

## Q1 2013 Earnings Call

### Company Participants

- Leonardo Guimaraes Correa, Chief Financial Officer
- Rubens Menin Teixeira de Souza, Chief Executive Officer

### Other Participants

- Luke Morris, Analyst

### Presentation

#### Operator

Good morning. Welcome everyone to MRV's First Quarter 2013 Results Conference Call. Today with us, we have Mr. Rubens Menin Teixeira de Souza, CEO; Mr. Leonardo Correa, CFO; Mrs. Monica Simao, 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 will turn the conference over to Mr. Rubens Menin Teixeira de Souza, CEO, who will begin the presentation. Mr. Souza, you may begin your conference.

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

Good morning, everybody. I would like to thank you to joining us in this first quarter MRV call. You can look for the results in two ways: one way is the pessimistic side, and the other one is the optimistic side. On the pessimistic side, of course, our Group's results of the quarter were not like we had in the past. Our margins are worse, and you can see that we are playing better.

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For the optimistic side, we have a different point of view, in a whole vision you can imagine three main focus; the first one is, like we put in our presentation, is that the sales price decreased a lot in the last year. If you compare the sales cost with inflation cost of constructions, the difference is erratic, that means we are going to postpone these margins in the future.

And a very important thing that is important to highlight is the cash flow generation. Nowadays, MRV is operating in a very good way. We are experiencing positive cash flow, and more than that, we are increasing this in this year definitely.

And another very important focus, the things that we've been focusing that I would like to highlight to you, and very, very important to think about that we got all the clients that we are advising for the banks, we are operating today in a very balanced way. We have 10,000 clients for the bank, we are producing 10,000 units in a quarter, we are selling 10,000 units in a quarter, and all developments are operating in a well -- robust. And more than that, we are seeing that our numbers are getting better.

In the production cycle, we are looking that, of course, and each time doing better with less discretion and we are seeing -- we're getting better in the operational side. The sales were strong and we are not forecasting problems in sales in rest of the year. Then, we are imagining to postpone in the next quarter (inaudible) using the optimistic ways.

I will pass the word to Leonardo Correa, and he will introduce you to the numbers of the presentation (inaudible). Thank you very much.

### **Leonardo Guimaraes Correa** {BIO 15387486 <GO>}

Good morning, everyone. You can follow my comments by the presentation available on the website. Beginning on slide four, I'd like to comment our operational results in the period. And mainly the adopted measures to reverse the scenario in return to a previous profitability levels, and of course, much more adequate level.

In first quarter '13, we had a revenue drop, mainly due to lower revenue coming from the INCC adjustments, the inflation adjustments, slightly lower production, level of production volume, and an increase on the cancelation.

Regarding this matter, we have further restricted our credit policy, and we understand that this temporary cancelation increase will add value to the shareholders. The units that have been resold in the quarter have shown an appreciation of 16% when compared to the original sales price adjusted by the INCC.

As cancelations became more relevant, from now on, we'll be disclosing the cancelation breakdown. As a reflect of the credit policy implemented since the beginning of the year, the cancelation in the first quarter '13 has built up, totaling BRL232 million in the quarter.

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As for the gross margin, I add that we are recognizing several old and less profitable projects in our income statement. As of 2012, we have begun a process of our internal reorganization and we started focusing in pricing, instead of an increase in sales volume.

We understand that the company today is in a better shape, in terms of operational side. We see very little competition in our segment and industry where we operate. Gradually, we have appreciated our unit selling prices, and we have been able to pass, not only to pass on the inflation, but to increase the prices in real terms. As for the costs, we have been able to reduce the deviation of the unit cost or unit construction cost, and that will represent a decrease in the average production cost. About G&A expenses, we expect a stability looking forward into this year.

On slide five; I would like to point out that highly expected cash generation is already a fact for MRV. All the projects launched in the first quarter of this year had its construction financing already contracted, which makes the client financing process softer and faster. Bank financing that in the first quarter of 2013 reached the level of 40.000 units per year, I mean, I am talking, not quarter, annualized terms, they are in accordance with the size of our operation.

We will maintain our management focus on cash flow. Land acquisition has been basically for to replenish what we have launched and those acquisitions have been made through swap and they will keep in line with our segments and geographical strategy.

In the first quarter 2013 we had generated BRL62 million and it is the second quarter in a row that we generate cash. Just to summarize the strategy, we are not going to be increasing the number of cities we are in; we are not going to be decreasing that number. We're not going to be moving out of the market segments that where we have been operating. The strategy is basically to keep on doing what we have been doing, but in a better way with better margins, and better quality.

On slide six, I will make very brief comment about Log; Log is generating value at a fast pace, reducing the construction, which has been very inconsistent in the first quarter, we have delivered 40,000 square meters of GLA and that delivery will increase throughout the year.

Now, I would like to move to the Q&A session.

## Questions And Answers

### Operator

At this point, thank you, the floor is now open for question from investors and analysts. (Operator Instructions) And our first question is from Luke Morris of Jovitis.

**Q - Luke Morris** {BIO 18318573 <GO>}

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Hello. Good morning, everyone. I have two questions, and the first one is what should we expect about the cancelations from now on?

**A - Leonardo Guimaraes Correa** {BIO 15387486 <GO>}

Regarding cancelations, we should expect a level more or less in line of the first quarter, and that level should be decreasing, but more towards the end of the year or next year.

**Q - Luke Morris** {BIO 18318573 <GO>}

Okay. And my second question is, when you -- when do you expect to see a recover of profitability on your income statement?

**A - Leonardo Guimaraes Correa** {BIO 15387486 <GO>}

The deficit is for quarter with a very soft numbers on the income statement. The gross margin has been affected as I had mentioned by slightly lower revenues. And also some bad performance from old vintages of projects, mainly those sold in 2011. As we had shown on our report, we have been selling at a much higher price or we have been increasing the sales price in real terms, and we should be expecting a pick up or the margin to recover more towards the end of this year and next year.

**Q - Luke Morris** {BIO 18318573 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions) Thank you, the Q&A session is now closed. I will turn over to Mr. Rubens Menin for final considerations. Mr. Rubens, you may begin your final considerations now.

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

Okay. I would like to thank you very much for joining us in this call. And I hope to meet you in next quarters with news on the improvement at the conference, as we are waiting for. Thank you very much. Bye, bye.

**Operator**

Thank you. This concludes today's MRV's first quarter 2013 earnings call. You may disconnect your lines at this time.

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