Q3 2016 Earnings Call

Company Participants

- Augusto Yokoyama, IR Manager & Controllership Manager
- Emilio Fugazza, Chief Financial and Investor Relations Officer

Other Participants

- Renan Manda, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's Third Quarter 2016 Results Conference Call. Note that this event is being recorded and 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)

Today's event is available through a live webcast that may be accessed through the EZTEC Investor Relations website at www.eztec.com.br/ir, by clicking on the banner 3Q16 Webcast. The following presentation is also available for download on the webcast's platform. The following information is stated in Brazilian real and in BR GAAP and IFRS applicable to real estate developers in Brazil, except where stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call regarding the business outlook, forecasts and financial and operating targets is based on the beliefs and assumptions of EZTEC's management and the information currently available to the Company.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Emilio Fugazza, Chief Financial and Investor Relations Officer, who will begin the presentation. Mr. Emilio, you may begin the conference.

Emilio Fugazza {BIO 16474296 <GO>}

Thanks a lot. Welcome everyone to our third quarter presentation of results 2016. Apart from myself, I have to introduce with high pleasure Mr. Augusto Yokoyama, our new IR Manager and also our Controllership Manager since 2007, has been working with me since 2007 and becoming now IR Manager of the Company EZTEC. And apart from Mr. Augusto Yokoyama, Mr. (inaudible), our new IR Analyst to answer as many as questions you may have in the next quarters. Thank you so much for all of you guys to join us in the IR team.

Let me talk a little bit about the Brazil general mood in the last three months in the third quarter 2016. It's important to bear in mind that I think we have touched the ground. In terms of people confidence, we are gaining ground, nowadays getting better a little bit. That's why I think last September and even October, we had better net sales than in the past.

Let me explain that because of the Olympics, I think because of the Olympics and impeachment Ms. Dilma Rousseff and taking the power -- taking the charge Mr. Michel Temer, we had some trouble to GAAP net sales at the month of July and August, the last July and August. But Mr. Michel Temer within two months or three months had some very good improvements in our -- in the people's confidence because first of all, he could manage to have the new regulation to keep the budget under control.

The new law about managing budgets or making some restrictions on the budget passed through the lower house, and now it's going to the upper house to be voted. That's going to be good to start a decrease in the interest rate in Brazil and keeping then a controlled inflation. Inflation has showed some improvement in the last three months.

So saying that let me introduce the main highlights, operational and financial highlights in the third quarter. Slide number three, let's move onto the slide number three. No launches in the third quarter. Now, we keep the volume up a BRL143 million in the nine months 2016. We have some -- one project, trying to launch one project and Mr. Augusto is going to talk a little bit about further.

In terms of net sales, so far, we have BRL35 million on net sales because obviously in the third quarter, we had net cancellations that was the very first moment in the whole history of this company, we got net cancellations or a positive cancellations in the quarter. But the monetization for that in my personal opinion was a very awkward moment in July and August because of impeachment and the Olympics in Brazil.

In terms of Land Bank, so we had no new acquisitions in this period and we ended up September 2016, the third quarter with a potential Land Bank of BRL5.7 billion, something around BRL700 million of booked costs on this Land bank. In terms of acquisition, last October, so after we ended the third quarter 2016, we acquired two stakes in projects; we have been managing those projects. Then we had one very good participation on construction of those products, but our projects of units ready to leave, so units performed in the units and we acquired 20% stake of the projects Royale Prestige, Royale Tresor and Royale Merit in the city of St. Andre, metropolitan region of Sao Paulo. And nowadays, we hold 8% of this project. And a part of it, we have 45% acquired on the project Brasiliano and now we have a stake of 90% stake of this project in that.

So all-in-all, we acquired inventory from these projects and asset receivables, performed receivables, so receivables from units financed by EZTEC, which is good enough to use something around IGP-M plus 12%, mostly 12% yearly, which is good enough. So the return on equity of this acquisitions is about 20% to 22% and in my personal opinion, the duration of this acquisition is about four years. So four years are -- on return on equity of 20% to 22%.

In terms of financial highlights, EZTEC has generated around -- of around BRL48 million in cash in the third quarter, and so far 2016, BRL208 million ex-payment of dividends, so -- which is more than the majority of the company's public traded companies in real estate sector. So we have a net cash position of BRL219 million. And a part of it, we have performed receivables, something around BRL365 million, part of it compensated by IGP-M plus 10% or IGP-M plus 12% yearly.

Let me clarify that from this 365, two-third of this amount of the receivables are -- we have agreements to finance our clients. And that's why we can charge IGP-M plus 10 or 12. And the remaining part, one-third of these performed receivables; we are going to bring to the banks turning into cash within, in my personal opinion, within one or two months more.

So in terms of results, we have in the first nine months 2016, 45 -- 44% to 45% of gross margin in our results in a gross income of a BRL189 million. In terms of net income, we have -- we released a BRL162 million in the first nine months of this year 2016, return on equity of 80%, 80% so far.

Now, let me hand over this presentation to Mr. Augusto Yokoyama to introduce the main subjects of the operational side of this company. Augusto, best wishes to you.

Augusto Yokoyama

Thank you, Emilio. Good morning, everyone. Please let's move to slide four. We have launched up to September two projects in the high income segment, adding up to 143 million in PSV. Furthermore, we are in the process of launching the middle high income, the Up Home Vila Mascote residential building with a PSV of 59 million.

In regard -- in regards to future launches, we understand the following. The sector leaves through a moment [ph] market by the central challenge of liquid ready [ph] inventory. We have not seen clear signs of a demand growth that could channel in the near launches. However, Sao Paulo is still (inaudible) real estate center that constantly provides niches to be explored. The company, thanks to its regional expertise, is in a privileged position to diagnose such niches.

First, we do not cut selective launches. We deposit hoping the national economy's recovery as well as on the health of the sector. However, caution is a part of the company's culture. Many in the sector have been captured by the explanation [ph] growth threats in the recent past and is actually because of EZTEC avoided such threats in the past. Today, it's in a financially healthy condition, which will enable it to lead the sector when the cycle reverse, responding in accordance with the moment of the economy.

Before the next slide, I would like to talk about EZ Mark and Tower B from EZ Towers holds first rentals we announced in the end previous release. From the beginning of the rental process, we have been seeing positive signs coming from the national scenario. Among them, we have seen the concrete perspective for interest rate reductions, as well as the progressive renovation of investor confidence. Therefore, we are increasingly confident that preserving the value of the -- our most important assets through renting was indeed the right strategy to pursue. A strategy that we'll review to be highly profitable, once the sales are effectively performed.

There is optimism about rental as well. The two current tenants United Health for Tower B and E Tower [ph] for EZ Mark are tenants known for their quality, which adds value to the projects in the eyes of the tenants to come. Besides for the case of Tower B, we bring a news with the reduction in the range of our inventory in the region that adds value to Tower B and give us additional confidence in this project's future margins when its sale is materialized.

Now, I would like to talk about sales and cancellations on slide five. Now, I think the sales number, which have been notably smaller in 2016, we reaffirm the management's choice to concentrate on the management of account receivables, while simultaneously pushing the commercialization of units from projects with low cancellation risk. Such choice combined with the management's productive [ph] clients' management efforts has enabled the company to generate cash in the past quarters. This cash generation puts us in a comfortable position to handle the half period for the sector.

Many players in the sector depend -- are actually on the accuracy of sale of inventories to balance sheet cash generation. And in the end of -- in the need of liquidity, the natural issue for us to adopt a deeper discount policy. That is not case of EZTEC, which operates with positive net cash, as shown in the chart above and to the right, where we compare the variation in the average price that we apply in Sao Paulo and its metropolitan region. We can see that the company does not adopt a strategy of strictly dropping prices, not because it is hesitant to do so, quite a contrary, we are adopting an effective strategy that preserves the value of the company's assets through difficult times.

Let it be clear, we give -- we will give discounts, discounts are a good business. In other words, since it does not have (inaudible) need for liquidity, the company will choose when and where to drop prices always based on profitability. By maintaining a positive net cash position in a moment when central players in the sector suffer liquidity issues brings additional benefits. It allows the company to provide the direct financing to its clients. Furthermore, it's enable -- it enables the company to invest in strategic investments. Following their launch, EZTEC invested in October, 20 million for two acquisitions, as said before.

In the following slide, I will discuss further about the gross sales and the current pace in cancellations. Slide number six. The third quarter of 2016, in the first quarter -- is the first quarter in the company's history that is marked by net cancellations. However, by (inaudible) such results, we can find evidence aiming towards the brevity of this condition. By looking at the operational cycle, it's noticeable that a large part of the cancellation increase comes as a consequence of the period between 2011 and the first part of 2013 when the company had the largest basket of launches in its history.

That legacy today comes in the form of higher levels of deliveries, which happens to coincide with the moment in the national economy that is carried by the deterioration in the final users' credit capacity. That results in a higher rate of cancellations. A similar phenomenon can be observed in sales. Such consumer weakness causes the reduction in gross sales that currently torments the sector. The sentences between the two factories represented in the chart below by the convergence between the line for cancellations and the line for gross sales.

Now, there are reasons to believe in a reversal of such conversion, in the restoration -- sorry, and in the restoration of positive net sales. Firstly, we -- the current inventory composition indicates an upcoming deceleration in cancellations. Today's inventories mostly compose of delivery units, which represent solid sales, less prone to cancellations. Additionally, there has already been careful client management effort, adjustment were needed, but a portion of it has already been carried out, which has led to consistent reductions in delinquencies levels.

The cycle market by high deliveries is approaching its end, as we can see on graph above. While in 2017, we have foreseen the delivery of 3000 units, we practically have no deliveries thereafter, which essentially will elevate the cancellation rates from now on. Besides, the company had a notable pickup in gross sales in the third quarter of 2016. We have reached significant improvements in September and in the previous, from the month of October. Both months individually has represented positive net sales, a trend we expect to see moving forward into the fourth quarter.

Now, I would like to invite Emilio to speak. Please Emilio.

Emilio Fugazza {BIO 16474296 <GO>}

Thank you. Thank you very much, Augusto. Let's move to -- let's move on slide number seven please, financial performance. So let's talk about net revenue on top left, the first chart on top left. Let's begin talking about what's happened with the net revenue. There was -- there has been a drop in terms of net revenue, mostly because of the lack of new launches and all the revenues coming are revenues coming from projects under construction.

Nowadays, we have around 16 sites under construction and the majority of them cannot produce the same amount of revenues as we can see in project Cidade Maia, Cidade Maia is the biggest project under construction right now from EZTEC, answering for more than, I would say, 60% to 70% of the whole net revenue on the -- of this company. But let me remind you that one important part of this revenue also comes from units from inventory ready to leave we have been selling.

There is -- there are cancellations obviously. And those cancellations are offset in part by some sales coming from the units ready to leave and those units sold means that we have no possibility more to see cancellations from them. And that's why we are truly motivated to make huge campaigns to see a drop in units from inventory in the next 18 months, in the next six quarters.

Moving on to top right, the gross income and gross margin. I would like to highlight that 44% of gross margin in the third quarter, 44% means that apart from making some discounts on units ready to leave, on some sales we have been practicing on, we can see some savings on budget from units from sites under construction. Since 2013, we have been dealing with inflation and less than the public inflation is released. Let me show an example. So on average, the inflation in our sector is about 7% DLA [ph] since 2013, but the majority of our site under construction, now we have to adjust our budget. We are adjusting, let's say, not more than 20% of the total amounts of the inflation in this period. So it means that there is a positive adjustment in terms of margin, impacting positively the gross margin of our company.

And that's why part of the discounts we have been doing in our sales can be offset by the savings on the budgets from units under -- sites under construction. And that's a trend coming on. If you look at the backlog results, the backlog result -- the margin of the backlog result is about 53%. So all the units under construction now, we have some trend to see the gross margin on the level of 53% being offset by the discounts on new sites.

Let's talk about administrative and selling expenses, starting with administrative expenses on the bottom left. Obvious -- normally, you can see almost the same figures in the third quarter. So BRL22 million of admin -- G&A expense. But nine months 2016, there has been a drop, something around BRL13 million of a drop -- I'm sorry, BRL7 million of a drop. But when you adjust this amount of expenses by inflation, the decrement is much higher.

Let me use an example, the labor -- the workforce, the payrolls of the workforce. If you -- we compare to 2000 and -- third quarter 2014, you are going to see something around, adjusted by inflation, 35% less payroll from workforce paid in the nine months 2016 than in 2014. Results obviously from some adjustments we had to practice in our company because of less launches and less net revenues generated by sales of far.

In terms of selling expenses on the bottom right, you can see less sales expenses in the third quarter, although nine months 2016 is a little bit higher. The movement is that when we talk about the third quarter specifically, we are talking about a quarter with no launches. So no launches means that we have no expenses to do in terms of sales expense, in terms of the new campaigns, advertising campaigns to provide and that's why we are saving a little bit more money than in the past.

But when you see nine months 2016, you can understand that you have to understand that a part of this expenses are coming from the maintenance costs and the tax profits, we have to pay over the units ready to leave, so the units ready. And all the units ready in our inventory, the cost -- the maintenance cost and the tax profit that we have to book on sales expenses and that's why the volume of sales expenses is increasing a little bit. And you are going to see this trend of increment in -- also in 2017.

Let's move on slide number eight. Again, in terms of financial results, financial performance. Let's talk about financial results on top left. Financial results are coming from two sides of our company. One of them is the managing -- is the management of our cash -- of our own cash. So as obviously the interest rate in Brazil is so high, obviously the average interest rate in Brazil, we have been managing, our cash is about 14.25 up to September 2016 and that's why with almost BRL500 million in cash we can provide very good results from this side. But also because we have receivables from units, we have been financing to our clients charging IGP-M plus 12% yearly.

So all the results coming from these performed receivables financed by EZTEC are booked and -- in the financial results and also obviously, the discounts we can provide to our -- to the receivables of this company. So all-in-all, you can see BRL22 million in the third quarter 2016 compared to BRL20 million in third quarter 2015. Nine months 2016, BRL63 million to BRL64 million in financial results that's a trend for, not only for 2016, but also for 2017.

Let's move to equity income on top right. You can see nine months 2016, BRL30 million, almost BRL31 million compared to BRL97 million, BRL98 million nine-months 2015. Demonetization, the explanation about this huge drop in terms of equity income can be both. First of all because we -- obviously, we are delivering the projects. The projects we have with a share control with -- in partnerships. So one part of those projects we are delivering to our clients.

And the second part because year-by-year, year-over-year, we have been buying some stakes on those projects, moving those projects from the equity income side to the consolidated side, to the regular side of our accountancy. So that's a trend. That's a movement. And in the third quarter, specifically in the third quarter those BRL7 million of positive results, net income in terms of equity income comes from units sold from those projects, units sold positively on those projects.

Talking about the net income and net margin that's a very good side coming from this earnings release, this third quarter earnings release, which is BRL49 million, although we have net cancellations from the operational figure, a little bit weaker than in the past, but we got a very good result in terms of net income, first of all, because, obviously, we have positive financial results, but also because we have from the side of the construction, from the side of the gross sales, we have been keeping the prices good enough to provide gross margin of 44%. So in that side and also keeping the budgets, keeping the G&A -- the SG&A expenses under control, we can provide 42% of net margin this quarter, so BRL49 million.

So far, nine months 2016, a BRL161 million of net income, one of the greatest in our sector with a net margin of 38%. So results to be recognized and as I mentioned before, let me remind you to 53% of margins, 53% of margin means that the next quarters, in terms of gross margins can be a little bit higher than in the past, but obviously can be impacted by new sales, by new gross sales with discounts on the units. And all-in-all, we are going to offset some good side with the bad side of that and 44%, 45% of gross margin. It's a kind of trend; it seems like to be the end of 2016 as we are in the third quarter of 2016.

Moving on to slide number nine. It's a traditional slide; we have been showing to you, which means that we like to explain a little bit the track records of margins and the financial position. In terms of margins, obviously, I'd like to highlight that 2010 for instance is a very -- left side of this slide, you can see the third quarter and fourth quarter of 2010 with gross margins of between 44% and 47%. And now we are coming back to this margin in 2016, the last 12 months, we are talking about 46% of gross margin. So it seems like the next quarter is going to be a trend, the gross margins of around 40%. That's a good perspective, a good outlook.

But the very good side of this slide is the part of the net cash; the cash inflow is very good. The cash inflow, as you can see since 2014, the last quarter, we were net debt position because of the EZ Towers construction. 2015, 2016, we became net cash and debt (inaudible) obviously ups and downs because of the payment of dividends and obviously because of some investments, we'd like to do - we like to do.

But also let me remind you that there are no -- there won't be new huge investments planned to this company and that's why there is a perspective to increase payment of dividends, but obviously regarding to decisions of the Board of Directors, but obviously we know very well that if there is no way to invest the cash of the company with better return on equity, obviously we are going to pay extra dividends in order to balance the total amount of the size of EZTEC's capital.

So moving to the slide 10. And the slide 10 is (inaudible) traditional slide of this company. I'd like to say a little bit to -- trying to discuss a little bit the potential planning of this company. First of all on this slide number 10 is about the balance sheet of the company. First of all, in order to understand on the yellow bar. The yellow bar is trying to show you BRL2.8 billion of book of shareholders' equity, which means something around BRL17.05 per share compared to the share price, the market price of our stock, which is BRL16.50, so it's almost one-by-one.

But we are talking about the company, which -- with the market cap is almost the book value. But the company already is generating less than in the past, but is generated positive return on equity. That's a very good perspective, even in a scenario, even in a period of very challenging scenario in terms of economy and politics in Brazil. And apart from that, there are some kind of things that are possible -- are likely to generate a very positive results in the short period of time, like the backlog results and obviously, the inventory we're going to sell in the next quarter.

For the long-term, I would like to say something about the land bank. As I mentioned before, land bank has about BRL5.7 billion in potential sales value, but the whole amount of land bank is booked by cost in this shareholders' equity by cost of around BRL700 million. And we are going to look for some ways to potentialize to generate some profits coming from this land bank, like leasing one part of this land bank or selling one part of this land bank.

So we are going to look for perspective, new perspectives to generate, as we know indeed that we are not going to launch this amount of -- this amount of potential sales in the next two years or three years because we know that -- we truly know that there is a recover in a way. But obviously, this recover is going to be step-by-step, let's say something to twice as much we have been doing so far and that's it. So trying to make some steps very surely that we are going to -- those steps without any kind of interruption, without any kind of problem in the way.

And finally, talking a little bit about EZ Towers Tower B. So as Augusto told you before, the Tower B is 53% leased and obviously in the next two months, three months, four months, we are going to see the majority of the tower leased, providing return on equity of this tower. And let me remind you that this tower is booked by cost, so we are talking about something around BRL270 million, BRL280 million, so not more than that. So at least we are going to see like something around 50% capital rates -- 15% cap rate to 16% cap rate on these lease -- leasing agreements we have been doing.

So that's it. The potential for this company in terms of balance sheet is huge and obviously step-by-step trying to do everything in a very strong way to maximize returns without putting in risk the position of cash, the position of -- the solid position of this company in terms of balance sheet.

And finally, let's go to slide number 11, which is the potential of cash generation, which is a very interesting and awesome subject in terms of public traded company in Brazil nowadays. So let's talk about the net cash position. So we are net cash positioned, as I mentioned before, but not only because of this because we have performed receivables. Performed receivables can be securitized whenever we want, so whenever we need to securitize them in terms of turning those amount of receivables in cash. So -- but there is no motivation to do that because those receivables are yielding something much higher than the return on equity of this company.

So the average return of this company nowadays is about 8% and the performed receivables are -- it's yielding something around 20%. So it is good at that [ph], but we can securitize to returning cash whenever we want. So our performance in Brazil was receivables from units under construction. And all the construction obligation we have so far is about BRL274 million. So all-in-all, counting on any on this math, the balance equity income, we have BRL1.3 billion to see in cash within, I would say two years, no more than two years, so 2017, 2018 when the majority of the projects, so a bunch of the projects of EZTEC are going to be delivered to our clients.

And obviously, we are going to remain with the inventory at the market value of BRL1.9 billion, which is not only the regular apartments, the regular small offices we have been doing, but also the Tower B of EZ Towers. So all-in-all, we have BRL1.9 billion. So the potential generation of cash without counting on the inventory side is about BRL1.3 billion. And adding the inventory, we are talking about BRL3.2 billion.

So the company has a strong cash position. So it's cash enough to pay dividends, to pay extra dividends, to invest on new projects, to invest on new acquisitions. So whatever the Board of the Directors decide, the company has the -- choose to put in practice the movement of this company and obviously we are waiting on the decision of the Board of Directors to take those decisions.

To conclude, I would like to send a message from the management to you guys regarding the current moment and what to expect from the company in the following years. We are gradually leaving behind us a stage of this size that has been thus (inaudible). Very few, very few companies manage to get through it unscratched. The management acknowledges that this sector can be difficult. And also it's difficult indeed, in times of turbulence, in times -- it is the very first one to slow down, but it is also is the one that takes the longest to get back on the track. It is marked by uncertainties that make it difficult to foresee the future, but it also forces you to fight tomorrow with the resources that you have invested in yesterday. And it is exactly because of that, so we believe the values that guide the company, product quality, investment, profitability and the operational financial robustness to be values capable of sustaining company's operation over the long run.

They have allowed the company to, first of all, navigate through a period marked by diminished gross sales and rising cancellations, while maintaining its positive net cash position as usual and ready to react and lead the sector once there are signs of economic recovery, have allowed to be sufficiently healthy to preserve the value of its most important assets, be it through rentals or through the strategic maintenance of the prices, taking no more than the past opportunities to convert its real estate to high margin sales. And have allowed to wipe its receivables portfolio drive from potential cancellations through an active effort from the management, setting the company ready to pick up on a lighter operational cycle.

Many have approached us, while surfing the wave of the real estate booming market, but it takes a structural efficiency, strategic prudence to deliver the margin that is -- that has systematically presented. These values are supported by an experienced and active management counsel that is incrementally aware of the market in the metropolitan region of Sao Paulo, as well as of the asset it holds. These are the values that enables to reaffirm yet again our commitment to deliver the best and most consistent of returns to EZTEC shareholders.

Now we will be open to answer the questions from our listeners, and thank you all for this presentation.

Questions And Answers

Operator

Thank you. We will now begin the question-answer session. (Operator Instructions) Today's first question comes from Renan Manda of Santander. Please go ahead.

Q - Renan Manda {BIO 20347216 <GO>}

Hi, guys. Good morning. I understand that EZTEC doesn't have the pressure for cash generation through inventory sales, like many others. But given the current market situation, can we expect other sales campaigns in the fourth quarter or first quarter in order to stimulate sales, especially of finished units?

A - Emilio Fugazza {BIO 16474296 <GO>}

Thank you so much for your question. Thanks a lot. So it's important to bear in mind that there was -- there were a lot of campaigns since 6 December, 2015. And the problem of those campaigns specifically were the motivation or the expectation from our general public, general buyers because they -- we use it to buy all in campaigns and that was one, I think one of the major factors of watched [ph] drop in sales, specifically on July and August, a part of the impeachment process and a part of the Olympics because obviously, we were doing so regularly those campaigns and enforcing the buyer to wait a little bit for the next one to buy a new apartment for better prices over and over again.

And that's why we have decided to stop this process in the third quarter, and obviously, there was a problem, a problem of mass cancellations. But the next movement was in September and October trying to change a little bit the mindset of the brokers, trying to change a little bit the mindset of the Board of Directors to wait a little bit. And I think we are going to see very better results coming from the fourth quarter of this movement. So which means, first of all, trying to sell for better prices and we are not going to see -- in my personal opinion, we're not going to see a drop in margins and we are going to see a little bit more sales than in the past, specifically October, November -- specifically September, October and November. December, I don't know.

So trying to answer your question. No, we are not going to impose new huge campaigns as you saw in the past. We are going to try to work deeply on, specifically, projects, trying to enforce prices obviously without making some noise about price reduction because that was a little bit awkward in order to make a mess on the mindset of these buyers. That's the whole idea, Renan.

Q - Renan Manda {BIO 20347216 <GO>}

Thank you. Very clear. And if I may make another question. Regarding the Tower B from EZ Towers, you have leased nearly half of the tower now. And can we expect any additional leases over the coming months, any negotiations at that stages?

A - Emilio Fugazza {BIO 16474296 <GO>}

Thanks, Renan. Yes, definitely, yes. I'd say, so there are contracts under negotiation right now ongoing to achieve a little bit more of this tower leased by the end of this year. But obviously, we're not talking about getting a 100% of this tower leased by the end of this year. In my personal opinion, we are going to see higher levels of Tower B leased by the end of the first half 2017, but you're going to see an improvement, a good improvement by the end of this year, definitely you're going to see.

Q - Renan Manda {BIO 20347216 <GO>}

Okay, thank you.

A - Emilio Fugazza {BIO 16474296 <GO>}

Thank you very much, Renan.

Operator

(Operator Instructions) This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Emilio Fugazza for any closing remarks.

A - Emilio Fugazza {BIO 16474296 <GO>}

So thanks a lot for the patience. Thanks a lot for hearing to our earnings release, third quarter. And let me also reinforce Mr. Augusto Yokoyama as our new IR Manager by the beginning of December and our new -- brand new analyst, IR analyst, Mr. (inaudible) you are going to speak with them. You are going to talk with them about trying to understand better the company and trying to discuss the subjects of the company with them. So we are completely able to receive your questions. Thank you very much and have a good day.

Operator

And thank you, sir. This concludes today's presentation. You may now disconnect your line at this time and have a nice day.