark in assets that today's worth zero then it's when it's marked to market that asset will have an overall value that's more than the whole value of MRV today. So this lack of visibility is damaging the value of MRVE3 and there will be a price adjustment when even in the although in the Brazilian market, the margins are tighter. So in terms of AHS this is what I had to say. Now for Brazil what you said is true. The program has lost speed, lost very quickly in the most of the towns we're present competition is much lower when compared to, let's say, one year ago. Competition has decreased very quickly. Of course there are differences from town to town. And that's the beauty of being present in 100 more than 100 towns in Brazil. We can be more aggressive in some markets in terms of launches and sales prices. And other prices that are markets that are more competitive, but certainly less than they were last year or one year ago. We can be more selective. So with the capillarity we have with our land bank of almost 300,000 units for the CVA program. We can accelerate more in some regions of Brazil and be more conservative in other towns. Looking always at the margin scenario, we want to correct this level of gross margin of the company as soon as possible and we will launch -- we'll not launch a product with a low gross margin from the future on.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you very much. It's very clear.

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

Thank you, Andrea. It was a pleasure.

Operator

The next question is Ygor Altero from XP.

Q - Ygor Altero {BIO 21419045 <GO>}

Hello, everyone. Good morning. Thank you for the presentation. I have two questions. The first is about the program. You've seen adjustments in the subsidy account. I would like to understand what will be the necessary adjustment for you to have a healthier gross margin. That's the first question. And the second is, how do you see delinquency especially in the pro-soluto portfolio with a more challenging scenario? Thank you.

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

Hello, Ygor. This is Fischer. Let me answer about the program. We've mentioned some times now. When you look at the figure since the second half of last year, the decrease in the program was much higher. There are some markets and for several reasons there are fewer markets, the affordability has decreased. Many markets raised prices due to the same strategy that we have. So low income population cannot afford anymore. So that's the consequence. For the first time there is excess of funds and FGTS for subsidies. Of course the government looks at that, understand the dynamics and reacts to that. We've seen some transactions, some conversations of our associates with the government are taking place and there is a sign that something will be done about it. We do not know exactly what will happen, but probably some more of the same changing the curve of subsidies, increasing subsidies and the interest rates brackets of the program, but also the change to help the population that earns two to five minimum wages and this is what the conversation has been about. In my point of view, it won't, it shouldn't take very long, because month after month, competition is decreasing and new contracts also decreasing. It's hard to provide a figure, but I strongly believe that this should happen in relatively short period of time. So, in the next months, it's likely that we'll have a new curve based on what I have seen in terms of discussions in the government. Now Kaka will answer the other question.

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

Ygor, what we have noticed in terms of delinquency is that it has worsened a bit in the last -- end of last year beginning of this year, the number of payments on time has decreased. It's a marginal decrease. Nothing significant. I think this is only natural given the high inflation rates that we've seen and it's important to point out that we made the adjustments after provisions based on this new reality. It was a small adjustment. Maybe it was not enough to call your attention. But yeah throughout this year when you have higher adjustments to the salaries of the population, the income may increase a bit and that could help us go back to a more normal situation. But MRV remains at a very healthy level and according to our provisions in accordance with our provisions.

Q - Ygor Altero {BIO 21419045 <GO>}

Thank you, Fischer, and thank you, Kaka.

Operator

The next question is from Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning, everyone. I have two questions. First, I would like to know if you could comment on transfers. We've seen that some companies have tried to decelerate the number of transfers either to get more inflation or maybe cash the change of subsidies. In your case has this been a factor that impacted the cash burn in this quarter? And the second question is about sales over supply. You've mentioned that the growth of margin you've been able to transfer some low income units. Has this impacted the sales over supply this below 15% in the first quarter, can this go back to the 30% margin?

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

Hello Motta. This is Rafael speaking. In terms of sales over supply, we continue to pool prices in April to increase prices by 2% and the result is very similar to the months of the first quarter. So we did not observe any reduction of sales over supply. Of course we would like to have a higher speed, a faster speed, but it is known that the low income population cannot afford purchases. Inflation has corroded the purchasing power of low income population. So it's important to make adjustments to the program. Eduardo answered in the previous question that the program in this last eight months has been delivering half of what it used to deliver that is related to this new levels of prices of the industry when compared to the purchasing power of the low income population of Brazil. So our strategy will be to gradually increase prices. The SOS is average. It's not bad. But it's not very good either. So today margin is a priority in terms when compared to SOS. And I now will leave the second question for Ricardo to answer.

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

Okay. In terms of transfers what we actually see is that we had a good pace of transfers. We're able to transfer units 15 days after sales. And that's a natural transfer. A good portion of sales are closed at the end of March and we are not able to transfer them within the quarter, but it's a continuous cycle. So the transfers in March we're going -- are -- been done in April as usual and the contracts with some companies, I remember what I was going to say, we have the issue of companies. Today we only have the money -- received the money after the companies are registered. So there is a cycle issue. It has had some impact on transactions from the previous quarter. Now the rule is effective.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay, perfect. Thank you, Rafael and Kaka.

Operator

(Operator Instructions) Next question is from Fanny Oreng from Santander.

Q - Fanny Oreng Avino

Good morning, everyone. Thank you for the question. You mentioned that the margin of products being sold to CVAs around 23%. I'd like to understand what's the margin of launches. First, to have an idea of future margins. I understand where you have years, but just for us to know the launch, the current launches, what are the margins? And about Urba is the second question. You reminded us about Urba's outlooks. Could you give us an update of how the operation is evolving? What are margins like? What are the expectations? And other update of these operation. That's it. Thank you.

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

Good morning, Fanny. Well, more important than speaking of the margin of launches is to speak about margins of sales that happened in January, February, March and April. We sell launches product that has been launched one year ago. So sales prices of new launches and sales prices of products launched one year ago have increased. We've been trying to increase prices above in current inflation rates to recover the margins. And this is why we disclosed for these -- for the first time these previous indicator. So our expectation of future inflation is something that is already in our balance sheet since the quarterly statements is a mix of several seasons of sales in the last two or three years. Of course, the impact of sales of the quarter is small, but as time goes by, we expect that it is piling up of these seasons with better margins will provide a better margin for the future. I said that I believe in the beginning, the margin of April is close to 25% and our target is to reach a margin for new sales. So the margin after month close to 30%. When we reach that level, we'll have return on ROI that's very interesting. Given that the cost of operation is around 18%. SG&A and some other expenses plus financial expenses. Income tax that is about 2%. All of that will amount to 18%, 19%. So we have to have gross margin above 30% to have ROI that is a good compensation on cap remuneration on capital. This is what we're working for in terms of margin of new sales. As for your second question, could you repeat it please?

Q - Fanny Oreng Avino

The second question was about Urba. If you could give us some more color on the development of the operation, you expect a very good high growth for this year. Just some colors on Urba's update?

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

Fanny we try to take the company to the market or in August 2020 Urba -- we had a business plan back then. Urba sold 1,000 lots in 2019. We had a business plan to have the company selling 15,000 lots per year. But since then the companies doubled in size. It has doubled its size from 2021 when compared to 2019 and again in 2021. So it's very likely that it will also double its size in 2022. So this growth -- exponential growth curve is happening. 2023, we have raw material to make many more launches. Then we'll probably do in 2022 or 2020 and it's delivering very good profitability close to 40% in a very low competition scenario. It's still an industry that is not as mature as the development industry of apartments and we are operating in towns and markets that we know very well with a strong brand with a developments with an average ticket, that's very interesting when compared to the quality of the product delivered. So more and more the brand Urba has been recognized in the market as a differentiated product with a very good value for money, with a very high urban development quality. So we are sure that urban will play a very important role at MRV&CO. And we have high technology, high capacity to grant credit and differently from the industry we're able to study the receivables of this portfolio. And it's very healthy. So Urba is a company that makes developments that are very different from other companies in the market and I'm sure that it will be able to grow with capital without the need for MRV&CO to fund the company for its growth. So I personally see a bright future for Urba in coming years.

Q - Fanny Oreng Avino

Thank you very much for your answer.

Operator

(Operator Instructions) This ends the Q&A session. I would like to call the CEO of the company and Eduardo Fischer for his final remarks.

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

Well, thank you all for attending this call. Once again I would like to have a final remarks that are important. What has changed for us in this last quarter is the fact that we now report these previous indicator, which is the margin of new sales on a monthly basis. This is an important figure for us. As a spirit in the company we try to look at future scenarios and bring it to the present always. This margin has an interesting feature because we consider future cost, but not future prices. So as our growth strategy continues, margins can be improved. So this is what we're working for. So I'm very confident that the initiatives taken within the business unit of Brazil are very important and we are at a turning point now and we'll be able to see these figures improvement in the future, given everything we've been doing, especially in terms of pricing. Another important point. We talked a lot about AHS, Urba and Luggo. MRV today does not have the core business. Our core business is a platform is what we do in the different initiatives that are in the -- we have initiatives that not compete with each other. AHS has high level executives working there. Urba also has high level executives as well as Luggo. So we have separate business units managed in a integrated way with MRV, but with their own management. So this allows us to grow and to capture this huge housing potential in Brazil and not only Brazil, but as well as in the United States as well. And we are very confident that our strategy to create a housing platform has been paid off very much. And as the CVA program improves in Brazil, the results of these company created by MRV&CO will grow more and more, and this is a company that has conditions to deliver growth and profitability in the future. This is what we have designed and we are very confident that we're taking the steps in the right direction. So thank you all for attending and we will see you again. Hope to see you again in the next call. Thank you.

Operator

The conference call of MRV has now ended. We thank you all for attending and have a good day.