

Q3 2021 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazza, Chief Financial Officer, Investor Relations Officer, Member of the Executive Board
- Pedro Tadeu Teixeira Lourenco, IR Manager

Presentation

Operator

Good morning, one and all and welcome to EZTEC's results presentation for Third Quarter of 2021. Please note that this call is being recorded and that all participants are in listening-only mode. By the end of this presentation, we will begin a Q&A session when further instruction will be given. (Operator Instructions). You may find that link or and ID as well as all the slides for this presentation at our website ir.eztec.com.br.

Before we start, we'd like to mention that any statements during this call pertaining to EZTEC's business projections, operational and financial targets are based on management's beliefs and premises, as well as on currently available information. Future considerations do not constitute an assurance of performance, they evolve risks, uncertainties and premises. Investors may take into account that general economic conditions, industry or operational circumstances may ultimately affect EZTEC's future performance. They may cause the company results to differ materially from those expressed in those forward statements.

Now, I would like to pass it to Mr. Emilio Fugazza, EZTEC's CFO and Investor Relations Officer who will get us started. Please Mr. Emilio you may go on.

Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Good morning, everyone. Thank you very much for being here our conference call for the third quarter 2021. The main highlight for this quarter is about the launches 2021, subject that Mr. Pedro will say a little bit more about that.

Pedro Tadeu Teixeira Lourenco {BIO 21824082 <GO>}

Thank you Emilio. Talking about lunches, during the nine months of 2021, EZTEC announced the lunches of 4 projects beside the city of Sao Paulo. In the first quarter, we launched ID Paraiso, a project of BRL28 million in PSV focuses on smart living units in Aclimacao. In the second quarter, we launched Dream View Sky Resort, and it is a finished project. The first one is a middle income project with BRL253 million in PSV, located in Vila Prudente that was launched as soon as the sales stands were reopened in April during the COVID situation. The second one was announced in the last day of the quarter, it is a

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high-income project of BRL675 million in PSV, and we believe that this project will become a new icon for the city of Sao Paulo and is located in Paraiso besides the IBM tower. In the third quarter, we launched the Arkadio project, another high-income project in the Brooklin neighbor with BRL460 million in PSV.

If you move to the next slide, we will talk about our operational performance and you'll be able to see that the launching sales as well as the construction sales became the most relevant component on the total volume of the third quarter of 2021. This fact is due into the lower-volume performing units available, which had a higher demand in the previous quarter. The main reason for the increment of the construction of the sales of performing units that you see in the previous quarter was during the inflation index, the INCC that is making clients more likely to make agreements with a preference to index than being exposed to the construction place. For this quarter, cancellations dropped to BRL32 million, with a 33% rate of vacated customers. About 33% of this volume refers to downgrades, upgrades or unit that were transferred, that is also linked to proportions of another unit or even the transfer of balance already paid unit for another property under finance.

In the next slide, you'll be able to see how we've composed our landbank. Without new acquisitions, the PSV is maintained by adjustment in the price assumption due to inflation. As the company is already (inaudible) with raw material and we're talking here about lands for this stage of the cycle, we are -- we were no -- there were no relevant acquisition in the third quarter of 2021. So we finalized the quarter with a landbank position close to the previous one. As you can see in the chart in the bottom right, the majority of this landbank is well located in premium zones in the city of Sao Paulo. The main things of our residential landbank, it is equivalent to more than three years of launches, if we believe that launches would be something close to BRL2.5 billion. The sum of this PSV for the company, residential land stands at approximately BRL7.4 billion as the date of this release. This brings comfort to the company as it's improved it -- as it removes the (inaudible) to make new acquisition to buy new lands.

If we go to the next slide where we're going to talk about the inventory map. You'll be able to see an increment in the volume of our inventory that is attached to launch or under reconstruction units, especially when we're talking and we're looking to the south zone of Sao Paulo where the company has made the majority of the recent launches. On the operational aspects, the delivery deliveries of the projects are marking the end of the most vulnerable delivery cycle experience so far by the company. By the way, completed this quarter -- the company completed this quarter 358 units with a total PSV of BRL330 million, of which are more than 90% are sold. Indeed, the volume of ready inventory is concentrated in the south zone with this -- majority of this inventory is commercial inventory. The majority of our ready inventory is located in (inaudible). The volume of the finished residential inventory (inaudible) represent less than 11% of the company's total stock and should only increase by the end of 2023, when the product that were launched in the last two years will be concluded.

In the next slide, we will talk about the future launches of the company. And we can see that we're putting all of our efforts preparing the launches, new launches for the next months. As you can see, we have three new launches. In the bottom is a massive project

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for the (inaudible) compliant, near to the Rodovia dos Bandeirantes that is very similar to Cidade Maia project that was launched in Guarulhos in 2012. But this one is inside the city of Sao Paulo and it comes with 885 units and a total PSV of BRL716 million. At the top of this slide, there is two smaller projects with an estimated PSV of BRL158 million and BRL45 million. The first one is In Design and it is a med-high project with 150 units located in Ipiranga. Pin Osasco in the right is a project of a middle -- for middle income with 702 units that is located in Sao Paulo region metropolitan area, more specifically in Osasco.

Now, I will pass the word to Mr.Emilio Fugazza to comment on the company's financial results. Please, Emilio, you can go forward

Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Pedro, thank you so much. Hello, everyone again. Let's start talking about financial performance on the slide number 8. The top left chart, talking about net revenues, net revenues remained flat compared to the second quarter in 2021 from BRL289 million has to BRL298 million this third quarter. The good news of the bright side of this number is the majority of the amount of these revenues are coming from the projects under construction. Projects that we have already started the construction with good sales. There is only one project, I would say, we started recognizing revenues here, which was Dream View Sky Resort, Vila Prudente, after six months we launched the project.

And in this specific quarter, the amount of revenue is coming from performing units are lower than the previous quarters. On chart in the top right of this is slide, gross profit and gross margin. This is one of the bright moments of this conference call and this (inaudible) which means that gross margin achieved 50% in the third quarter since the bottoms of the cycle, which was in fourth quarter 2020 with -- of around 40%. This (inaudible) margins, these incremental margins, they happened is specifically because of three main themes. The first one is the because of INCC, INCC's inflation adjusting the receivables, our fourth quarter of receivables units under construction.

Let me remind you that adjusted in the portfolio, we have something around 5% within three months of INCC. And on average, regular client and ordinary clients has been (inaudible) to the company, something around the 35% on average of the total amount of the price within the construction time for our company. Because of this 65% on average of the whole amount of receivables are adjusted by INCC without the counterpart of the costs. And that's why we have this gap. This -- I would say, this month being open in terms of margins since the fourth quarter 2020. The second factor is about the units perform. The units ready to leave that we have been selling. We are talking about units, for instance, in the (inaudible), which is the majority of the (inaudible) of our company. And on average, the gross margin of these units is more than 50%. But let me add one important matter that is the projects we have been delivering in the third quarter 2021, we delivered three projects and on average those projects came in with savings of 2.75% of the budget booked, at the moment we launched the project adjusted buying inflation, which means that only produced an incremental 4 percentage points comparing second quarter 2021 to third quarter.

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Business selling expenses had an expense I think that this flat compared to the second quarter and the volume of expenses targeting publicity and sales standard more cap we have to do for launching the project was something around BRL11 million this quarter. And we hope these whole expenses, meaning something around 4% of the total amount of gross sales, we got this (inaudible) on average we are talking about something around 4% the whole year. G&A expenses amounted BRL29 million in the third quarter, something flat compared to the second quarter 2021. My personal opinion is that we are running this company in terms of G&A of about something around BRL120 million of G&A expenses, given the two last quarter of expenses. This is mostly due to the increment to people we hired to support the incremental operations in our company, and eventually some adjustments in payrolls we had to do.

Moving on to Slide number 9. It's important to understand a little bit on top left for chart the financial result. As we have been watching in the last I would say four quarters, the volume of financial result is pretty high compared to the total amount of results coming from our company. This is mostly due to the fact that we have a huge amount of portfolio receivable, so receivables that are provided by financing the client. So instead of the clients searching for mortgages coming from commercial banks here in Brazil, they take the idea to keep the contracts with our company coming from the shareholders equity of our company. So that is the majority of the result of BRL43 million.

Apart from this, 1/4 of these amount results are coming from the cash equivalent of our company, this amount of money nowadays that it is to the amount of net cash position we got, which is of around BRL1 billion, (inaudible) something around 100% based on CDI. CDI in the next three quarters, (inaudible) in the third quarter 2021 was something around 1.5% and that represented something about BRL12 million of financial results added to the portfolio of portfolio receivables.

Equity income of results, the final results coming from the projects we got in partnerships, projects both Minha Casa Minha Vida project, low end or even in the high income classes. The majority of this BRL21 million result is coming from the projects (inaudible) middle-income project in the city, of course, also has to do with metropolitan region of Sao Paulo. This is the last phase of a bigger project called Jardins do Brasil, a project of -- a project itself of something around 700 units, very well sources, and with the budgets completely on track.

Finally, talking about net income. Net income in the bottom left of this slide came in at BRL145 million with a net launch of 49%. The bright side of this (inaudible) was that the majority of these results, this outcome is coming from the operational side. So we got good results from the operational side since the last quarter with an improvement in operational margins too that is important to mention.

And finally, results to be recognized for me is one of the most important things when we talk about financial performance because it's higher outlook of the future gross margin we are going to get from our company. As you can see since the third quarter 2020, we remained flat over 45% to 44%, which means that even accounting on these incremental costs or this huge or complicated time, we have been living here in terms of cost inflation for all sector given the fact that we are -- we can, I would say, increase the prices. And so -

- and selling (inaudible) we could see or we can see the margins at the same level as before.

On Page number 10, talking about a little bit more deeply about the portfolio of performing units, (inaudible). At the end of nine months 2021, we see BRL421 million from the start 2021 of the BRL509 million, a decrement of about BRL80 million. This is -- the majority of this is because the amount of maintenance in advance or the migration from our portfolio to the commercial banks in the last nine months was higher or huger compared to the new and origination we could see. In terms of the units, you can see something around 1,200 units in finance advising that compared to beginning of this year something around 1,600 units being financed by our company.

In terms of foreclosure, this is the bright side of these figures. You can see something around the BRL23 million this year, representing something around the 33 units compared to 27 units last year. I can say bright side for this is (inaudible) because the IGP, which is the main index, inflation index adjusting this portfolio was something around 30% in the last 12 months. So 30% is huge enough to provoke a very, I would say, three key moments to the clients in order to keep up with the results. And what we saw was huge effort coming from them to migrate from our office to the banks in order to keep without the delinquency so far.

On Page 11, I would like to highlight the performance of Fit Casa. Fit casa is our brand to low-end segments Minha Casa Minha Vida segments. Minha Casa Minha Vida are project that on average we have been selling for BRL200,000 per unit, something like that in the city of Sao Paulo and also in the metropolitan region of Sao Paulo.

On top left you can see a chart providing net profit and gross margin. In third quarter 2021 you can see BRL18 million of net profits and the operational side can show you 53% of gross margin. On the right side of this slide, on the top right side chart, the same chart can provide you nine months 2021, the total amount of net profit, the outcome provided by Fit Casa was BRL43 million. Let me remind that we're not talking about for that five projects under construction and are being delivered, and on average a gross margin of 50%. Return on equity all in came at 18% more than on average days (inaudible).

Let me remind you guys that as in the last week, this weekend, sorry, we delivered 500 piece to 500 clients for our very first project, delivering (inaudible), which was Fit Casa (inaudible) is a kind of project that we ended up with a gross margin above 50% a very I would say successful projects for EZTEC. And only to remind you, given this project we saw that with an amount of gross sales no more than 24% and we reached by the end of this project something around 94%. A project that we delivered much more than the expectancy from our clients in terms of finishing, in terms timeline, in terms of quality of the project itself. So that's why we have been counting on selling Fit Casa with better prices and trying to get better margins for the whole project.

Finally on the slide on page number 12. I would like to highlight the balance sheet, the tax balance sheet. On the right side of this slide you can see BRL4.5 billion of shareholders equity. BRL5.5 billion means that now we are running this company on average 12% return

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on equity. We'd like to show you more. It's our expectancy. It's our outlook to see these improving, specifically because the volume of the projects launched, the volume of the sales of that so far to date, we are going to see without any kind of new sales, we are going to see more recognition of revenues coming forwards. In terms of assets, the main highlights I would say, the 25% of these equity is about cash, BRL1 billion in cash this company. From this cash, 60% of this cash is cash available for new investments total company and 40% of this amount of cash equivalents are cash exclusively to be used at the construction of the projects of cash that the payment in advance of our clients or payment of our clients that we have to given the law, we have to use specifically to the finish or the construction.

And that's why when you look deeply at the liabilities in our balance sheet, if you want you can see only BRL13 million of construction finance because in the 12 months, in the last 18 months, we saw a huge volume of payments in advance coming from our clients, clients that were -- they were running out from the INCC. The INCC was increasing so much and running out of lower interest rates in our economy. That's why we saw many clients trying to, I would say, taking advantage of this making payments in advance. Many projects, and so in the high income segments we saw on average clients paying something around 50% of the total amount of the price in advance and that's why nowadays we don't need or so far we haven't needed huge amount of finances to fulfil the construction of the projects.

Apart from that, let me remind you when you see the landbank, I'm sorry, when you see the assets, the landbank brackets showing BRL943 million means that all the brands, all the land, all the seat backs, which means the grants or the bonds we have to pay, we have to buy from the respondent in order to increase the potential of the land. I booked it by costs. So strange that this amount of landbank was bought, on average, five years ago. So I'd say the pricing, the new pricing, if we were doing something like that in order to re-evaluate our landbank could show you something like a 50% or 60% more than costs booked in our landbank, and these BRL943 million means that represents BRL11 billion in land in potential sales value on the same number Mr. Pedro showed you before.

In terms of the units of inventory, units under construction, so we are talking about something around BRL1.2 billion in costs for a total amount of inventory mentioned by Pedro before other of about BRL2.5 billion. So meaning that the gross margin of these units under construction (inaudible) to use of about 45% to 50%. That's why we are so confident to keep the margins at the level that we can show you at the backlog results. So say that I would like to open ourselves to answer any further questions you may have. Thank you very much for audience today.

Pedro Tadeu Teixeira Lourenco {BIO 21824082 <GO>}

So if you like to make or there's any question please let us know by use the raise hand button on your Zoom platform.

Operator

Without any manifestation, we would like to close our conference call for the results presentation. And we appreciate all of you. And we are calling this presentation is now over. And we thank you all for your attention. Have a nice day.

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