

## Q1 2019 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, Investor Relations and Chief Financial Officer

### Other Participants

- Alex Ferraz, Analyst
- Andre Chaves Mazini, Analyst
- Gustavo Cambauva, Analyst
- Luis Guilherme Braga Stacchini, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Garaldi Motta, Analyst
- Unidentified Participant
- Wilfredo Jorel Guilloty, Analyst

### Presentation

#### Operator

Ladies and gentlemen, good morning. Thanks for standing by. Welcome to the conference call for analysts and investors of MRV Engenharia e Participacoes S.A. to discuss the earnings of the First Quarter 2019. Today with us are the CEOs, Rafael Menin and Eduardo Fischer and also the Finance and IR Officer, Ricardo Paixao. We would like to inform you that all participants are going to be in listen-only mode during the company's presentation. Later, we are going to start the Q&A session when further instructions will be provided. (Operator Instructions)

Now we are going to turn the call to Rafael Menin, the company's CEO. Please, Mr. Menin, you may go on.

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

Good morning, everyone. It's a pleasure to be here to talk about the results of the first quarter. We are incredibly happy with our indicators and financial results. MRV once again had a very good performance that left us quite satisfied and optimistic about the future that we are giving to have even better indicators for our investors further on. So let me talk about what we did in recent years and that led to these wonderful results. The company in the past three, four years have been investing to have a healthy well-

managed company at the level of 50,000 units. So the investments first happened, so our balance sheet was a bit heavier.

The G&A expenses a bit larger than suitable for the company. For some time now, we have been investing in products with several items related to sustainability, quality, trying to de-commoditize our product in these economic segments and now that has start to pay out. And I would like to highlight some important indicators, the company is launching more units, and those greater number of launches enables us to sell more. As we saw in the first quarter compared to the last year's quarter, we launched more. We had more net sales. And with that, we could accelerate production.

Selling more, launching more, producing more, our revenues increased considerably and the immediate effect is a dilution of SG&A. And with that, we had a fantastic net income and an ROI margin 15%, which is extremely healthy for the first quarter. You know we had some challenges. Caixa started to operate as of February. And because of that, we have a lower amount of transfers to banks, below expected. But despite of the lack of movement in the months of January, all indicators were exceptional. It's important to highlight that we expect that gross margin is stable, more or less at the level that we saw in the first quarter. We have a project pricing to have gross margins between 32% and 34% this year because of the 1.5 range of the Minha Casa Minha Vida.

We know that this takes a little time to get to the results, so we are going to have gross margins close to the first quarter. And as of the next year, we expect our gross margins to recover gradually. Another important aspect of this growth project of the company is our FGTS. It's a new source of funding that is going to be very important for the company and all those investments, relationships with customers, technology, customer experience enables us to go very strongly into the segment with a differentiated product and excellent cost benefit. And I have no doubt, it's going to be a successful segment, and it's going to become more and more representative for MRV. So we are going to see the share of our FGTS portfolio to grow and this is going to be very healthy for the company because we are going to be able to access more than one source of funds.

Another aspect is people talk about the sustainability of a program. We are quite comfortable. Minha Casa Minha Vida ranges 2 and 3 or have a surplus tax-wise. The government understand that. For each BRL1 of investment, the government received BRL7 as taxes, so it is an extremely successful program in terms of taxes, let alone the employment, contributions to GDP, social impact the government has the sensitivity. The government likes the program. Of course, when you go to the 1.5 and 1 ranges, we know that they have to go through adjustments. The 1.5 range did go through adjustment in the first quarter. The rules had changed and I think it's more balanced compared to the rest of the market, vis-a-vis the speed of sales were 3 times, 4 times higher. And this year, they are still higher, but they are close to ranges 3 and 2.

So this rationality, the concern about the perennality of the program and the workers compensation funds is something that we consider as a very positive point. The government has very good people, not only in Caixa, but also the secretaries, ministers, the management of the workers' compensation fund. So there is a true concern of how to maximize the workers' compensation funds, its quotas that also have a perennial healthy

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program. We know of the importance of the program for the country, so we are very comfortable. Ranges 2 or 3 may have adjustments here and there, but the framework of the program is to be maintained. We have had countless meetings and the feedback about the program especially ranges 2 and 3 is the best possible.

Another interesting indicator is that the government announced, it's still not officially, but the idea is to create once again, the Ministry of Cities. This is another indication that the government believes this is a program that has to continue to run well. Going back to the rationale, what we have observed is that this concern of having a better, healthier ecosystem has forced greater qualification and investigation of the health of the companies that work in the program. The program had a reasonable percent of companies that were very informal that didn't follow the best practices and we see the government is very much concerned as well with the workers' compensation funds, managers and Caixa to improve the quality of the companies that take part in the program. And we think this is excellent, the MRV is the leader in the industry. It tries to raise the bar, bringing more technology, innovative solutions, quality. And when we feel that the government is thinking alike is something that is very positive to us.

Another thing that is important, all the investment we made is always looking into the long term. And we are sure that companies that invest in products, customer relations, qualification of products, better integration with suppliers, clients in the long term is very important. We want to be close to banks and to our clients even after we deliver the units that have a cost that we believe that those investment pays out in the long term. The company has to be seen in a time line. We cannot take a snapshot of our quarter.

All the projects that we have been establishing are going to continue, still have a lot more to put into the market and I have no doubt MRV is really going to stand out. Well, since the IPO between dividends to be paid out and buyback programs, we are talking about BRL3.5 million return to our shareholders, a very important amount vis-a-vis the IPO investment of BRL1.6 billion. So post-IPO, the company has already returned to its threshold more than twice what was invested, and that gives us great satisfaction. And I'm sure we are going to continue to deliver excellent indicators, excellent results, and we are going to pay back to shareholders even more along the time in the company. All right, thank you very much.

Now I'm going to turn the call to Ricardo Paixao, and then we are going to open for your question. Thank you.

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

Thank you, Rafael. Good morning, everyone. I would like to highlight some important points about our operating and financial performance in this first quarter. The General Shareholders' Meeting decided to pay out BRL490 million for the payout of dividends, BRL74 million that are mandatory and BRL328 million that are extra dividends to be decided in the update of the company. The construction cycles is translated into higher units produced, 24% higher, why -- 23% higher than last year. That gave us better dilution of SG&A. SG&A closed the quarter at 15.4%, the lowest since 2015. We have already mentioned that our structure was ready for better levels of operation and the number is

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doing BRL0.42 in terms of earnings per share and BRL2.3 less in terms of sales and general expenses compared to '18. As for subsidiaries, they are contributing to our results with the IPO of LOG the contribution decreased in '19. As for Prime and MRL, as you have in your release, you can see their contributions for '18. Those companies are going to generate better contribution for the company in the future.

The consolidation of MRL Holdings, it says that the equivalent line has almost financial expenses. The deleveraging of this company will contribute for us to improve our equity equivalent. With that, we had BRL189 million of net income growth of 18% year-on-year, good results of '18 and a new level of LOG with ROI almost 16%. And we also see improvement for this indicator. Our market value with our consistent results places us with a very appealing valuation.

Now we are going to open for your Q&A -- sorry, for your questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now start the Q&A. (Operator Instructions) Our first question comes from Gustavo Cambauva from BTG Pactual.

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

Hello, good morning. I would like to ask about revenues. You mentioned in the beginning and indeed, it was a lot higher than expected. I would like to understand if there was any item that is nonrecurring in terms of revenues. Because when we compare quarter-on-quarter, you talked about an improvement in productivity, but you're talking about BRL200 million less in terms of sales and revenues are about flat. So is it productivity alone? Is there anything else or an average price of sales that is higher? And is this the level that we should expect from now on? My second question is about what you see in April and May especially with transfers to banks. In the first quarter, there were some problems. It seems that they were settled in February and March, but I would like to know if the second quarter is running smoothly and what is your expectation for the year. Thank you very much.

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

Hi, this is Fischer. Okay. To answer your second question in terms of revenues. Well, our expectation is for revenues to run at a higher level as it was in the first quarter and in the fourth quarter as well. That is a reflection of the production units.

As you know since '18, we are increasing the numbers of units produced and that increases revenues. Despite a little gap in the first quarter, production is going on. Many units were already transferred and we have been investing a lot in productivity. You mentioned that we want to reduce cycles. So we see still room for the construction cycle to get better productivity to go up. And if the cycle is shorter, then we have better results. So what you see is the result of a growing production and growing sales especially net

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sales that we have been highlighting in recent quarters even with information in our release. So when you see growing net sales and growing production, the level of revenue grow and our expectation is to keep at this level.

So the MRV of 2019 is definitely a larger company than it was in '16, '17, '18. It is the balance sheet that we've created in the past with higher investments in land bank and launches. It starts to show. So the idea is to have for '19 this level of revenues. As for transfers to banks, Rafael did mention that in his opening remarks, January was tragic. In February, the second half of the month things just started to work out and March was completely normal; April, normal; May, it is going along the lines. We see no clouds in our skyline. Everything is back to normal. The government understood the impact of an eventual rupture is really dramatic for the whole of the segment in terms of employment, even economy tax reasons. So we are much more comfortable. So to answer your question, things are back to normal, and we expect them to stay so.

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

Okay. Just as a follow-up, so April and May, expectation is to recover the units that were not transferred in the first quarter. If everything follows as is, should we expect an even stronger cash generation, reversing the cash burn of the first quarter?

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

Well, obviously, the first quarter had this problem because of the non-operation in January, part of February and even last year, we did have some restriction in terms of budget. You will remember that affects the operation a little in the coming months. I will not say that everything that we lost in the first quarter and first quarter will come back in the second quarter because there are some clients that have to be reassessed. When you have a hiccup in the process, sometimes you have to go back to 0. But certainly, it's not going to be like the first in terms of cash generation, it's going to be a lot better. I would say that recovery will take place in the second and third quarters and then we are going to be settled.

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

Okay, thank you very much.

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

You are welcome.

**Operator**

Our next question comes from Luis Stacchini from Credit Suisse.

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

Good morning Rafael, Ricardo. Thanks for the presentation. I also have two questions. The first is about gross margin that we saw in the last two quarters, a small drop in gross margin, which is probably because you share in a different range. As you start to stabilize

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your ranges and your shares, well, what do you see in terms of gross margins for the business? And the second, I would like to try and understand a bit more and even as a follow-up of Cambauva's question, I would like to know about the pace of launches. We saw that in the first months and the first quarter, you held up a little in the pace of launches. So what do you think the launching profile is going to be like? Do you think that you are going to go back to normal especially because the FGTS operation is already back to normal?

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

Okay. This is Eduardo is saying. The gross margin, yes, it has to do with the 1.5 range. Remember that we had a 25% share with that. Now it is going through DRE our products of 1.5 is very close to 2. It is a range to sold as 1.5 and that has a larger weight in our gross margin kind of pulling it down, and we had some improvements for the product, in the short term you'll have lower margins. But further on, you have the recognition of the market and the clients about this better product and with that prices start to go up again. And we also, we had some units in. We have the provision for delinquency and that has an immediate impact in margins. The second question, as for the launches of the second quarter, the second quarter will be certainly above the first. You know we had some restrictions for the hiring of companies in the first quarter, and we understood it made no sense to launch without these companies because then it would be a problem to transfer units. So we are going to launch more in the second than we launch in the first. We want to continue to have those guidance of more launches than '18.

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

So in terms of gross margin, what's the breakdown now? What is the difference of margin between products in ranges 1.5, 2 and 3?

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

2 and 3 is very similar, 33.5% and 34% and 1.5, between 30% and 31% margin.

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

Okay, thank you very much.

**Operator**

Our next question comes from Alex Ferraz from Itau BBA.

**Q - Alex Ferraz** {BIO 19294308 <GO>}

Good morning everyone. Thanks for the presentation. I also have two questions. But the first about Caixa Economica Federal. We saw along the months that an announcement made by the Ministry of Economic, further creation of workgroups to discuss the funds and rediscuss the administration fee of Caixa, and we see the balance sheet of the bank a relevant increase in the number of units that were resumed. So when you talk to Caixa, do you see Caixa being a bit more restrictive this year? Is there any movement for them to settle things? And also I have a question about your Santander project in Curitiba. You

highlighted it in the release, and I would like to know what is it like if you are transferring clients smoothly to the bank.

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

Okay. This is Rafael speaking, Alex. First, as for Caixa, I'm going to go back to the opening remarks. What's going on is that we have been talking to Caixa -- to the Ministry of Regional Development with the worker compensation funds and very good conversation to have a healthier program for the banks, for companies, for clients. And so this is the objective. What is going on, and I'm going to give you a concrete example. The analysis of each product took place at the regional level at a municipal agency. And today, Caixa concentrated this analysis, so which is a lot more judicious, a lot more uniform and companies that provide good work that have good history, good financial capacity, good product, the low default levels, low complaint levels are going to have a few adjustments, I would say, for further on. More informal companies with more technical problems, more quality problems, they will have to adapt to this model. So what the government want is to have a more perennial program with qualification that is good for companies, clients and banks. If it is a good product that is built with good quality with good after sales, then you have low default levels, and Caixa understands that. The level of default of more structured company is a lot lower than non-structured company. So there is a pursuit of -- for quality because then you'll have a healthier, more perennial system. Do you think I answered your question? Are you happy with the answer?

**Q - Alex Ferraz** {BIO 19294308 <GO>}

Yeah. Sure.

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

Okay. As for FGTS, we launched in the month of February or March is a small product in Curitiba, excellent location. Sales are doing well, transfers are going to start probably as of next month, if I'm not mistaken, and we have several products in the pipeline, not only with Santander. In the month of June, we are going to launch something with Bradesco. So another effort we had to qualify the product, the land bank technology, modernity enabled us to go back to the segment with an excellent product and very cost effective. So this is the segment that we believe in a lot. It's going to be important for MRV. We want to have from 20% to 25% of our value of the units in FGTS, which will take about three years. But we believe this is going to be a successful initiative.

**Q - Alex Ferraz** {BIO 19294308 <GO>}

Okay, thank you very much.

**Operator**

Our next question comes from Andre Mazini from Citibank.

**Q - Andre Chaves Mazini** {BIO 20818108 <GO>}

Well, thanks for your call. My first question is about 35,000 units that were resume by Caixa. How many were produced by you? And are you contacting Caixa to resell those units? Do they compete with units that you have in production? And the second question about SG&A, you talked about the potential nominal reduction from further on. What should we expect? And what is time frame?

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

Well, this is Fischer speaking. Well, Caixa, we know publically they have 70,000 units that they recovered. And the survey that we have is that very few of these units belong to more organized, larger, more formal company. In MRV, you're talking about minimum share. So again, more structure, more organized companies have better product, analyzed the customer better because they have responsibility in the granting of credit, which is our case. With that, you have healthier clients and therefore less defaults. So I don't have the number, but the number that we have of Abraim Company, is very, very low percentage.

So again, what Rafael mentioned in the beginning is true. When you have Caixa, the ministry and the worker compensation funds seeking rationality, we benefit more because we focus on quality, we focus on the client post-delivery, and that reflect in delinquency, units returned, and et cetera. We have a discussion with Caixa to add even more benefits to be responsible for reselling the units that belong to us. But this is just an (inaudible) project and we may help Caixa to do that quite effectively. We believe that for us and for the system as a whole, if we can do that, it's going to be beneficial. And I don't believe we are going to be competing because again, the percentage is very, very low. So I don't think it will be a problem.

As for SG&A, I don't know if you remember. In December, about three, four months ago, we had given you a number. That was our expectation to reach in '19, and we reach this number in the first quarter. So as revenues remained as they are, which I believe, is the new reality of MRV, and as we recover sales that we didn't have in the fourth and first quarters, the trend of dilution of SG&A will continue. First, because we are going to have higher revenues and we were already calibrated to work at this new level; and second, because we already have a project to reduce absolute amounts in the company. We have a restructuring project. It continues to go on, especially with commercial expenses, which is the heavier line but also administrative expenses and there's still movement -- tends to lower this number even further now in the next quarters. We are working for that. Thank you.

**Q - Andre Chaves Mazini {BIO 20818108 <GO>}**

Thank you.

**Operator**

Our next question comes from Luiz Mauricio from Bradesco.

**Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}**



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Good morning. I also have two questions. First is the equivalent line. You talked about LOG leading [ph] and naturally then you reduced the benefits of this line that we saw in the first quarter and the third quarter, the loss of other SPEs. So I would like to understand what you had been doing for this line. And second point, if I'm not mistaken, Rafael mentioned about the main changes of the program in ranges 1 and 1.5, but also there were minor readjustment into M3. So I would like to understand what these changes are? And what do you see the potential for the company with these changes? Do you have any initiatives to improve sales even further down? Are you comfortable with this level?

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

Luiz, well, first, equity or cash equivalents. We have 5 million layer for a positive contribution of LOG in the first quarter '19 compared to the first quarter '18. This is a line that you have some volatility as we mentioned before. But it tends to go down, so you'll have to take -- you cannot take the fourth quarter '18 or the first quarter '19 as a reference. The results of these companies have been more and more consolidated inside the Holding. So what you have down there is basically administrative and financial expenses. This company is already generating cash after the payment of taxes but deleveraging them will contribute for us to have better results for the future. But we expect continued volatility and this line also it tends to be lower.

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

Hi, Rafael. As for changes in ranges 2 and 3, we do not expect anything quite significant eventually. The government may change a bit of subsidies, but we don't have any signs about that. We have been saying that the money invested in ranges 2 and 3 is small compared to the return. Just to give you an idea, last year, the government invested BRL900 million in the product with a VGV of almost BRL90 billion. So I have no doubt this is the most efficient program of the government. And you cannot only think of the tax aspects. You have employment, you have the economy of the country, you have a social aspect. In Brazil, we have more than 30 million people working in poorer conditions. In richer countries in the US, several European countries, Asia, all these countries recently in Latin America have a program to reduce the lack of housing. We have wealthy cities like San Francisco, New York, that will face this serious problem and economic retraction is a very important problem for those capitals.

So I do not see any significant change to really erode the program. This is, I think, 0 changes. I think that this is something that has very little risk for the government. The market is trying to scrutinize the program, but if you look at the results in the last 12, 10 years, the companies are delivering exceptional results. MRV has been delivering exceptional results in the last 12 years. As for the speed of sales, we are quite comfortable. Launches, sales, production, passing on. These four metrics are quite similar. So that shows that MRV is balanced. We are launching a bit more than 40,000 units a year. We sold a bit less than 40,000 last year, we produced the 39,000 last year. So all these operating metrics are very well balanced. Of course, in a quarter, you can launch a bit more and the other, you can sell a bit more, but looking year-on-year, what happened on '17, '18 and what will probably happen in '19 is a balance of all these four metrics.

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So why are these four metrics similar? It's natural that the company is going to have a good balance sheet, a good cash position. So in this year, we want to launch more than last year the VSO because it's very similar. When you launch more, you have more sales and then you can build more units, and you transfer more clients. So once again, we expect for the year of '19 for the MRV clock of launching, selling, building and transferring. These four metrics are going to be very well balanced but higher, and therefore, the consequence of this, and I mentioned that at some point in the call because our expenses is flat about the year, when you receive more, you dilute your revenues and then the bottom line benefits. So that is our expectation for the year-end of '19. I'm very comfortable with the balance of these four metrics.

**Q - Luiz Mauricio Garcia** {BIO 17432519 <GO>}

Okay. Ricardo, just a follow-up. You mentioned that there is some seasonality. Could you talk about something that happened in the last quarter? Did you have any event that you can highlight to share with us?

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

No. There is really nothing. We don't have a specific project to mention that was guilty for any difference.

**Q - Luiz Mauricio Garcia** {BIO 17432519 <GO>}

Okay, thank you very much.

**Operator**

Our next question comes from (inaudible) from Santander.

**Q - Unidentified Participant**

Good morning everyone. Thanks for taking my call. My question is the project approval process. You mentioned that cash have centralized the analysis and that it's being more judicious. I would like to understand here today what's the average time for a project to be approved now? And what was it in the past? Does it have a possible impact in the pipeline this year? Are you offsetting that with a larger number of projects? What is it like?

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

This is Fischer speaking. So what Caixa did in practice was to create a committee where they will analyze project. In our case, we have a project to be approved in about 10 months. And we believe that it's not a delay, it is better because if you have greater filter in what is being approved, we benefit the most because we have the best products, the best projects, the best assessment. So the net result was better to us than to the remaining of the market. So this period really do not have an impact on us and the benefit is greater. So for MRV, we believe it has been a very positive process.

**Q - Unidentified Participant**

Okay, thank you very much.

## Operator

Our next question comes from Marcelo Motta from JPMorgan.

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

Good morning. I have a quick question. The financial results, financial revenues coming from clients, it's a bit lower than what you had before. So was it a one-off event? Is it a new level? So I would just like to talk about this line of financial results.

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

Hi, Motta, what happened with those lines is that we had more terminations that affect debt and you also have seasonality with the correction of the INCC compared quarter-on-quarter. So probably in the second quarter, you're going to have a higher number here.

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

Okay, thank you very much.

## Operator

Our next question comes from Jorel Guilloty from Morgan Stanley.

### Q - Wilfredo Jorel Guilloty

Good morning everyone. I have two questions. First, the funding of Minha Casa Minha Vida. If it decreases, would you expand your credit line? Could you replace the credit from Minha Casa Minha Vida? And along the same line, are you offer funds of MRV portfolio for people that work -- that buy apartments inside the FGTS?

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

Hi Jorel, this is Rafael speaking. About your first question of funding. Most comes from the workers' compensation funds and the percentage of the VGV that comes from the OGU is only 0.7% of the VGV. So it's very small. So let's suppose the government said that as of tomorrow, they will not have any subsidies from OGU. The impact from MRV is minimum. In range 3, we have no subsidies -- subsidized funds. So again, we are very comfortable even if you have a small change, a small adjustment because we work more at the ceiling of ranges 2 and 3, the impact is very little. Now if there is no funding from the workers' compensation funds, imagine the workers' compensation fund will no longer fund units. Well, the company and the market will have to readapt the numbers by going to be lower, I said that before. I think the chances of this to happen are close to 0.

If you think of the framework of ranges 2 and 3, quota holders of the worker compensation funds have had returns of 5.5% a year. This is above the savings account and very close to CDI. If you get a CDI invested, that is taxed at 15%, you cannot get 100% of the CDI. So perhaps the best source of savings for Brazilian workers is the worker

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compensation funds that yields 5.5% a year, more than the savings accounts and more than a regular investment in CDB. So this is important, quota holders have to be well compensated, and today they are with an inflation of 3.3 -- of 3.5% they're getting a spread of 2% a year, which is excellent. The second aspect, employment, the social aspect, the size of the market, almost 1 million workers depend on the program. And finally, the social aspect in a country, more than 30 million people live in unsuitable conditions and this (inaudible) increases by 1 million a year. If the government does not have structured products, this is a time bomb. Brazilian cities will explode.

So when you don't have good housing, you know you bring along lots of problems, lack of sewage, water network, health, education, leisure to the population. So the government is fully aware that Brazil at our per capita income of \$10,000 and huge inequality needs a social housing program. What you cannot have is like the range 1 that was just donating homes. You have people paying in shantytown BRL450 a month. And in the Casa Minha Casa Vida BRL50 and people would buy if they want it or not. So this is a program that never interested MRV. But ranges 2 and 3, I mean, they are very well structured. They generated tax surplus. And the government now -- an administration that is so rational looks into the future, has no reason for it not to have a program like Minha Casa Minha Vida. It may change names, you can have readjustments, but Pedro from Caixa, the minister have already said that Minha Casa Minha Vida is a Brazilian program, not a party A, B or C program. And it will continue, it is investment, you have to improve your oil and gas, you have to bid your airports. This is a government program. If we want to change Brazil, we have to have a suitable balanced policy that is directed to housing. And so we are very comfortable.

And so what's important to say that this is the only program of the government that takes investments to everywhere in the country, small, medium-sized, large company. Labor is 100% Brazilian; inputs, 95% just in Brazil. So I have no question this is the most successful program, economic housing for the government. It is the most balanced, the one that brings the most benefits to the country, so there is no reason to end with. And even in terms of competition, it's very well balanced. Today, we have Sao Paulo with three, four, five companies, a huge market and throughout Brazil, you have a very well-balanced program. You see supply and demand.

Demand is even higher than supply even when the country grows little. If unemployment goes down, the income goes up and consumers trust goes up, we are going to have the opposite problem. Demand is going to grow faster than supply. And then we will have to create new solutions. So again, my view for the program is super positive, it's very important for Brazil. The demands throughout Brazil is slightly higher than supply and will be higher, so I'm very positive what we are doing in the company of investing more and more in technology, in the quality of the product, get access to different funding like FGTS. I'm sure that the path that we chose is the best path to follow. So we are very comfortable, and we are certain that MRV is going to be the best company and the best driver for you to invest in housing in Latin America. Okay?

## Q - Wilfredo Jorel Guilloty

Okay. But the question was more your target of FGTS, if it goes down from 40,000 units, would you use your balance sheets to fund to reach your targets, that's their question.

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

Well, Joel, this is my opinion. The chances of the government to reduce the program by half is 0. They will have to have some adjustment from 400,000 to 350,000, 320,000. It might happen, but I think it's not much, much possible. We have mentioned throughout the call, companies that have the best product with the best balance, MRV being the best company in the industry. If there is a reduction again that I really don't believe much and if there is a reduction, it's small. We are going to get the market share. We have the best brand, we are spread in 157 cities in Brazil, we have the best product. If Caixa is more judicious, MRV is probably going to benefit the most from that. So I'm very confident that if we have a small reduction in the size of the program, we are going to get better, and we already said that before for our future plans, we want to increase the size of the company very little in Minha Casa Minha Vida. Last year, we launched 40,000 -- 45,000. We get perhaps to 50,000, and the 10,000 units will come from FGTS, which is new funding. So we don't want to grow as much in the program, we want to grow with the FGTS, and we are very comfortable with this long-term planning of ours.

### **Q - Wilfredo Jorel Guilloty**

And in FGTS, would you offer credit as you are doing with Minha Casa Minha Vida?

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

The model is exactly the same. The difference is that FGTS has no subsidies, but customers have more worker compensation fund and more savings. So they withdraw the fund. And with that, they have a down-payment that is higher. So the portfolio is about 12%, but the clients has more equity for the business and the behavior of delinquency of the pro-soluto of this client is better than the client Minha Casa Minha Vida. So once again, very comfortable, the granting of credit are similar 12% to 13%, but with lower delinquency.

### **Q - Wilfredo Jorel Guilloty**

Okay, thank you very much.

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

Okay Jorel, thank you.

### **Operator**

(Operator Instructions) MRV Engenharia conference call is now close. For the final remarks, we are going to turn the call to Mr. Eduardo Fischer, this company's CEO. Please, Mr. Fischer?

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

I'd just like to thank you for attending this call. It was a very important quarter for us. It shows MRV at a new level and I would like to highlight three things. First, a very strong profit per share. This is a trend that we are going to see with MRV as this consolidates. This is a company of larger size with larger results and a dilution of expenses, so the company is bigger. I think this is the message of MRV. And then we mentioned, and I

would like to highlight once again, we have been able to improve our cycle especially in construction, but there is room for us to improve even further, so I see benefits to be captured along the year, which is important. And to close, the most important issue to us is that our business has very long cycles. I buy land today, I launch in two years time. I take 18 months to build, other five years for guarantees in the portfolio, so it's a very long cycle. And when you have long-cycle businesses, you have to have long-term views.

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So our focus on quality, customer experience, are things that I believe that are inarguable. A company that thinks for the best of its clients in the long term cannot be penalized. Sometimes, people say that we do more than we need, but this is a wrong view. If you have long cycles, you have to have long-term views and this is what we want. We want MRV in 20, 30 years time to be even larger, more efficient, with a larger base of customers, and that continues to deliver the dream of your own house for Brazilians. And we can only be here for the next 30 years if we do that. So I believe MRV is a benchmark in the segment, and it should be awarded by that. Our strategy is not going to change. This is our vision, and we have to be recognized for that.

Well, that said, thank you very much, and we'll see you in the next quarter. Best regards.

## Operator

We thank you all for your attendance, and wish you a good day.

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