# Q3 2021 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, Chief Financial and Investor Relations Officer

## Other Participants

- Alex Ferraz
- Analyst
- Eileen Cordero
- Fanny Avino
- Gustavo Cambauva
- Marcelo Motta
- Pedro Fontana
- Pedro Hajnal
- Thais Alonso

## Presentation

### Operator

Ladies and gentlemen, good morning. Thank you for holding, and welcome to MRV Third Quarter of 2021 Results Conference Call for analysts and investors. Today with us, we have the CEOs of the company, Mr.Rafael Menin and Mr.Eduardo Fischer; and the Chief Financial and IR 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 a 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, CEO. Mr.Menin, you may proceed.

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

Good morning, everyone, and thank you for attending one more conference call of MRV. It's always a pleasure to have this conversation with you. I'll start by talking that we are concerned about the present and especially this sudden rise in costs, this very high inflation in the industry in the last three months as well as the recent rise in interest rate. This has caused the CVA to be more attractive in economic aspect. However, the demand remains high, and it bothers us when we see a loss of profitability in an industry where we have a good history of delivering above the average of the industry.

On the other hand, we have noticed that this industry has had a reduction in competition. The number of pre-sales in Brazil has been reduced every quarter, the number of contracts. So we believe that there may be some type of incentives for adjustments to be made in order for the economics of the program to be recovered and the new incentive, so that these housing program can play such an important role as it has played in recent years. However, the lower competition scenario opens competitions -- opens opportunities. We've been able to gain market share in some cities, we've seen the less competitive scenario to purchase land, something similar to what happened six or seven years ago, when the industry as a whole decreased. But the -- having less competition, opens new opportunities when we look at the medium and long term.

On the other hand, looking at the positive side and looking forward in the medium-term, the strategy we defined three years ago to create our housing platform through MRV&Co has been done perfectly. If we look at subsidiaries, Urba, Sensia and AHS, the three are growing at rates close to a 100% a year and will continue to grow because the three of them are an exceptional markets, the four Urba as well a Luggo as well. So there are four subsidiaries, all of them growing at 100% a year with a very well-defined strategy and a good execution.

So it's worth pointing out that AHS now has R$3.5 billion in assets to be sold in the last -- in the next quarters. We've seen some reports saying that the sales of AHS properties is still non-recurring, and this is no longer true. In the last two quarters, we sold properties in AHS and will sell in the fourth quarter as well as in the next -- in the first quarter of next year. So it will be -- it is -- has now been already a consistent operation.

Luggo has a vacancy close to zero, new projects despite what we see. And this Luggo has been interesting for several funds, several funds are interested in it, and we have a portfolio of around R$500 million. Urba has reported in release has a very good report with the gross margin close to 50%, all the projects put to sale have had an exceptional performance. It is a company that is growing at 100% a year and we are very confident that will be a subsidiary that will be more representative in our portfolio. We have established in our business plan that we will sell 15 lots [ph] per year and we are very confident that we will deliver on our project.

I would like to emphasize that the summary of our history is a capacity of execution and the platform housing -- housing platform causes MRV to be a single unique case in the industry. Today, we are one of the cheapest companies in the industry, an industry whose valuation is really very, very low. So we think that our valuation is ridiculous as I said in the third quarter and the last quarter, I still believe so. And I'm sure that there will be a significant recovery in coming quarters. And when we run the scenarios here at AHS, the valuation of AHS separately accounts for the market -- current market cap of MRV.

What -- how do we look at this? This is a marathon. We've been through good moments, bad moments and great moments. This -- we are very resilient company with a differentiated staff and we can deliver. So we are very confident then the project MRV 80,000 will be executed and our capacity to operate in so many market segments in two countries and more than 180 cities in these two countries causes prospects for MRV&Co to be completely different from the rest of the industry. So I leave an optimistic message to you although I know that we face a challenging moment in Brazil. But looking at the medium-term, I'm absolutely sure that MRV&Co will deliver incredible results in coming years.

Now, I'll turn the floor over to Kaka for his additional remarks.

## Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}

Thank you, Rafael. Good morning, everyone. I would like to bring some more financial details about the MRV&Co Starting with our challenge with this the gross margin. We have a stable gross margin when compared to the second quarter of '21. As reported in the last quarter, we have made all the adjustments back then on a timely manner regarding the increases in raw material costs.

So in the third quarter, we had a price increase, we're able to transfer that to the properties on sale and we've seen stabilization of costs of inputs. In the first quarter, we saw a pressure on cost, now we expect a gross margin to be stable in the next quarter. Another important impact we had on our results is a loss of R$65 million, which is loss due to two swap operations. One, we are positioning MRV versus CDI plus 180, but we want to reverse these negative result until the beginning of 2023, which is the end of swap agreement.

We also have IPCA to CDI with the increase in the icurve [ph]. We had a negative impact in the quarter. Since we are located in CDI, this change of indicators are natural change for an operations. By excluding this extraordinary effects of swaps, we had a result of R$231 million in the quarter, 64% higher than the same period last year. And when we see in the nine months of the year, year-to-date we have R$570 million in the net income, which is higher than the nine months of 2020.

This is what I would like to say to you. Now, we can move on to the Q&A session.

# Questions And Answers

## Operator

(Question And Answer)

Thank you. Now we will start the Q&A session. (Operator Instructions) The first question comes from Pedro Hajnal from Credit Suisse.

## Q - Pedro Hajnal {BIO 21159036 <GO>}

Good morning, everyone. Thank you for the presentation and the question. I have questions about the gross margin. When you look at the scenario, do you think that this level of 24%, 25% will be capped. I would like to understand the review of budget regarding inflation, is there any extra amounts? Do you expect any reviews later, also about the gross margin and the number of units, in order to maintain this gross margin? Would you prioritize prices? What will be your strategy?

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

This is Fischer. I'll answer the first question. And I'll ask you to please repeat the second because I couldn't quite get it here.

As for the margin, yes, as we said in the release, our expectation is for the margin to stay in this -- at this level in the next quarters. We've made a cost increase to offset this increase that has been very high. And as Kaka said in the beginning, everything we identified in terms of pressure on costs have been transferred to our budget, as well as to our margin.

We have some metrics to protect us and to have some linearity to our margins that we take into account, when looking at visibilities and capturing revenue. So we are conservative in our scenarios building, which is a characteristic of the company. And there are some upsides we can have, we are building it, this will be shown in the income statement with time. There are some initiatives we're undertaking to reduce costs, and increase productivity that have -- that may result in better and most better income in the future.

I don't see any surprises in the radar that could bring this number down. If you could please repeat the second question, your sound was not very clear.

## Q - Pedro Hajnal {BIO 21159036 <GO>}

The second question is, do you think there is room to change the supply SoS. Maybe you will lose a bit of sales over supply with the higher number of launches? Or you reduce the number of launches and have increased SoS?

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

Okay, Pedro. We've given a certain disclosure on that. Of course, we did some price increase movements and as I said in the first question, and we're always testing the limit of liquidity. We had a sales over supply that was above our production speed and that was okay. And in the last quarter, the SoS came down and it became stable in terms of the scenario for the fourth quarter in terms of price increase is stable. And we see the sales volume that is in-line with what we had the last quarter in this first month.

And November, December traditionally are months in which we launch a lot, and we will maintain the same mechanic this year. And consequently, the SoS is higher. Our launches consider higher price in this new cost metrics, as I said at the first question. So, construction have that are launched already have a higher margin than what we see in the company's current results. As we evolve in the construction, the trend in the next quarters is that, after the challenges of the season or this -- the current projects will start having higher margins. Okay?

## Q - Pedro Hajnal {BIO 21159036 <GO>}

Okay, thank you. Good day.

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

Good day to you too.

## Operator

The next question is from Alex Ferraz, Itau BBA.

## Q - Alex Ferraz {BIO 18651758 <GO>}

Good morning, Rafael, Kaka, Fischer, and team. Thank you for the presentation. I have two questions. First, regarding margin, I think you've stressed a lot about stability, but I would like to understand the detail of the backlog margin, the adjusted for provision. It is flat, but when you look at it it's still changed. We would like to understand if there is any project that had a stronger margin, and it's no longer operating.

And the second question is regarding AHS. There are two points. One, the margin of AHS, if it has increased, I don't know if there's -- if that is related to sales or about the dynamics or the rationale of selling units under construction. You cannot defer taxes from what I understand. You can only -- how do you make this balance? Maybe if you -- liquid net return will be a bit lower because of tax. I would like to understand the dynamics of that. Thank you.

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

Good morning, Alex. This is Kaka speaking. So first, regarding the operation. The half margin -- the rev margin is dropping towards the future. We just reflected all increases in raw materials. We have been -- we do this on a recurring basis. We always make adjustments not to have any significant impact on the balance sheet, as price adjustments are made, we make the necessary corrections and adjustments.

So, the price that's been transferred to the bank is fixed. Any adjustments we make after that it tends to bring the margin for future results down. The gross margin of the quarter is a result of rev margin plus sales margin. So both effects together bring a stabilized margin. And we're working with sales of past or owned assets and then we would have a different result in sales.

For AHS, we have the margin that we are reporting now, which is the gross margin that is better than we had estimated before. Because of two effects, we have a project of events that was produced at old costs and at a higher cap so the margin is much higher. Towards the future we continue to see this compression of margin from 6.8 to 4, something 4.5, 4.6, 2 percentage points in the margin that will bring a stabilized gross margin of 28% 29% for AHS. So we continue to be conservative using a gross margin below 30% for AHS.

Your questions about the deferment of taxes. Alex, whenever there is a sale of a development that is less than 12 months in stabilization, you may recall that our base scenario is conservative. So, we finished construction and then we waited the first three months -- six months to stabilize, and then six months to sell. Everything since we're able to sell at full price before the stabilization of these developments. In terms of the return and the growth we want to have with AHS, it makes sense to sell rather than to wait and defer taxes. Of course, when the company is higher or bigger more stabilized, we could go back to the previous way of not selling at once, and holding, and then differing taxes.

## Q - Alex Ferraz {BIO 18651758 <GO>}

Okay. That's very clear. Thank you.

## Operator

The next question is from Gustavo Cambauva from BTG Pactual.

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

Hello, everyone. Good morning. First, I would like to ask about AHS as well and understand a bit, how you see this strong growth in operation? How do you think about financing that? You mentioned in the past that you could bring partnerships to the land or doing something different in terms of bringing capital to AHS. Because when we look at the combined leverage of the company with the exchange rate at high levels is, we have the impression that for AHS to grow a lot, it would need more capital. So, I would like to understand how -- where do you think this funding would come from for the growth of AHS?

And the second question is more about you sell this portfolio, and I would like to understand how do you see this towards the future, the possibility of having new sales here, because the interest rate is gone higher. So, is it possible at this current interest rate level to sell portfolio or maybe the penalty is too high to sell the units in the portfolio? How do you think about that in the future? Thank you.

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

Hello, Cambauva. Good morning. This is Rafael speaking. About AHS, we envisage a gigantic market. Our thesis is proving absolutely true. The demand for the market segment we operate in is huge. The markets we chose Florida, Georgia and Texas and now we are looking at two more states, this has proven a perfect strategy. So, we see the horse running, with rains and everything and we just have to hop on it, and jump and start riding it. Because, I am sure that it will completely transform MRV&Co the growth ramp-up as higher than we expected. And this figure is very small when compared to the markets we operate in.

We see companies -- we plan the company to execute considerably higher numbers than these 5,000 apartments per year, we can operate way beyond that. If we make a MRV&Co in a conversion, it will be a completely different size of the current one when that happens. Of course, we need capital for that growth to happen, MRV Brazil does not have capital to do this movement alone. So, we understand that this require some combined movements.

The first movement will be a swap, and we -- that should happen soon, the preferred equity, the third party capital in project, that's very common in U.S. markets. We can do the project with much less capital and maintain a good return rate. And finally, some kind of additional capital in AHS, it is a very good project. It has arousing the curiosity of many people. Some people have come to us already to learn more about it. So we believe that there will be -- at the right valuation we'll issue capital with the AHS. And the combination of the three strategies will allow AHS to follow that path of growth without putting too much load on the balance sheet of MRV Brazil. This is better than we expected, the industries are better than we had first thought. And so, we'll continue to accelerate that company and we'll completely transform MRV&Co through AHS.

Kaka will explain the second question.

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

Hello. As for the space to sell the portfolio, this sale of portfolio that we did perform portfolio after keys, this is corrected by IPCA plus one per month and then had a discount rate. As you notice, it was a well-structured transaction with the AA rating by Fitch with a discount rate of CDI plus 250. What we have seen is that, since the banks are going down, companies have to give more credits to customers now. We have pro soluto BRL2.4 billion with room to for sales of new portfolios. We are very optimistic and we're sure we'll be able to sell other trenches. We have structured these to be a program for distribution of portfolio not just a separate sale. And we're working on a new sale of portfolio. Cambauva?

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

Yes, that's clear.

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

Just to add on the first question -- answer, I gave you. We have to take into account that each apartment of AHS is equivalent to seven apartments on average value in Brazil. So, when we say that our project will reach a considerable number of 5,000 units per year, if we imagine this ratio of 7 times you can think of how big the operation could be in the U.S.

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

Yeah. Great. Thank you, Rafael. In the sale of portfolio, just a quick follow-up question. The new sales that you are structuring now, the terms are similar to the previous sale, in terms of discount you would have, I mean, is there anything very different or maybe the difference is only that the CDI now is higher, from what I understood, is that correct?

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

Yes, Cambauva. That's right. The sale of the first portfolio is performing much better than we did in our modeling. We may even have a discount rate that's lower than we saw in the first transaction.

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

Okay. Great. Thank you for your answers. Have a good day.

## Operator

Our first question -- next question comes from Cordero from Bank of America.

## Q - Eileen Cordero

Good morning. Thank you for answering my question. I would like to follow up on margin, it would be nice if you could give us some color of what -- how the margin was priced itself or the mix by increasing exposure outside the program. And going back to AHS, I would like you to please talk a bit about pipeline for next year. There's some consistency you talk about course sales in the fourth quarter. First quarter of last year, you have four stabilized projects of what you're constructing now or building now. How much do you expect to sell next year? And how many of these projects are already in construction?

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

Hello, this is Fischer speaking. I'll answer the first one and then Rafael will answer AHS. Okay. As for the margin, as what I said in the first question of Pedro, every increase in costs has already been included in our budgets. There is no surprise there, our control about it is very strict. We work -- there's no nothing under the rug that's the first thing, nothing is hidden at MRV. Of course, within the different mixes you have different margins. But the greatest impact today is caused by the price that was sold in the past with the cost of today with this cost increase.

So looking forward as SBPE at MRV the margins already point out to a healthy level. There won't be one line that we'll pull the margin up or push it down, our operational efficiency continues to work very well like Rafael said in the beginning. So looking forward, there is no line that will cause the margin to go up or down. In general, we work with the same structure, so looking towards the future, we see a good distribution among the different lines. They provide a good potential for growth, and we'll get greater growth. In terms of efficiency and margins, they are not very different among themselves.

Now, this is Rafael talking about AHS.

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

Today, we have $200 million in projects that are in the sales process. Part of it will be sold in the fourth quarter and some of them in the first quarter of 2022. And then other three projects that add up to $20 some million that will be sold next year.

On the release of Page 6, you see that ongoing projects add up to certain number in dollars that and a bit of it will be for 2023. But the most important aspect is the acceleration of the size of the company. We had planned to reach 5,000 units in 2025, '26. This will be anticipated and we won't stop at 5,000 units per year. Today, we see room to reach much higher number than 5,000 per year.

## Q - Eileen Cordero

Perfect. That's very clear. Thank you.

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

Thank you, Eileen.

## Operator

Next question from Pedro, Bradesco BBI.

## Q - Pedro Fontana {BIO 22068688 <GO>}

Good morning, everyone. Thank you for the question and presentation. Would give a more precise growth of share outside the program, the new two digit interest rate level, does that change your mindset or do you still want to increase the participation of the company outside the program?

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

This is Fischer speaking, Pedro. Looking at the share outside Casa Verde e Amarela and a part of it is AHS sales, it's growing and the lines, the class center will continue to grow during '22, '23, despite the increase in interest rate. Because, so far has never had such impact, because they still are low with silica 2%.

In this markets we're operating with this new line, we are running at a level that the market doesn't. We have found a void or a gap in which we can operate and grow and where most of the market is not operating. So we can capture share, grow, getting a customer that's immediately above, where a Verde e Amarela, or maybe beyond that. So, we're comfortable with that.

And the trend is to cause this line to grow, without losing growth in the core line, which is CVA. So we remain optimistic and these signs are positive, so we continue to grow in the two lines outside CVA.

## Q - Pedro Fontana {BIO 22068688 <GO>}

Okay, thank you.

## Operator

Next question is from Thais Alonso from Citibank.

## Q - Thais Alonso {BIO 21979935 <GO>}

Hello, good morning. How are you? My first question is about AHS. You mentioned that you were going to some other states, operationally, how would be the entry in this new states? Because you suffered a bit in the beginning, low productivity, some of the works you had to lower the margins of the project. And the second question is about Luggo and Urba. How do you see the planning of these two companies, given the scenario of higher interest rates, and difficulty in anticipating assets because of that?

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

Hello, Thais. Good morning. Well, what happened in AHS was only one project that was the first one, made with aluminum modes that methodology is not used in the United States. So we didn't have the right supplier for the modes and so on. So, we did have a learning curve at the local market. And now the projects that were performed afterwards, six projects were within budget with no problem.

So, there's no expectation of having loss of productivity or lower profitability in the projects performed in other states. What's going on in the U.S. market is a bit of inflation, the cost of material has gone up. But at the gross margin at the end of the day is within expected, even a bit higher than we had included in the beginning in our budget.

So with greater efficiency in new projects in other states, we're sure that things will stay on course, because we build 40,000 apartments in Brazil with that technology. There's a lot of exchange of information. The AHS team is coming to Brazil to learn with us, to discuss the best practices. So, all the learning has been built in the company AHS now. Certainly, the margin will not be bad due to not performing the process in new states. Now, the question about Luggo and Urba Kaka will answer. Good day.

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

Hello. How are you? Well, starting with Urba, you've asked, what is the pipeline of growth. We had mentioned in the prospect of Urba last year, there was a company going from 1,000 lots per year to reach 15,000. This year we reached 3,500, which is a significant growth when compared to last year. If you look at sales data, comparing nine months of '21 to '20, we have 200% of growth, which is almost three times what we did last year. This is a year of having your own house or having -- living in a house in the mid -- in the interior of Brazil and other states and interior of Sao Paulo state has a very high appeal. And we've had a very successful sales history. We have a large pipeline of projects at Urba to launch. The plan is absolutely structured and being executed. We don't see any risk regarding that.

As for the rise in interest rates, the absolute majority of Urba sales are done with our own financing plan, the funding term is much lower, smaller. So, I don't believe that the rise in CDI will have a negative impact on that. As for Luggo, although the AFIs [ph] are being traded at lower prices, we see there are many investors, especially long-term investors that are used to property market, not only in Brazil but abroad that look at macro trends.

So, what they see is, rent is a reality worldwide. Why not in Brazil? Brazil has a giant population. We have owed apartments, apartments that were not made for the business of rental. So, it looks like a no-brainer, there's no reason for that not to be a success. And when these players want to invest and exit the high income market of Sao Paulo, there's only one player to do that which is us. So the Luggo plan is very aggressive in terms of growth. We have the -- given a disclosure or almost BRL500 million in launches, that we are advancing our negotiations with that. And we'll probably have a positive surprise of Luggo and we'll disclose to you.

## Operator

The next question is from Marcelo Motta, JP Morgan.

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

I have two question. First, if you could comment on net sales of the third quarter? It ended up being a bit weaker. And you mentioned in the beginning of the presentation that November and December are usually strong months and October was fine. So would like to understand if you could comment on that, what you expect for that line in the fourth quarter? And also you recently approved the purchase of Prime which I believe it's small in terms of cash disbursement. But I would like to understand whether that could impact margin in any way. Thank you.

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

This is Fischer speaking. I'll answer the first one. And Kaka second. Net sales, the fourth quarter is traditionally strong quarter because there's more demand, more launches, the market works better. We have Black Friday coming soon that helps the market. So we know that the fourth quarter will be very good as usual.

As for the last quarter, we did have sales below what we expected. We have to remember that prices increased exactly in that period, and there is a phenomenon. There's a little hangover in the market when you rise -- when you raise prices. Customers tend to wait a bit, so this increase in prices is absorbed by the market, and then the market starts to come back, is this is what we see. And also the ramp-up of our sales project continues.

Last quarter, we reached 80% of the sales in that project. If you look at the long-term, this is the reality, this is where all net sales should be at. So we had these two phenomenon, but we're doing well and the fourth quarter will be strong as it is traditionally.

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

Okay. This is Kaka. Prime today has a very good operation with a gross margin above the average gross margin of MRV. It's a stable operation, so we're comfortable in purchasing the rest of its interest. All the business departments and finance human resources, everything is done in here in the company, sales area is already managed by us. So, we'll always -- we'll only absorb construction and development portions of it during the next four years. This is a worn-out contract for the next four years, so the payment is diluted in time. And the valuation is still below. We're talking about 4x for 2022 and 2023, we believe it's a very low risk transaction, this transaction with Prime.

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

Okay, perfect. This is very clear. Thank you.

## Operator

Next question, Igor Otero [ph] from (inaudible)

## Q - Analyst

Good morning. Thank you for the question. We've seen a harder macroeconomic scenario, especially loss of income. How do you see the default in your portfolio? This is the first question and then I'll come back with the second one. Thank you.

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

Hello, Igor, Starting with pro soluto portfolio, we see default rates at better levels than what we saw before COVID pandemic. And we have a structured area that's called MRV Bank. We have statistics area that's very robust to provide credit facilities to customer. In addition to being approved by the cash economic federal credit analysis, the customer also has to be approved by our payment terms and analysis before becoming an MRV customer. We're also able to get some type of asset if the customer doesn't pay, such as a car or something and then the response is very good. They start -- they resume payments afterwards. So today, we are in a better situation than we used to be before COVID.

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

Fisher speaking now. Kaka mentioned the bank, the bank is a very robust entity within MRV with high technology. We look at the customer rating at the time the proposal is made. So, we design the type of how much is the down payment the person has to make. And we see that the quality of the portfolio is much better because in the beginning, we use a lot more technology and sophisticated tools to analyze the credit capacity of that customer.

And as for we design something essential line, which is a line of simpler products with the same quality of MRV or those simpler that allow us to sell to a population of a lower income that traditionally have an access to a lower pro soluto because of higher subsidies. And now for that specific line, we'll have a lower exposure of portfolio, and leading the company to a healthier level. Thank you.

## Q - Analyst

And the second question is about Sensia. The interest rate increasing, would you do anything in the level 3 in terms of economics, such as gross margin or any other details you can have -- may give. Thank you.

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

This is Ricardo speaking about Sensia. Well, we've seen that we've been very happy when in bidding, buying land and development for Sensia. I don't know if you had a chance to visit Sensia project in Campinas, you're invited. Since we're talking about differentiated products, we have a high sales oversupply in that segment. Of course, we are in the economic segment. But, we see that interest rate can go up still but any estimates we make will still be better than the last cycle. Because, when Selic was 14, we had financing at 10.5. Now, we are complaining that it's 6.7 to 7.5, even 8.5, will still be better when compared to the background history we have.

I'm sorry. I forgot to answer a part of your question. So with regards to the economics, we observe a higher gross margin than in the economic segment. It's 33%, 34% within the Sensia segment. And with an increase, the sales of supply is similar to what we see -- we saw before. But the sales over supply tends to be lower in the future, but it's not what we have seen so far.

## Q - Analyst

Would you fit anything in the program at level 3?

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

No, level 3, not within Sensia. We have two product lines. Sensia is way above that, it's completely better product since the price is too different, it won't be able to fit within 5 short 3.

The SBPE of entry the level of the range which was superior to 3 was we called Flex. The client is -- the customer could choose getting funding from SBPE or FGTS depending on what's more attractive since we had a reduction of interest rate for Casa Verde e Amarela FGTS, there was 7.16 and we had an increase in interest rate in SBPE. Now, it does make more sense for a natural migration, the customers are the same, and the project is the same. Now, it makes more economic sense to get FGTS funding for customers. And we see it naturally because it makes sense for customers.

## Q - Analyst

Okay. Thank you.

## Operator

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

## Q - Fanny Avino

Good morning, everyone. Thank you for the question. I have two questions. With regards to the credit analysis made by Fischer, I would like to understand whether you need to have more pro soluto in the company to offset this price increase observed in this year. This is the first question. And also the second question about Sensia. This is a very differentiated product. It's a bit aspirational as well, I had a chance to visit them. What about the ramp up of Sensia project? How much do you intend to accelerate the product in a more consistent way? And do you plan to transform it in the potential business unit? Because I think it's a very well structured project.

## Operator

Please remain connected while we re-establish the connection with the speakers. Ladies and gentlemen, please remain connected while we connect the speakers. Mr.Ricardo, you may continue.

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

Okay. We had some technical issue here. So as for the question of Fanny about the concession or more pro soluto given the price increase, we are trying and managing to increase prices without having all price increase to become pro soluto increase. So, part of it is a small increment in the concession of the portfolio to fight the risk of default, we have plans in which customers start paying more in the beginning, is what we call a decreasing plan, and the installments decrease with time so we can change the duration, the lower the duration, the lower the default, the estimated default.

So we have a small increment in the pro soluto portfolio this didn't represent higher provision for bad debt. I'm sorry about the technical problem we had. As for the ramp up of Sensia we started last year with our successful launches we'll grow in scale, starting 2022, and the initial feeling is about 3,000 units and an average price of BRL400,000. So this is a robust operation.

And we see in Brazil, given the size of the cities we operate in, we see a huge potential. So the ramp-up is 3,000 units per year. And once this level has been attained, we'll make an assessment to continue with this growth line, because we see a lot of room for growth. I hope I have answered your question.

## Operator

The question and answer session is now ended. I would like to turn over the floor to Mr.Eduardo Fischer for his final remarks.

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

Well, first, thank you all very much. It's been a very rich call with interesting questions, relevant questions for this new moment that MRV is going through. Everything we've done, we planned during all these years, and we start to put in practice now, it's been very a winning strategy.

Look at Urba, Luggo AHS, everything we've done at a growth, speedy growth with very solid returns and high-quality. We -- because MRV and all the core business of MRV throughout this year plus the entire portfolio that composes MRV&Co So, this is the company's strategy. It needs to be further discussed because the major growth will come from these new lines, and there is a huge potential. So, this is the main message for this call. And this strategy that already is generating recurring revenues and this continuity of recurrence of the new lines will take the company to a much better level than now and different level.

So, we face some challenges right now, but this company has always been profitable and it will always be -- and we are certain that the last -- the worst is behind us, and we'll be able to deliver on the next quarters. So these are the important points. Thank you all very much for attending and see you next quarter.

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