# Q1 2020 Earnings Call

## Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive Officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer
- Ricardo Pinto Paixao Rodrigues, Chief Financial and Investor Relations Officer
- Victor Tapia Migliorin, Banco Bradesco BBI

## Other Participants

- Alex Ferraz
- Andre Chaves Mazini
- Bruno Mendonca
- Gustavo Cambauva
- Jorel Guilloty
- Marcelo Motta
- Nicole Inui

## Presentation

### Operator

Ladies and gentlemen, good morning. Thanks for standing-by, and welcome to the conference call for analysts and investors of MRV about the earnings of the first quarter 2020. Today, with us are Rafael Menin; and Eduardo Fischer; and CFO and IR Officer, Ricardo Paixao. (Operator Instructions)

Now, I'm going to turn the call over to the CEO, Mr.Rafael Menin. Please, Mr.Menin, you may go on.

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

Good morning, everyone and thanks for attending another conference call for the first quarter of 2020. I'm going to start talking about COVID, which I think, is the hot topic of the moment. And I'm going to talk about the actions that we have implemented in the company since the beginning of this pandemic. MRV had strong and quick actions in the first two to three weeks. The main discussion was focused on ensuring the safety of our company employees.

Today, the company has more than 200 constructions ongoing also sales offices and stores throughout Brazil in addition to 20 offices in the whole of the country. So we are talking about approximately 600 sites in which we had to implement a war system so to speak again, very fast just to ensure that our employees and customers be them on the construction sites, stores or offices would have the best working conditions that would preserve the health of everyone.

And until now the work has proved to be right. We have not had any important intercurrence. We implemented telemedicine that has helped us a lot. We just put away people that are in the risk groups, employees that go to any of the 600 worksites have been trained with robust training, we'll use hand sanitizers, explanatory material. So I believe that MRV did a very good job and so far, in almost three months of pandemic, we were able to have quite good performance with regard to the health of our people.

Another important point is that MRV has always been a company that practices good citizenship sustainability in the society, in which it is inserted. And so worth mentioning our denominator -- donations that we made together with the Intergroup blog and the family as well, taking active part in donations in the amount of BRL17 million. All together, all the initiatives that we have had so far. A company of our size cannot go through a period like this without contributing actively. And I have no doubts that similar initiatives will continue to be supported by MRV in the coming months.

Another very important project was do not fire project. Six years ago, we signed a project to ensure employability of our team and the last 60 days, we have not fired anyone. And what we expect from now on is to keep our operating structure, our team, very close to the size that we have today. The second important point is that we did have a concern in the beginning of this crisis about what kind of impact we would have on the size of our operation in terms of sales. How many construction offices sites would be closed. But so far, we were able to perform very well.

We had a record first quarter in terms of sales. And April and May continue to show very good commercial performance. So the company decided to be a bit more aggressive commercially. Affecting a bit of its margins, but having an asset turnover faster that at some point, will affect the return and cash generation of the company.

In the first quarter, we were not able to transfer a good volume, Caixa Economica Federal bank at first had some operating difficulties and we also had the issue of the OGU that was settled. This is very important, and that enabled us as of March to have a very good volume of transfers. We saw that in April and May with healthy transfers and that we hope with the additional measures already announced by Caixa, June will be even a better month. So that was a decision of the company's management with the support of the board of directors.

Let's of pay more attention to asset turnover and sales volumes and to the detriment of company margins. Another very important point is the company digital platform, we have being investing quite heavily on digital networks and the investment proved to be a win. In this moment where people are in their homes, it is harder, but for people to go to stores, many stores are closed and MRV platform did so be it is a competitive difference. And I'm -- I have no doubts in the future, we are going to have a digital explosion in society.

Digital is going to be more and more important and MRV advanced its important investments in the digital agenda in recent years and so this year, and again that proved to be a win. I have no doubt that we are and will be at a level that is quite different from the remainder of the market.

Another point to be highlighted is that, our industry the housing industry. Again, I have no doubt of the importance of your own home, and in the post-crisis it's going to be even more important and our sector will certainly be a winner in the post-COVID.

We know of the demand in Brazil, Brazil is a country that unfortunately has millions of people living in unsuitable conditions, and we know how important it is that to have your own home to fight against the main social problems that we have in Brazil. So MRV is in the right industry, the right market and within the market in the correct segment that is the first economic housings.

Again, to highlight is the purchase of AHS, a very important movement to us. And I can say that MRV today has the most complete housing platform in the western world. In Brazil, we work with salaries from BRL10,000 to BRL12,000 in the premium line that is in improving every year. Luggo that is a different rental structure and now AHS, a company that works in a similar model than Luggo in the American market and in that for next quarters and years will experience very important growth.

Even the housing is also a problem in the U.S., a country with 300 million inhabitants with high immigration levels, a young population. So again growing quite importantly, and in a time where income is reduced and there is higher insecurity towards the future of economy rental seems to be quite resilient in the U.S. market. AHS numbers show that in older undertakings vacancy close to zero, and in the ones that we are starting now, the rental volumes have been showing quite strong, either because people are afraid of buying a house, or because people had to migrate to a cheaper model. So, AHS has proved itself just as MRV as a very resilient company, that is going to be a winner in the years to come.

So, I'm quite optimistic. We are investing in the company in its digital agenda, diversification of funding products and countries. So that will make MRV become indeed the most protected company the most resilient company with the most encompassing platform in the western world. So, I think there are lots of very nice things for us to do in the coming years and I have no questions, our team will deliver surprising results from now on.

I'm going to turn the call over now to Ricardo Paixao to make another -- some other highlights.



**Ricardo Pinto Paixao Rodrigues** {BIO 22108148 <GO>}

Well, thanks Rafael. First of all, I would like to wish you all a good day. I would like to highlight that in the cash structure strategy, the company capture raise BRL450 with BRL250 in the fine intending to construction for mid-March to date. The net debt over PL left us at a comfortable level of 24% and our debt covenant improved from BRL756 to BRL752. Important to mention the MRV has construction funding for all, I say all its construction size BRL2.7 billion. We will share as the necessary resources for us to complete the construction of all units that were launched and still not sold.

Net income had impact of two events that are important to the highlight. A drop in financial expenses, because of the marking to market of the financial funds an impact of BRL4 million in the second half of March. Because these are investments with low credit risk, that should be carried into maturity. We do not expect real losses in the profitability of these assets.

The second is the increase of BRL10 million in the provision for net debt to reflect a potential increase of default rates, because of delinquency, because of more severe economic conditions. We decided to increase our bad debt provision, even not finding an increase in delicacy so far, that impacts net income and gross margin. There was also a reduction of inventory of property to be sold that has not reflected the cash of the third quarter, given the transfers that we had in the quarter.

My final comment is about AHS we are very happy to consolidate the results of AHS for February and March in our quarter. In this first consolidation we're able to release after the period we are used to, but we are going to pick up next releases. Basically, in the release you have the status of each project we are very excited with the future of this company that has 21 plots of land with a potential of construction of almost 9,000 units and $1.7 billion in PSV, for works with 721 units under construction and an investment of $225 million. We very soon expect to recycle these assets as soon as the market comes back to normal. Thank you very much.



# Questions And Answers

## Operator

(Question And Answer)

Thank you. We will now start the Q&A session. (Operator Instructions) Our first question comes from Gustavo Cambauva from BTG Pactual.

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

Hello. Good morning, everyone. I have 2 questions. The first, Rafael did mention in his opening a bit of your strategy of having a bit of discount to improve asset turnover. My question is that at the end of the day, it's obvious that you want to reduce inventory levels and receivables, how much is funded to customers? My question is, do you see an optimal level of inventory that you are targeting? What is the level that you want to stabilize inventory to eventually increase prices. And the same applies to funding to customers, both before the delivery of keys and after. Do you have any estimate how much this portfolio would go down as a consequence of this strategy of slightly reducing prices?

My second question has to do with your provisions. You did mention that somehow you were advancing yourselves to any potential delinquency? My question is, what do you see in terms of delinquency in the last 2 months that are not in the results until March. But now basically, based on what you had in April and May, do you think the provision is suitable? Do you think you have to have an increase eventually in provisions? So what are you observing in the past 2 months? These are my questions. Thank you very much.

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

Well, this is Fischer speaking. Good morning. Okay. I'm going to start from your question number one, discounts. Well, first, it's important for us to contextualize the answer. 2 months ago, when the crisis was just starting, we had a major concern of how the market would behave in the future in terms of sale of properties, the capacity of people buying, having the courage to close a deal that was a big question mark to all of us. And at that point we decided to ensure what was more important to be commercially aggressive, to keep the company running at the level we were. So that was a first decision.

From then on, we started to realize, as Rafael mentioned, that with everything that we built a long time, our brand, our digital platform at times like this, an investment, you know that people are making for life, makes brands even more important. And we clearly saw that. And so we had this commercial aggressiveness. And then little by little, we started to calibrate as the market reacted.

As we mentioned at first, we had a more aggressive movement with undertakings or developments that we already finished, completed, thinking of cash generation and inventory. And as the market moved, we started to analyze site-by-site develop-by-development and even retroceded some levels of discounts, obviously, looking into each specific situations.

To answer your question, objectively, we want an optimal level of inventory of 12 months. Of course, again, that varies from situation to situation because it depends on my capacity to replenish that city, those stores because if I'm just going to replenish later, I can calibrate prices better and try to match the development of a construction to the price that I want.

And then to answer your second question or the second part of your question, with regard to our portfolio, well, what did we do? As we granted more discounts in some developments, we immediately reduced the portfolio that we have for those clients. So this commercial aggressiveness on the one hand, came with a lower branding of portfolio. So what do I see in MRV, what happened in April and is happening in May is a reduction of the granted portfolio because of this movement that we did as a counter-movement. So everything done with much responsibility for us at the end of the day, not to cause a problem for the future. So we are quite confident we are moving intelligently to preserve our value.

And with regard to provision, Kaka mentioned in his opening that our May maturity generally happens at the 10th of each month. So when we took a look at the movements of April and May, we did not detect an increase of delinquency that would be relevant. In the beginning -- at the end of March, a client did ask for a larger grace period and discount. We did not follow the movement. And in fact, delinquency had a very, very small effect. But we are in the eye of the typhoon. We are in the middle of a crisis. So looking forward and being conservative as we always are, we decided to take the step, as Ricardo mentioned, to also be protected. And objectively speaking, I do not see that we are going to have an increase. I think that we are, yes, adequate to the moment that we are living. I don't see anything new from now on. I hope I have answered your 2 questions.

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

Yes, quite clear Eduardo. Thank you very much.

## Operator

Our next question comes from Alex Ferraz from Itau BBA.

## Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Rafael, Ricardo, and Fischer. I have 2 questions. The first is a follow-up of the first question with regard to your commercial strategy. If you could break down the level of discount a little better because when you see the margin of the quarter, you just get 15 days. There is a reduction of 100 bps all together. So are we talking about a margin of discount that's close to 28% or is it lower than this, just to have a bit color in terms of what kind of discounts you're going to have in your units for the second quarter.

The second question about your cash, the impacts that we saw in the first quarter are very clear, we had that bit of mismatch of sales and transfers that you said now you're back to normal everything is running smoothly. Can you think of resuming cash generation in the second quarter that is the transfers that were stopped are going to flow into your balance sheet?

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

Good morning, Alex. For your first question commercial strategy, indeed the month of March we were a bit more aggressive than we were in April and May and you are correct. It's just 3 weeks of a greater aggressiveness that's hurt to the margin of the quarter, but as of the month of April, we felt that the market was surprising us positively, so we were a bit more conservative in discount. But anyhow, you're going to have three months in the quarter, where we are keeping our discount policy.

So, the gross margins, I do not see a reason for the margin to be lower than the margin of the first quarter. So, from now on we expect margin in the second, third, and fourth quarters that is similar to the first unless we have a negative surprise in terms of sales volumes. And then perhaps, we'll have to be even a bit more aggressive in terms of discount. But if everything that we see in terms of people coming to us and conversion of sales is kept, we expect similar margins for the next three quarters, that is the second, third and fourth quarter of 2020.

As for cash what happens in the last four or five quarters, we have been producing more than what we are transferring, and then our backlog grew and therefore it affected our cash generation, our accounts receivable was a bit better in this quarter. But as of now, the movement should be inverse, we are seeing a very healthy level of sales, cash operating quite well, transfers going smoothly.

So naturally, I think that we are going back to cash generation. That is more comfortable, I don't know. I cannot say if we are going to generate cash in the second quarter because the quarter hasn't finished. But naturally when the production volume is close to the volume of transfers. It is expected that the company resumes its cash generation. Okay?

## Q - Alex Ferraz {BIO 19294308 <GO>}

Yes, it's quite clear. Thank you very much.

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

Okay, Alex.

## Operator

Our next question comes from Victor Tapia from Bradesco BBI

## A - Victor Tapia Migliorin

Good morning, everyone. About the first point, I would like to talk to you about -- about AHS is about the projects that you have. What is the time you expect for stabilization that is for you to get to a stable level of rental? And also in the release, you say that you expect the next developments. So, even better results in one of the tables, you show the sales that you had in the assets of 2018, 2019 and you talk about 4.6.

I would like to understand the rationale of this 4.6? What do you see a compression in this future sale of these assets? I would like to understand exactly your idea about that. How do you see sales for these assets? And the other point, when we see the line of other expenses, we see almost minus BRL30 million and when you see you have other expenses within other expenses and also with a very high amount almost 19 million, 20 million.

In previous years you had much lower amounts so, I would like to understand a bit better what you have this -- what you have in this lineup other expenses within other expenses?

## A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Hi Victor. Good morning. This is Ricardo speaking. Well first with regard to AHS, the projects that we have now we estimate a time from 4 to 6 months for the projects should be at an optimal level of maturity with occupancy rates above 95%. So what we see, even the launches that we had and the projects that are for rental during the pandemic are following the flow that we had expected.

So they are showing resilience. So 4 to 6 months would be from now on would be a reasonable period for us to think up for this projects to become mature. When you talk about better results of a chance, we have to talk about two things. First is the yield on cost. AHS is started now working with aluminum molds so, we are already including MRV know-how in AHS constructions. And with that, we do expect a significant improvement in construction costs for AHS, which will make their financial results better.

What we did about this rate that you mentioned was a simulation not mentioned a fixed amount. This is a cap rate of 5.1, some can be 5 -- 4.9, but it is basically what we see and 5.6, we made a correlation with 10-year interest rates of the U.S. market. There was a drop in the interest rate and therefore, we lowered also this rate. As, for the other expenses within the line of other operating expenses, I will have to get back to you later on. I don't have the numbers now, but I will call you back and I will let you know exactly what this is.

## A - Victor Tapia Migliorin

Okay. Perfect. Can I just have a quick follow-up still about AHS? So, this level of G&A that you have here if you take a look at the first quarter this level of G&A would support up to what year of growth of AHS?

## A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

The current level of G&A of AHS. Well, right now we are in a movement of structuring AHS. So we should have a small increase of G&A compared to what the company is going to grow, the company is going to grow much more than its G&A. But now we are structuring, we opened new offices, so we are in a phase of structuring the operation.

## A - Victor Tapia Migliorin

Okay. Great Ricardo. Thank you very much.

## Operator

Our next question comes from Nicole Inui from Bank of America.

## Q - Nicole Inui {BIO 17757166 <GO>}

Thanks, good morning for the call. I have first one question about the behavior of sales in the cities that are starting to open. I don't know if it is too early, but I would like to know about conversion and if, in the cities, you believe you're going to doing better and also about the launches. There are several bottlenecks, I suppose for launches now. When things reopen what can we think in terms of resuming launches given that the demand for low income has been quite resilient? Thank you very much.

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

Hi, Nicole, this is Fischer. Okay. First question. Well indeed in terms of sales, we never stop selling and I have well did put it very well in the opening for two years we have been working on a digital sales platform, that as a coincidence we had started operations in a pilot project in Belo Horizonte, a month before the pandemic and we had the rollout of the project throughout Brazil.

So, despite we had 50% of our sales stands working restricted -- restrictively the sales impact didn't come as we mentioned at first, because we did create alternatives for consumers to buy differently, in our case digitally. An interesting to say, we did have a growth of our sales force, that was quite representative in the last 90 days. As our sales force was allocated in other companies that were very much impacted by the pandemic, the sales force migrated to us somehow, which even reinforced our commercial team.

So the reflects of our strong sales in the first quarter, and that continue at a very good pace in the second quarter is the result of a robust sales platform, and even stronger sales force and that gave us support for our volumes to continue growing, despite some cities being more or less closed. Launches. Well, indeed launches are a concern differently from others we -- it do depend on the government for legalization.

What we have for the second quarter is a stronger launch volume than the first quarter, we had an inventory of units to be launched that enabled us to have this buffer to be able to continue launching in important cities, and we are going to use that but from here on this is a topic that we have to study a bit further because some city administrations are so imposing remote work -- work from home and restricted movement for people.

Anyway, for the second quarter, we don't see that and in important cities we already have inventory that will enable us to have a good third quarter. But perhaps this is a point for us to watch out for as the pandemic continues. I hope I have answered your question.

## Q - Nicole Inui {BIO 17757166 <GO>}

Yes, it's clear. Just a follow up then maybe I'm not getting it right. So sales are strong, demand is strong, so why are you offering discounts?

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

If demand is good, why are you offering a discount? Okay, Nicole. So what do we see? We even broke this down in the release our lease went up compared to last year. So, people are looking for a property, but they are hesitating more to close the deal. Home has become an important thing in the midst of a pandemic, our brand helps us a lot. But we are still in a crisis and people hesitate more to close the deal.

So this commercial aggressiveness is to capture those people that are a bit more hesitating to buy. And therefore, converged more sales and therefore transfers. So, that is the rationale behind our strategy.

## Q - Nicole Inui {BIO 17757166 <GO>}

Okay. Thank you very much.

## Operator

Our next question comes from Andre Mazini from Citibank. Andre Mazini your line is open.

## Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Can you hear me now?

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

Yes.

## Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Hi, Fischer, Kaka, Rafael. I have a first question about the real estate consortium. I read something, the media talked about a new partnership of MRV with InterBank. And, that you would have 12% in the credit letter. I would like to understand this percentage, who is accounting for that? Is it part of the Minha Casa Minha Vida program?

And, if you could talk, what is the consortium book, how much sales through the consortium? And, if that can be even more representative for the future? That's the first question.

The second question about AHS. You did mention that, you are having the aluminum molds, it's going to be more efficient. So, the gross margin for you to get to this 4.6%. How long do you think, we should see a even better gross margins? And what would be the optimal level first to think about?

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

Hi, Andre. As for the consortium, we've launched the platform a few days ago. It's hard to quantify, what the size of it is going to be? But obviously, it's new funding to irrigate our business. The consortium customer profile is different. We had almost BRL2 million sales in three, four days but we cannot quantify it's hard to estimate, what the importance of the consortium can be within our business.

But it is an interesting measure of course, as for discounts we choose a list of developments, selected units, and the discount granted by MRV is 5%. And those that are managing the construction are also granting discounts. So altogether, the buyer of the credit letter has a 12% discount. As for AHS, we cannot talk about gross margin up 6% because AHS has a sales model in the first quarter.

The revenue that went through the balance sheet was rental revenue. Ricardo has just mentioned that AHS is expanding SG&A so that we can buy land, have geographic expansion, move on with the construction, manage properties. So, AHS naturally has low results, but as soon as we recycle the properties, that are already stable of this 1,000 some units, we had an end up to $220 million to $250 million, and then we are going to calculate the gross margin of the operation.

It is healthy, I would say even above the gross margin of Luggo, but you cannot see AHS balance sheet in the quarter. You have to have maybe a longer period, perhaps the whole year of 2020. And if we are able to have sales within this year, and when I say if we are able, it's just -- think of the optimum point of profitability how the capitals U.S. market is going to behave here in the third, fourth, quarter 2020 or eventually the first quarter of '21.

So we are going to have the sale when we believe it's the right time, and then we will be able to measure the gross margin of the company and we may be very positively surprised in the consolidation of AHS numbers in MRV, this is something that you and this will have to look into a bit more carefully in terms of launched units, completion of work, developments for rental and development blocks every -- from time to time we recycle them and then you have very strong results with the exchange rate at 5.4.

The results are going to be even better. Remember, that the exchange rate was 4.10 or 4.8 if I'm not mistaken. Now, it's 5.4. So, when we consolidate the results of property sales, it's a lot of money. So, when you think about ramp-up to get to 5,000 units a year then you're talking about annual sales of BRL5 billion, BRL6 billion. So, we hope AHS in the coming years to be a source of important results for MRV.

## Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Okay. Perfect Rafa. Just a follow-up, I remembered that the two developments that you sold Crystal Lake and Dania Beach. One was for high-income individuals and the second, I don't remember who it was. Would it make sense for you to have a structure like Luggo see in Brazil? And that these developments would be sold in a structure like this because then you would have a bit more predictability in terms of the development. Do you think you could consider that?

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

Yes, we don't rule out any possibility, the American market is quite mature. So the definition of caps per location per type of property, it's a well-established market with well-established parameters so transactions are a lot more fluid. So we can sell to funds, we can sell to REIT, we can have a repo of AHS so, everything is possible.

I think the most important is our capacity of being a verticalized company generate assets of a mid-core of 7.0%, 7.5%, and it's an area of low global interest rates. So this contraction of cap brings important gains when we make the sale, so it's a huge market really gigantic, several ways for us to recycle the assets. So today our concern is much more in buying the right land, gaining efficiency in production, having cheaper and faster construction work, and knowing that the rental market is giant, growing, and resilient.

Our concern is much more for AHS operation buy and produce cheap, the other brand or sell properties, it's not a bottleneck. So, we are quite optimistic about AHS and I have no doubts, it's going to be very important for MRV, in the years to come.

## Q - Andre Chaves Mazini {BIO 20818108 <GO>}

Okay. Thank you, Rafa. Good morning.

## Operator

Our next question comes from Marcelo Motta from JP Morgan.

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

Good morning, everyone. I have 2 quick questions. The first is the outlook for the production of units in the first quarter. In addition, to having more construction sites that were impacted, you had the range so, if you could divide these two impacts and if we can expect in the second quarter a significant improvement in the level of production and a consequent impact on revenues and also you talked a bit of gain of market share for real estate buyer.

But also investment companies that are having difficulties, approvals that are a bit slower. So, I would like to know your mindset with regards to that.

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

Okay, this is Fischer. Well, indeed in the beginning of the crisis several cities mobilized and preventively prevented production, closed down some construction sites. We had a bit more than 20% of our construction stopped, this number today as you saw in the release is about 6%. But basically some states of the Northeast and the South and Southeast we are operating normally. So that's the impact of about 6% of our units that are still stopped.

As for opportunities, indeed there's something that we did not mention since the beginning of the crisis. We had a task force to be able to capture opportunities that come from the crisis. We were able to have very important renegotiations with our landbank. Postponing payments, but also renegotiating amounts and also, we are able to have very good negotiations with suppliers. So these two task forces were implemented on practically day one of the crisis more specifically in Sao Paulo and we're able to go through our whole base of suppliers, landbank, and we're able to close very good deals that will obviously reflect on our production in the coming months and quarters.

As for partnerships, I do not see this as an opportunity, partnerships always pose risks, especially if you don't know your partner. So this is not an alternative in our radar. But we think the market is going to be a bit more concentrated, that is smaller players that have a bit more difficulty, because of the level of debt, level of formality to reach better lines of credit brands that are not as strong, I see an increase in terms of concentration of our markets and obviously when this happens, we are able to capture market share and we are also looking into that, so that's it.



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

Okay. Thank you very much.

## Operator

Bruno you have your line open. Hello, can you hear me?

## Q - Bruno Mendonca {BIO 16313094 <GO>}

I was on mute. I'm sorry. Good morning, everyone. Thanks, for your questions. I think much has been answered. So, I have a bit of a qualitative question, as so to speak. It really catches my attention, the differences of speech between the low-income people or segments with the high-income segment. It seems that sales are more resilient in low income. Do you know why? Do you have an explanation for that? Do you think it's the standing of cash?

Everybody has complimenting them a lot. But, the grace period for consumers and do you see any risk of deceleration of this when we go past the pandemic, so this is one question. And the second with regards to government relations. Do you have any program or any initiative, any new Minha Casa Minha Vida something different from what we have today? Can you talk about that?

## A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Okay. Bruno, this is Ricardo speaking. Okay, first low-income vis-a-vis middle and high. We saw similar behavior in the credits of 15, 16 that are important factors here. First is the rational decision of a purpose, generally, middle high-income people are having an upgrade. They are moving to a larger apartment to a better neighborhood.

And most of our sales is thus first purchase, the purchase of the first property. Another thing that we realized is something that we could talk about quality because we offer a better product with better finishing. But also, we offer a better quality of operations more safety to customers. Right now customers are more concerned about buying something that they know they will receive and when. Then, risking buying something cheaper from an informal player, other players without knowing what they will get. So, this is what we see. And, this point of having the home as an even more important thing in the lives of people.

So, we have realized that those, that already had the means to buy their house, and we're not doing for some reason, are rethinking that. And, seeing that they can live in a more dignifying better way. And therefore, we see that low-income properties are even being more looked up to. Conversations with the government continue constant, the only thing that has changed that now everything is through video conference. And the main point about the government to hit resume the segment is Minha Casa Minha Vida the new program with reduction of interest rates and bringing more people and increasing the purchasing power of consumers.

## Q - Bruno Mendonca {BIO 16313094 <GO>}

Okay. Thank you very much.

## Operator

Our next question comes from Jorel Guilloty from Morgan Stanley.

## Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning, everyone. I'm a bit late for the call. And I thank you for taking my question. I would like to understand the dynamics of increasing bad debt. First. What is the implied delinquency in the bad debt reserve? And second. Could you explain the dynamics that led you to make the decision to make this provision? And second. I'd like to know if you think your bad debt provision is going to increase from now on? That's it.

## A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Okay, this is Ricardo speaking. We did talk about bad debt already. But, in a nutshell, that's what it is. We so have not noticed an increase of the bad dept. In March, nothing. Even in April-May, the increase that we had was little significant.

But, we preferred to have a projection that is a bit more conservative. And, with that, we increase our bad debt provision about BRL10 million. Think, that we might have some bottleneck or a bit tougher economic scenario for the future. So from what we see now, this is what we have. There is no reason for us to increase our provision. If the number May increase, well, it always can depend on the severity of the crisis and how long it will last. And then we might have an impact but we also can have a smaller impact. We are talking about provision, so we are not sure of numbers. What we are doing is basically having our best estimate for the bad debt levels that we see for the future.

## Q - Jorel Guilloty {BIO 18291521 <GO>}

Okay. Thank you very much.

## Operator

(Operator Instructions) Our next question comes from Gustavo Cambauva from BTG Pactual.

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

Hi. I still have two more questions. The first is with the acquisition of land-based on your release. I had a bit of an impression may be that you gave some signals that your landbank is at a suitable size now. So first I would like to know if I am correct on that and if so, what should we expect in terms of new acquisitions would it be a just to replenish the landbank, or do you think it would make sense to increase it a bit or maybe even reduce it?

Could you work with a bit lower landbank? And my second question is with regard to the banks. Your payout was a bit higher in recent years. And, leverage is a bit higher now. Even AHS is a more specific business because it is likely different. But, we still have to consolidate the leverage of AHS, and it's going to be even higher than your historical levels. So, I would like -- how you see dividend payout from now on? And, at what level of leverage you would like to have the company? Thank you.

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

Hi, Gustavo, this is Fischer speaking. As for landbank. We've said that many times, the landbank we were at a point of replenishment. It's a quite robust landbank, of course, there are investments that are necessary especially new lines. More specifically in SBPE and Luggo, but when you look at the other side of the operation our landbank is very healthy and sizable.

So basically, in terms of investments, we would be replenishing the landbank, and it would be more or less at the level that we see. Just by the investments in SBPE and Luggo, we have an excess of landbank in some areas, and we are going to get to a level of just normal turnover. Dividends, we expect in December to have a payout. Of course, that we have to respect our cash.

We have always had a payout of dividends. We want to keep that. If the reality does not change and what we see today on May 29, with regard to sales, transfer, and production, we will probably continue to have the same payout. Obviously, we are going to have the forecast for the remainder of the year. We don't know what's going to happen now, it's good to be a bit conservative. But, MRV is a company that pays out dividends recurrently. So, that is our goal.

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

Okay. Fisher. This 24% of debt on equity. Is it more or less what you are expecting? Because in the past it was a bit lower about 10%. Does it make to think of a bit more deleveraging from now on?

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

I don't think so. What we had in the beginning of 2019 onwards and you saw that and you follow them. And all the hiccups that we had in transfer since the beginning of January '19, did affect our cash generation.

You see the number of units built vis-a-vis transferred, I mean you know it happened, but MRV business generates cash naturally and Rafael mention that we had transfers in April that are back to normal, May normal. Adjustments that had to be made were made so, from now on we see a company that is going back to MRV ordinary levels, which is cash generation. And, therefore we should not increase our leverage.

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

Yes, I understand but when you look at consolidated numbers, AHS leverage you look separately. It does not interfere in the capacity of MRV to pay out dividends. Is that what you're saying?

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

Cambauva that's the thing. Today we look AHS separately. When you get AHS debt, it has three types of debt. Corporates, that is very small and then two more representative debts which is the permanent low, which is the funding of the project per se.

Once it is completed, and then it is the construction financing. So what we see, as you finish construction and sell all the permanent lower portion will no longer exist, because we will finish constructing and then we'll sell the properties. So, those permanent low also has very interesting characteristics. The guarantee of this debt is nothing but the receivables and the property per se. So, it's a non-recursive debt. It cannot go up to AHS or to MRV. So, this is an interesting characteristic of this debt, that is interesting to share with you.

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

Okay. Thank you very much. Good morning.

## Operator

We are now closing the Q&A session. And we invite Eduardo Fischer, MRV's CEO for his final remarks. Please, Mr.Fischer. You may go on.

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

Well, just to reinforce some points, where we are all very concerned about what would happen. But once again, the market shows how our business has very strong pillars with growing demand, although with a bit more difficulty in conversion, a very strong demand. So today in the end of May, I'm much more confident than I was 2 months ago.

But I think that once again, MRV is going to be able to leave the crisis better than it started. And I think this is an important point. And also, I would like to mention, the role of cash, as Bruno mentioned, that was very important. Cash was quick, it helped to give more safety for our clients. So, this role was quite relevant and should be mentioned at this point.

And the third and even more relevant perhaps is again to highlight, how many alternatives we created a long time of different fundings. There was always a concern on our dependence on Workers Compensation Funds. But, if you look at MRV portfolio what we are building, instead of Workers Compensation Fund, we have SBPE with a drop of interest rates is going to be even more relevant and interesting.

Luggo and AHS in a model that is also different funding from these two. Luggo is nothing else but a source of funding to us and now that the consortium that we also have a funding structure that can be quite representative in our base with very interesting rates. And then, when you look at the whole spectrum what we have been building in the last two years and that will have a very important impact for the future, is that we have an operation that can get to different customers and different fundings, consortiums, Workers Compensation Funds, savings accounts.

So, we have a really high breadth of operation. So, this company has a high capacity with lower and lower risks. So, these are important topics that we would like to bring to the table. So, thank you very much, and see you next quarter.

FINAL

## Operator

MRV conference call is now closed. We thank you very much for joining us and wish you a good day.



Bloomberg Transcript