

Y 2011 Earnings Call

Company Participants

- Leonardo Guimarães Corrêa, Chief Financial Officer
- Rubens Menin Teixeira de Souza, Chief Executive Officer

Other Participants

- Analyst

Presentation

Operator

Good morning.Welcome everyone to MRVs Fourth Quarter of 2011 Results Conference Call.

Today with us we have Mr..Rubens Menin; CEO, Mr. Leonardo CFO; Mrs. Mônica Simão, Chief Investor Relations Officer and Mr. Gerson Mazer, Investor Relations Executive Manager. We would like to inform you that this event is recorded and all participants will be in listen-only mode during the company's presentation. After MRV's remarks, there will be a question-and-answer session for investors and analysts when further instructions will be given. [Operator Instructions]. Today's live webcast may be accessed through the internet in the MRV's Investor Relations website.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of MRV's management and on information currently available to the company. 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 MRV, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Rubens Menin, CEO, who will begin the presentation. Mr. Menin, you may begin your conference.

Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Good morning, everyone. I would like to thank you for attending our call today for MRV earnings release for the fourth quarter of 2011. 2011 market the end of cycle which begun in 2006. During the cycle, even in times of market instability MRV exceeded all expectations assured much higher results than predicted and assured the growth position of being the largest growing home builder in Brazil and one of the largest world wide.

One of MRV key success during this period was the organic growth strategy, which allowed the company to significantly increase the size of its operation, without suffering the growth outside.

We have had a fast, sustainable and balance growth. The new cycle we will now begin, which is even more promising than the previous one, will be based in few aspects; the max size yet to be explored, easily identified in the Brazilian demographic, income supply effect. And lastly, the maturity level of MRV production machine, which has a already boot, self efficient. We will keep on working on these improvement. But the phase of efficient loss due to the growth was a red overcome. We know that the low income segment is a challenge in Brazil and that MRV place a relevant role in this industry. We are confident of our capacity of goals.

I would like to pass the word to Leonardo Corrêa.

Leonardo Guimarães Corrêa

Good morning all. We are here today reporting fourth quarter, therefore ending the year. Beside the specific comments on the quarter, I wish to further expand on points already mentioned by Rubens, emphasizing on market fundamentals and circular trends that unfold our strategic view.

Slide four contains data and graphics that demonstrate the potential of our targeted market. One of them showed a distribution of the Brazilian population into income brackets. I reiterate that MRV has its focus on Class C and D because they are the largest in population, besides offering the largest growth potential for the coming years. Our strategy to serve these customers remains the same.

Our organic growth strategy preference is very notorious. The point I want to call your attention to is that we have a vast coverage of the Brazilian secondary cities with no parallel within our industry. This coverage is read consolidated, presents a clear competitive advantage and presents a very strong entry barrier to those willing to have a national operation.

Lastly, the competition coming from the public companies is shrinking further facilitating our life.

In conclusion, we see a strong demand and have already developed an internal structure to serve these market.

Let' now switch on conversion to MRV performance on the fourth quarter. On slide five and six, we showed some data with fourth quarter and annual results. The figures and margins in itself are available at this presentation as well as on the earnings release. Therefore, I will not keep on repeating them instead preferring drill into details, and link this moment or point to the near future.

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A couple of messages. First our construction structure is already installed. We are operating in more than 300 construction sites. Our gross margin presents is more volatility quarter-over-quarter. These variations are justified by the volatility on the monthly INCC index, as well as on the project mix.

On slide six, we bring more information on the gross margin detailing the INCC component that affects it quarterly. Regarding the future, what I can advance you is that we expect the 2012 margin to remain in similar level to 2011. We are working within our budget. A second message is about the variables that we present a largest growth in 2012. They are the number of clients that signed contract with banks and the number of units delivered to clients.

This means our sales growth rate will be lower and the MRV focus will shift to product quality delivered to client and to cost/margins. The demand is still very strong and we keep on seeing a poor trend on apartment prices. But we should not expect this, a poor dynamic indefinitely. As in any sector we'll have to gain on productivity. We have our tools and process to do it.

The fight for costs and margins is within MRV DNA. Cash management is another extremely important aspect for us. The focus is on slide seven. On fourth quarter we presented very strong cash burn in comparison to previous quarters. This is explained by the continuation of a strong outlays keeping the construction pace combined with our shortage on disbursements coming from Economica due to their employees strike and to the fact that they close their systems for maintenance in November with that on 7,600 clients to banks in the fourth quarter. In 2012, we will keep our strong partnership with Caixa Econômica. But -- Brazil will account an already sizable portion of our Minha Casa Minha Vida client financing. On the first half of this year, we will see a substantial increase on the client financing volume.

I re-stress that MRV will present a positive cash generation. Nevertheless, it's important to mention that, as far as individual quarters, this will not happen in a straight line.

On a slide eight, the graph shows the evolution of the return on equity, as well as the growth on MRV earnings per share over time. This in my opinion are the two most important indicators as they are the -- of all other parameters of our operation. The maintenance and our expansion of those parameters are the cornerstones of our strategy.

Before we jump into Q&A session, let me bring some brief comments on our subsidiary LOG Commercial Properties. We changed it's name in order to better reflect it's business line and independence. LOG received the second trench of -- infusion at the beginning of October. We are now putting the money to work. We finished the year with 9,000 square meters in gross lease able area. On the first quarter, we are adding another 75,000 square meters. The pace of deliveries in 2012 will further accelerate. The demand for industrial is strong. Here we will follow a similar strategy by having activities and operations in several different states in Brazil.

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In summary, LOG is developing, growing and creating value for its shareholders. The sales side analysis in general do not price LOG value into MRV shares. I encourage you all to look at it in more detail, drill for that now into its details and plans in order to incorporate LOG's value into MRV shares. Thanks and let's go now to the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. [Operator Instructions]. And our first question will come from Laura Smith of Phoenix Investments. Please go ahead.

Q - Analyst

Good morning. Cash Burning was higher than expected, could you please comment expectation for 2012.

A - Leonardo Guimarães Corrêa

Sorry. Can you repeat the question?

Q - Analyst

Of course.

A - Leonardo Guimarães Corrêa

We couldn't hear properly.

Q - Analyst

Okay. Cash burn was higher than expected, could you please comment expectations for 2012?

A - Leonardo Guimarães Corrêa

Okay. The cash burn was very high on the fourth quarter and the reason for that is that we have decided to advance on the construction. We know that a number of home builders have been delaying projects to clients. And we think that it's very important that we deliver the product on time. We have expanded the investments on the infrastructure, on the construction side. Basically, the work that we have to do before we actually start constructing, and that was responsible for the advancement or the an expansion on the outlets related the construction on the fourth quarter.

On the other hand, or combining with that, we also had last receivables coming from Casa, that was a product of strike that happened on Casa. And secondly, in November, they shutdown the systems for two weeks for maintenance and some upgrades. And those two factors have worked in such a way that they have delayed some of the receivables or some of the measures that Casa built in order to pay us in relation to the

advancement of the construction. Those are the main drivers of -- not the main, but the two drive related to the cash flow on the fourth quarter.

Now, looking in 2012, in 2012, we expect to have a positive cash flow. Of course that is not a straight line quarter-over-quarter and there is a certain volatility, but we are working in such a way that we will have the number of clients that's we are passing to asking to -- and to Banco do Brasil has been increasing. There was an important movement from -- to centralize in São Paulo the relationship with the large homebuilders or the national homebuilders. And that we'll in the first half of 2012, we will see a very good response on that front.

Q - Analyst

Okay. Thank you.

Operator

Our next question will come from Robert of -- Capital. Please go ahead.

Q - Analyst

Good morning. A couple of questions. One I didn't, I apologize, I got on the call late. Could you review 2012 guidance again and then I have a couple of questions on the LOG business?

A - Leonardo Guimarães Corrêa

The guidance for 2012. We have two guidance, one property sales of -- sales between R\$4.5 billion and R\$5.5 billion and EBITDA margin 24 to 28.

Q - Analyst

Okay, thank you. And then on the LOG business just to clarify, did you say you had 9,000 of finished leasable GRA currently?

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

We had we -- in December, we had 90 -- 90.

Q - Analyst

90 -- 90. Okay.

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Over the course of the year. Okay. Can you give an update on what you think your for the properties that are leased are currently that will leased out this year. What do you expect the cap rate to be on your cost, your cost basis in the projects?

We expect, we are doing business 17. Is it 16 to 18. Those are the leases that we are getting on the property that we are delivering.

Q - Analyst

Okay. And are there any updated plans. I agree with you that this business is not in your shares at all. Is there an update in terms of when you might -- when a portion of the business might be floated as a standalone stock or partially floated in the market?

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

We, of course, I think the actual -- Tier 1 the first one is the company in itself and on that front we're doing, we're delivering and -- but it's important that we have a certain history, we have a certain track record. So on that front, -- we need definitely to look more towards the end of the year or the beginning of next year so that we can show the track record and we can prove what we have been promising. And this -- is of course the market and macro conditions of influence much more sometimes than what we feel the business that we have.

In some quarters you can sell very easily in order, you can't you know the, how the market function. Currently, we're seeing very good conditions on the market today, we're coming from last year was, I mean the risk conversion was pretty strong and we are now going to the other side of the equation. So, we have to balance between the two to decide when to bring the company into the market.

Q - Analyst

What are fair points, what do you think, I understand the business model is not to build and sell, but to build and lease. But if you would have sell any of your properties in lot of commercial properties, what kind of yield or cap rates do you think they would trade at?

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

We have seen some trades around 10%, 9% to 10%, so that, I mean there is of course there is a strong cap compression from what we are delivering and from where we are seeing that those industrials trading currently.

Q - Analyst

And what is the physical vacancy and/or financial vacancy of what you have that's currently fully available to be leased?

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Sorry. Can you repeat that?

Q - Analyst

For the buildings that are finished for the 90,000 that is already in operation. What is the vacancy rate or the financial vacancy rate of the buildings or the 100% leased out?

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

They are 100% leased out.

Q - Analyst

Okay. Okay, very good. I think that's it for me. Thanks very much.

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Thank you.

Operator

[Operator Instructions]. And we have a follow-up question from Laura Smith of Phoenix Investments. Please go ahead.

Q - Analyst

I have one more question. Did client financing process improved in 2011 due to CEF new platform, what can we expected for 2012? Is there a bottleneck?

A - Leonardo Guimarães Corrêa

Well, that's prudent. We are looking to, we are having discussions and -- this is an area -. So, we are looking hard and the drop is appear --. I think that the we won't have a bottleneck in -- and we continue during the year -- and also what we will assume is going to play with that, but Brazil is a big player and our operational -- Brazil is increasing a lot. And I am very happy with this. I think at the end of the year, the number of debt that you can flow to you, we will be increase their -- this going to walk very well and they not want to --.

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Just to basically kind of repeat that, we are the movement done by both cash and -- has been strong in order to increase productivity. We hold monthly meetings with the two banks and also with the ministry and some government officials in Brazil in order to -- to the aspect that bureaucratic aspect that - the growth on the number of clients we are sending.

But we, as I have said on the first half of 2012, we will see a substantial growth on the number of clients sending to the next.

Q - Analyst

Okay. Thank you. Just one more question. G&A increased in the last quarter, is this a new trend, can you explain the reason for the higher G&A?

A - Leonardo Guimarães Corrêa

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The G&A expanded in the fourth quarter as Rubens had mentioned. We're finishing the cycle or the growth cycle. So, as we're getting to the end of the cycle, we have to deliver the unit, and therefore we have to grow and install capacity in terms of call centers to talk clients, teams to deliver the units. And so we have seen those increases. As we move into 2012, the growth on the SG&A will be inline with the growth on the revenue side.

Q - Analyst

Okay. Thank you very much.

Operator

[Operator Instructions]. Thank you. The Q&A session is now closed. I'll turn over to Mr. Rubens Menin for final considerations. Mr. Rubens, you may give your final considerations now.

A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Okay. I'd like to thank you very much to join MRV call. And we would like to join you gain the next quarter call. And we hope to give to you a good notes in the year. And I am very pleased with 2012. Thank you very much.

Operator

Thank you. This concludes today's MRV fourth quarter 2011 earnings conference call. You may disconnect your lines at this time.

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