

## Q1 2018 Earnings Call

### Company Participants

- Miguel Mickelberg, Finance Director
- Paulo Eduardo Gonçalves, Investor Relations Director
- Raphael Abba Horn, Co-Chief Executive Officer

### Other Participants

- Enrico Trotta, Analyst
- Jorel Guilloty, Analyst
- Luis Stacchini, Analyst
- Victor Tapia, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Welcome to Cyrela Brazil Realty's Conference Call, where we'll discuss the First Quarter of 2018 Earnings Results. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. As a reminder, this conference is being recorded, and the audio will be available at the company's website at [www.cyrela.com.br/ri](http://www.cyrela.com.br/ri).

This call is being simultaneously translated into English and is being broadcast over the Internet. Questions can also be asked by participants connected abroad. The earnings release published yesterday, May 10, after the close of B3 trading session can also be accessed on the company's website.

Before proceeding, we would like to mention that forward-looking statements that may be made during this conference call relating to the company's business prospect and forecasts and operating targets related to its financial growth potential are predictions based on management's expectations about the future of Cyrela. These expectations are highly dependent on domestic market conditions, the general economic performance of the country and international markets, and therefore are subject to change.

With us today are Mr. Raphael Horn, Co-CEO; Mr. Paulo Eduardo Gonçalves, our IRO & Structured Finance Director; and Mr. Miguel Mickelberg, CFO.

I will now turn the conference over to Mr. Raphael Horn. Mr. Horn, you may now begin.

**Raphael Abba Horn** {BIO 19714328 <GO>}

FINAL

Good morning. The beginning of 2018 has shown that, although inflation and basic interest rates remain low and saving accounts began to grow again, some factors such as unemployment have been preventing our sector from recovering more quickly. As we approach the elections, our local scenario becomes more and more volatile. Still the worst phase of the most of your economic crisis Brazil has seen in the past decade seems to be over. We believe that the basic interest rate low as it is and we'll contribute to this economy, improved savings accounts and increased credit.

In April, some banks announced a reduction in interest rates on real estate loans. However, further reductions are necessary for sectors to recover in a more solid way. The main highlight of the quarter was once again, Cyrela's major cash generation, which confronts the company's strategy of adjusting its capital structure and promoting returns to our shareholders in the medium-term.

To that end, on May 2, our board approved to the distribution of BRL 200 million in interim dividend, equals to BRL 0.52 per share to be paid in July 2. The company's net sales were a highlight too, totaling BRL 613 billion in 1Q 2018, an 18.3% increase year-on-year caused mainly by a drop in cancellation.

Now, we'll comment on our operating results. On slide 5, we can see Cyrela's launches. In 1Q 2018, we launched BRL 434 million, 29% less year-on-year. We launched six new products: two in São Paulo; two in Rio de Janeiro; one in the Midwest and one in the city of Campinas. Excluding swaps, the volume launched in Cyrela's share in 1Q 2018 was BRL 252 million, down by 53% year-on-year. The company's share in the volume launched in 1Q 2018 was 60% compared to 88% year-on-year.

On slide 6, we can see Medplex Campinas launched in late March. Over 60% of its units have already been sold.

On slide 7, we'll talk about our sales performance. In 1Q 2018, pre-sales were BRL 613 million, 18% higher than the BRL 520 million in 1Q 2017. Excluding swaps, pre-sales in 1Q 2018 were BRL 379 million, 2% higher year-on-year. The states of São Paulo and Rio jointly accounted for 91% of our sales in the quarter.

On slide 8, we'll address sales speed. The company's annual SOS was 35% compared to 29% year-on-year and 34% quarter-on-quarter. Looking at sales speed by period, projects launched in 1Q 2018 have been 29% sold.

On slide 9, we'll address Cyrela's total inventory. At the end of 1Q 2018, inventory end market value totaled BRL 5.93 million, down by 4.3% quarter-on-quarter. The change in our inventory can be seen in the chart on the right.

On slide 10, there is a breakdown of our finished units. In 1Q 2018, the number of finished units remained virtually the same. We are aware of how important this matter is for the company, and we'll keep on focusing on our efforts on these products. Rio and Northeast region account for a 30% of the finished units, a 3% reduction quarter-on-quarter.

On slide 11, you can see our delivered units. We delivered six projects totaling 3,500 units. Units delivered in 1Q 2018 accounted for a PSV of BRL 1 billion, 4.7% or lower year-on-year.

I'll turn the floor over to Mr. Paulo who will present our financial results.

## Paulo Eduardo Gonçalves

Thank you, Raphael. Good morning. On slide 13, we present our financial results.

In order to make the different periods comparable, all figures of previous periods are pro forma and MAC's numbers have been accounted for through the equity method. Additionally, in 1Q 2018, Cyrela adopted the CPC 48 or IFRS 9 to meet accounting standards and practices with NOL arranged (00:06:54) for credit risk. Such change had a negative effect on shareholders equity for the period ended December 2017 in the amount of BRL 196 million.

In 1Q 2018, parts of such allowance was used with the positive impact of BRL 41 million on the result for the quarter. Gross revenue was BRL 464 million in 1Q 2018, down by 29% year-on-year and 44% lower quarter-on-quarter.

Gross income in the 1Q 2018 was BRL 125 million, down by 37% year-on-year and 43% lower quarter-on-quarter. In 1Q 2018, the results were affected by extraordinary items such as the cancelation of the purchase of a land slot in Brasília, repair cost in the Northeast; and the adoption of IFRS 9 as mentioned previously. The company's net margin was a negative 11.4% and we have losses amounting to BRL 51 million.

Please go to slide 14 to see our profitability. In 1Q 2018, our return on equity measured as the net income of the past 12 months over the average shareholders' equity was a negative 2.6% and our EPS falls to a negative BRL 0.13 per share.

On slide 15, we'll talk about our customers' financial solutions. In 1Q 2018 transfer, trust of deed and payoffs amounted to BRL 744 million, 16% higher quarter-on-quarter and similar to 1Q 2017. Considering units, transfers, trust of deed and payoffs totaled 3,500 units 25% higher quarter-on-quarter and 8% higher year-on-year.

Slide 16 shows the company's cash generation. In 1Q 2018, our cash generation was BRL 184 million versus BRL 245 million quarter-on-quarter and BRL 118 million year-on-year.

On slide 18 (sic) [slide 17] (00:09:21), you can see our debt. Gross debt at the end of the quarter was BRL 2.1 billion. The cash position was BRL 1.1 billion thus our net debt was BRL 1 billion. 55% of the gross debt are related to loans for construction and 41% is long-term. Our net debt over equity ratio was 16.8%, 2.6% lower quarter-on-quarter.

We will now begin the question-and-answer session. Thank you.

FINAL

Bloomberg Transcript

## Q&A

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Mr. Guilherme Mendes with JPMorgan. Mr. Enrico Trotta with Itaú BBA would like to ask a question.

#### Q - Enrico Trotta {BIO 16742911 <GO>}

Hello. Good morning, Raphael and Paulo. I have two questions. The first one is about the non-recurring effect of landbank cancellations. The impact of that was relatively large. I would like to know a little bit more about the rationale behind that. I'd like to know why the impact was so large. And also, if you believe that you're going to cancel to terminate a contract that you have to purchase a land plot in the country.

And the second question is, I would like to know more about launches in the second quarter. And I would like to know a little bit more about the updated situation. You know that we have a meeting next week to talk about it. So, I would like to know a little bit more about your expectations about that. Do you think that they are going to see some positive results next week?

#### A - Raphael Abba Horn {BIO 19714328 <GO>}

Good morning, Enrico. This is Raphael. About the land plot in Brasília, it was a no land plot. I believe that it was purchased in 2010 or 2011, I don't remember. It was actually an obligation that we had and the time when buy and the market deteriorated and we were able to talk to confect the owner and wage for the market to get better to recover. So, we had two options there, we should launch a project that or we should terminate the agreement. After we did the math, it became obvious that it would be more profitable to cancel the agreement. It would be better for us to lose that money than launching a project that we were not to certain about. So, it was a mathematical issue. It would be cheaper for us to do that than to allocate capital to develop a project there.

I believe that in terms of landbank, we believe that we are going to see some similar effects in the second quarter, but I wouldn't say that this business is going to become recurrent. We may have something like that in the next quarter, but it's a one-off situation. I believe that's clear. If you need more clarification, please let me know.

Now, when it comes to launches in the second quarter, the numbers in the first quarter have already been affected by the protocol rights. Even though we may have a favorable decision in the coming weeks, we have already seen the impacts. We couldn't approve some projects. You'll have to resume our operations, so we have already seen some impacts. If the decision is not favorable, I believe that in the second quarter, we are going to see some results similar to the ones that we had in the first quarter. Now, when it comes to forecast for next week, I believe that we are hopeful and we really hope that the decision will be favorable to us. We believe that the sector as a whole will be able to sustain the rights that we acquired previously. We are fairly excited, but it's not up to us really.

**Q - Enrico Trotta** {BIO 16742911 <GO>}

Okay, Raphael. I don't know what was the PSV of the project in Brasília?

**A - Raphael Abba Horn** {BIO 19714328 <GO>}

The PSV was BRL 13,000 square meters times 14, it would be around BRL 160 million, and the construction would consume BRL 70 million, BRL 80 million. So, we believe that it wouldn't be profitable for us to allocate capital in that project. It would be worse than losing the amount that we lost.

**Q - Enrico Trotta** {BIO 16742911 <GO>}

Yes. That makes sense. Thank you very much, Raphael.

**Operator**

Excuse me, Mr. Luis Stacchini with Credit Suisse would like to ask a question.

**Q - Luis Stacchini** {BIO 18717891 <GO>}

Good morning. Thank you for the presentation. I have two questions too. Raphael said something about the improvement that we have seen in terms of interest rates, but I would like to know your opinion about the dynamics in terms of demand after the reduction of interest rates by the bank. I would like to know if you are already seeing that positive impact gradually, and what should be done so that we can see a more solid operation.

And the second question is about dividends distribution. I would like to know your strategy when it comes to accelerating distribution. What are you going to use as a benchmark? Is there a leverage that we can consider here? It would make sense to announce dividend, anything that you could tell me about that would be very interesting. Thank you very much.

**A - Raphael Abba Horn** {BIO 19714328 <GO>}

Good morning, Luis. This is Raphael. Now when it comes to demand, our impression is that the situation is better. I believe that after the three tough years that we have things are recovering now. The usual pattern is to grow every year. And now after years of dropping, we stopped dropping. The results are now stable. In real we have seen larger demand. I believe that in São Paulo it happened some quarters before. I believe that the worst part of the crisis is over. Now, we're going to see a slow and gradual recovery.

Now when it comes to the interest rates; honestly, even though we have seen a drop in interest rates, they are still not ideal. The customers that got loans from banks, they have better interest rates than the ones that the banks are using now. We would like to see a sharper job for the customers, but the situation is better in new way.

But the main aspect about demand is that the customers know that Brazil is more stable and that we are going to start growing again. So they are more confident. But I wouldn't say interest rates are the main factor in this scenario, at least not so far. And of course,

the competition is very limited, that's why interest rates are not dropping so sharply. But we've had a soft scenario in the past quarters and the past years.

## A - Paulo Eduardo Gonçalves

This is Paulo. I'm going to answer your question about these events. Not much has changed from what we mentioned in the previous quarter. We are generating cash strongly. So, you don't have to worry about that, and some debts have their maturity dates this year. So, I believe that our situation is very good with the banks. If we are able to meet our plan, we can start thinking about additional dividends in the second quarter.

The company has sufficient cash and receivables to pay all of its obligations in the next quarters. So, as we finish our debts, we can start thinking about a second round of distribution of dividends. And in the second half of the year, this distribution is going to be much larger.

## Q - Luis Stacchini {BIO 18717891 <GO>}

Okay. Thank you very much.

## Operator

Excuse me, we have a question from Jorel Guilloty with Morgan Stanley.

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

Good afternoon. Good morning. I would like to know if you could be more specific about what caused the sharp drop year-on-year. I know that it is related to constructions, but it is slower than related to constructions, but it is lower than what you expected in the beginning of the year and do you believe that that is going to continue for the rest of the year? And the second question is about sales in Rio de Janeiro. I'd like to know more about the sales of units in general and the finished units as well.

## A - Miguel Mickelberg {BIO 20023910 <GO>}

Hello. I'm going to answer your question about revenue. Our revenue dropped more sharply in this quarter, and it was expected. Actually, we had many deliveries in this last quarter of last year and the deliveries are going to be very concentrated until June. That's why we are not accelerating the deliveries now in the constructions. We believe that the revenue is going to be large during the next quarter. And our sales in the first quarter of 2018 year-on-year in Cyrela's share, the numbers were very similar. Since our margin was smaller, the revenue was smaller as well, but we believe that the revenue is going to start growing again as the year goes by.

## A - Raphael Abba Horn {BIO 19714328 <GO>}

Hello. This is Raphael. Our impression is that Rio de Janeiro is recovering as well. Things are going to get better from now on. Of course, it is a slow and gradual process, but we believe and that's just a belief, we really have to wait and see what happens. So, we

believe that Rio is going to start improving. So, yes. I believe that we are fairly excited and confident that our numbers will stop dropping in Rio de Janeiro.

## Operator

Mr. Victor Tapia from Bradesco has a question.

### Q - Victor Tapia {BIO 20566083 <GO>}

Good morning. The first point I would like to ask about is IFRS 9, and I would like to understand a little bit more about the impact of that allowance. Why was it so large? I believe that the real estate that you sell, I believe that they are collateralized by other real estate, right?

And the second point is related to landbank. I believe that you have a relatively large landbank inventory, but when we look at São Paulo, that number is smaller. So, I would like to know if you are going to increase the number of land slots in São Paulo or if you are going to keep on focusing in São Paulo on distributing dividends in the second half of the year.

### A - Miguel Mickelberg {BIO 20023910 <GO>}

Good morning, Victor. This is Miguel. Now, when it comes to IFRS 9, the allowance that we had amounts to BRL 8 million. So, a smaller part of that allowance was an addition of BRL 196 million. We took into account the profile of the customers, we took into account our history, our background in similar projects to calculate the percentage of cancellations and then we made an allowance for each type of product. In the first quarter 2018, we used part of that allowance with an impact of BRL 40 million, and we also saw an impact from the number of cancellations in the period.

### A - Raphael Abba Horn {BIO 19714328 <GO>}

Good morning, Victor. Answering your question about dividends and landbank, I believe that we have already announced our intentions for the next quarters and years, but nothing has changed. We have a strong footprint in São Paulo, but we want to distribute dividends as we announced. So, I believe that nothing has changed really, and we are working hard to deliver what we promised what we would deliver. So, nothing has changed.

### Q - Victor Tapia {BIO 20566083 <GO>}

Okay. Thank you very much.

## Operator

Thank you.

FINAL

Bloomberg Transcript

FINAL

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

Bloomberg Transcript