

## Q4 2012 Earnings Call

### Company Participants

- Elie Horn, Chief Executive Officer
- Gilson Fernando Hochman, Commercial Officer
- Jose Florencio Rodrigues Neto, CFO and Investor Relations Officer
- Raphael Horn, Chief Operating Officer

### Other Participants

- Eduardo Silveira, Analyst
- Guilherme Rocha, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Thank you for waiting and welcome to the Cyrela Brazil Realty Conference call, where the results for the fourth Quarter and for the entire year 2012 will be presented. All participants are connected only as listeners. Later on, there will be a Q&A session for which instructions will be given. (Operator Instructions) We remind you that this conference call is being recorded and the audio will be available on the company website upon completion at [www.cyrela.com.br/ri](http://www.cyrela.com.br/ri).

This call will be translated into English and is being transmitted by Internet simultaneously. Overseas participants connected through the Internet can ask questions using the webcast platform. The results release published yesterday March 21 after the closing of BM&FBOVESPA Stock Exchange is available at [www.cyrela.com.br/ri](http://www.cyrela.com.br/ri).

Before we proceed, we'd like to clarify that any statements made during this call regarding the company's business prospects as well as projections, operational and financial goals considering its potential for growth are forecasts based on the expectations of the management for the future of Cyrela. These expectations are highly dependent on domestic markets condition, on the general economic performance of Brazil and international markets and are therefore subject to change.

We have Mr. Elie Horn, CEO; Mr. Raphael Horn, COO; Mr. Jose Florencio Rodrigues Neto, who is the Financial Vice President and Investor Relations Director with us today.

Now I hand over to Mr. Elie Horn. Mr. Horn, you have the floor.

## **Elie Horn** {BIO 1823000 <GO>}

Good morning, everyone. I'd like to start our call with a quick reflection on the year 2012. 2012 was a year where we consolidated the restructuring of our operations looking back we assure that we've improved control of engineering and increased the efficiency of the company with processes of centralization of back office with the team of the first half of last year. I hope this call will be clear to you.

The solidity of our balance sheet which we have completed last night. We have increased for the third trimester, third quarter, leverage is falling and we're generating relevant cash operation. But we sold less than we have planned for the year something which we have to improve in 2013. In 2012, we had good news for the industry as a whole. Banks dropped their interest rates and expanded their deadlines for financing which increased the consumers' purchasing power and the result was very good.

Another good piece of news was that the government has reduced taxation which has increased our competitiveness in the industry. We enter 2013 more sound and more optimistic with regards to the opportunities we will have. The real estate market continues good with demand which is sound and supported by credit and very attractive interest rates. So, we have chosen our priorities for 2013 to resume sustainable growth, to buy new lands and sell more and thus reduce our inventory, continue controlling costs, and basically to continue with our policy of financial sound results and balanced cash flow.

And our priorities continue to be to develop our leader, we have carried out our first MBA Cyrela for executives. And also on the basis of day-to-day business we respect our customers. The company is still financially sound and avoiding abuses.

Another piece of good news, the Board has approved an increase of dividend to BRL210 million. With the support of our collaborators and shareholders we will continue on our path of always increasing and enhancing.

I'll give the floor now to Raphael who will comment on the results for the fourth quarter.

## **Raphael Horn** {BIO 19714328 <GO>}

Good morning, everyone. Slide five will show the comments on Cyrela's consolidated results. In the fourth quarter, we launched for BRL2.1 billion. In the quarter, the economical and MCMV segments accounted for 63% of total launches of the company, including approximately 600 million within the so-called Faixa 1 through our JV Cury. Launches in the economical and MCMV segments for the whole year was 48% of total launches for the company, above the 34% in 2011. So 2013, we hope that the MAP segment will come through a more significant potential of the total.

Cyrela's share in the launches came to 65% in the quarter compared to 60% in the third quarter. This share was 69% for the year.

As we've been saying since the last quarter, the fall in the company's sales is an isolated phenomenon, the results of not having launched the forecasted projects. Geographically, most launches were in Sao Paulo, Rio de Janeiro in the South reinforcing the company's strategic focus.

Now, again to slide six, where we'll discuss the sales performance. This quarter pre-sales came to approximately BRL1.7 billion including partners in line with the last quarter. Sales for the economical and MCMV segment, Minha Casa, Minha Vida came to 55% of the company's total sales in the period over 2012. The company sold BRL6 billion attaining 100% of the minimum in the revised sales guidance.

Cyrela's share in the projects was 73%. In sales volume, we sold 5,500 units excluding 7,436 in Faixa 1 this quarter as opposed to 5,046 previous quarter. These figures make up an annual sales over supply of approximately 50%, 47% if we exclude Faixa 1. The State of Sao Paulo and Rio account for 76% of our sales together. We highlight the launch of Duo Concept in Porto Alegre and now in Sao Paulo, Sao Paulo (inaudible) both with excellent sales results.

Now we are going to slide seven. Of the total for the quarter, excluding the so-called Faixa 1 sales of inventory come to 53%, sales of product launched in the period come to 47% of the total. In terms of performance by crop or vintage we sold, 35% of products launched this quarter. Projects launched in the third quarter 49% sold, those launched in the second 70% and those of the first 80%. Cyrela believes that this sales speed of approximately 50% for the year is within the new market dynamics and it's using it in the feasibility of its launches.

Slide eight, addressing inventory. And at the end of the quarter, inventory volume, the market value came to BRL6.6 billion, up 7% over the previous quarter. This represents approximately one year sales. The graph on the right shows inventory movements. In the quarter, we sold 615 million in inventory, a 135 million of this finished units. Finished units accounted for 14% of total inventory, in line with the last quarter.

In slide nine, we look at the inventory finished units. Finished units come to BRL953 million. Analyzing this inventory by crop of delivery, we see that 61% was delivered during 2012. This year, we delivered 68 projects launched from 2007 to 2009. These vintages suffered more from delays and completions and therefore, a higher number of cancellations increasing finished inventories. It's worth pointing out that, in 2012, we sold 51% of finished inventory that have been ready at the end of 2011.

On the right, we see the 42% of finished inventory is concentrated in Northeastern Espirito Santo markets with reduced demand where we expect slower sales speed. Finished inventory is the company's priority. We are using a range of sales strategies to reduce it, focus marketing activities, incentives for the sales team, price adjustments on a case by case basis.

Going to slide 10, we will discuss the units delivered. In the third quarter, Cyrela delivered 20 projects, 4,850 units. In 2012, the company delivered 24,000 units in line with the

previous year. The PSV represented by these units was BRL5.8 billion.

So, now, Jose Florencio will discuss the financial results.

## Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

Good morning. Before discussing financial results, I will comment on the impact of the new special tax regime, which is called RET on our results. In January, the tax rate for development subject to the RET was brought down from 6% to 4% as you all know. Cyrela effects its equity and submits development projects to the STR or RET whenever possible assuring clients and partners of increased legal security. On the 31st of December 2012 over 75% of the company's receivables were allocated to projects submitted to the RET. This change impacted the income statements of the company in two ways.

First, new income from projects submitted to the RET were taxed at 4% instead of 6% and secondly, deferred tax was posted at 4% instead of 6% with a positive effect on the income statement in a single event this quarter on the cash flow. The total impact of the TR on the income statement this quarter was BRL89 million in our share. All the information that we are giving here will be shown as before and after the impact of the RET comparisons with previous quarters will exclude the effect.

So, we'll now go to the next slide, slide 13. In slide 13, we will talk about the financial results. Gross revenue came to 1.5 billion in the quarter in line with the income from the previous. Over the year, we came to BRL6 billion in income, 5.6% below what we achieved in 2011. It should be highlighted that the BRL563 million of sales of Faixa 1 did not become income this quarter, because they do not have plots or land costs and will be recognized as construction goes on, once the construction work begins.

The lowest volume of income this year is owing to the fact that we launched less in 2012 and obviously sold less. Gross profit before RET came to 471 million in the quarter, 7% above the previous quarter. If we consider the RET, gross income was 519 million. The gross margin before RET rose again for the eighth quarter consecutively, 32.8% in the quarter, about 2 percentage points above the previous quarter. For the year, gross margin was 30.9%, 2.6 p.p. above the 2011 margin. With the benefits of RET, the growth income for the quarter was 35%, 31.4% for the year.

EBITDA that we're posting today is calculated according to an instruction from CVM or the SEC 527 as the comparison for the previous quarters and years. This new way of calculation only includes items that are directly linked to the company's operations. EBITDA for the quarter before the RET effect was 309 million, 26% the above the 245 million posted in the third quarter '12. EBITDA margin before RET came to 21.5% in the quarter, up 4.4 p.p. over the previous quarter.

With this benefit of RET, EBITDA was 358 million, the EBITDA margin was 24.1% in the quarter. So, accumulating for the year, EBITDA is approximately BRL1 billion, a margin of 17.2%. With the RET included, EBITDA was slightly higher than 1 billion with a margin of 17.9%.

In the quarter, net income before RET was 160 million, 7% above 3Q12. The net margin was 11.2%, up 0.7 p.p. over the previous. With the effect of RET, net profit was 249 million in the quarter, net margin 16.8%.

For the year, net profit before RET is 571 million, 14.7% over the profit of 498 million reported in 2011. Net margin 9.9%, 1.8 p.p. above the margin for 2011. Again, considering the benefits of the RETs, the net profit for the year was BRL660 million, a net margin of 11.3%.

We're now moving to slide 14, which talks about transfers and pay-offs. In the 4Q12, the volume of transfers, sales and payoffs was BRL811 million, 6% up over the third quarter 2012. However, we transferred 7% less in terms of units. The reason was greater participation of the MAP segment in the mix, 26% to 31% and an increase in average ticket by BRL40,000 from BRL280,000 to BRL220,000. Should be pointed out that, in the last two quarters, the volume of payoffs was BRL352 million and the volume of payoffs in the fourth quarter was twice that of the fourth quarter of 2011.

Slide 15 is the information on liquidity and debt. The gross debt was 4.2 billion as opposed to 4.5 billion at the previous, 45% has to do with funding within NFSC, 79% is long-term. This strategy of substitution which is concluding in terms of cheaper corporate debt and longer deadlines, the percentage of corporate debt in the mix went from 40% to 55%.

The cash position at the end of the last quarter was 1.8 billion as opposed to the previous quarter. Our net debt is falling from 4.7 of that quarter last year to 4.4 this quarter. Our net debt over equity fell once again with leverage of 44.8% considering total debt minus 10.4 p.p. over the start of the year. The average cost is something like a 112% CGI, a low increase as opposed to cost in December 2011. Because of the strong fall in CGI this year, part of our debt is contracted in CGI. For the quarter, we issued a CCB for 200 million which 111.5 million, half of that value was used for the repayment of SFH debt and for projects concluded. So we have lengthened the profile of our corporate debt at the same time, we have reduced the average cost.

Slide 16 is cash generation and cash burn. For the quarter, we have BRL240 million cash generation compared to BRL147 million in 3Q12 and BRL123 million in 4Q11. Of this 240 million, 99 million is non-recurrent event. First, 87 million in loan settlement from partners, then 21 million by admitting a new partner into a project and the SPV acquisition. And thirdly, the burn of 9 million in purchasing performed receivable purchases.

Excluding these effects, before the events, cash generation was 141 million, because of the large volume of pay offs and transfers and the high volume of deliveries in the second half of the year. For 2012, we generated 424 million as opposed to cash burn of 13 million in 2011. Finally, I would like to reiterate that this cash generation provoked at decision at board level to submit to the Ordinary General Assembly payments of an additional 15 million in dividends for extraordinary dividends as well as the obligatory million.

So now we go to questions and answers. Thank you very much.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll now start the Q&A session. (Operator Instructions) Our first question is from Guilherme Rocha from Credit Suisse Bank.

#### Q - Guilherme Rocha {BIO 17303509 <GO>}

Good morning, everyone. Good morning, Elie, Raphael, and Florencio. The first is to Florencio. Just to understand a little bit the rationale behind the 70 million that were included in the RE in the statement -- in the income statement, has it had any effect on the balance sheet? Is it a write-off, a balance of costs? What does that difference mean?

And the other question is about the margin. You had quite interesting increase in the gross margin of 200 basis points. Is this something that is sustainable? Was there any non-recurring event? Did you launch a project that was quite good in this quarter? Was there a recognition of a very good project in this quarter? And, as far as I understood in the release, we understood that the margin of the Living, the low-income segment, well, it seems that it was higher than that of the high-income segment. Is this a recurring event or are we looking at the wrong figure here?

#### A - Elie Horn {BIO 1823000 <GO>}

Rocha, good morning. There are too many questions. It's a compiled question you've had. Well, first, the issue of the minority, there was an increase in the fourth quarter, but here we prefer to look year-to-date because depending on the performance of the partners, it may vary. So, the variation in the year was 26%. We had a deduction of a discount of 24 million. From the 24 million, there are two non-recurring events. One was the purchase of shares in the Northeastern, there was an impact of 10 million in that case. And also the effect of the RET on the MAP, that's an impact of 5 million. The rest of it is because of the performance of the SPS' with our partners.

So, for question number two now is the margin that we introduced to usually sustainable or not? The answer is yes. Of course, there is no extraordinary event or any launch that generated this extraordinary margin. This is something that we have been addressing for a while. So as we use the legacy projects from '07, '08, '09, the margin increases. So nothing else in that.

The third question about Living MAP, well, Living resulted in a higher margin than that of MAP. Well, this is not the standard, it's not normal, but it happens for two reasons mainly. One of them, it is because MAP had few launches and leaving ahead a higher percentage of launches, and so the margin was higher. The margin of the launches is higher.

#### Q - Guilherme Rocha {BIO 17303509 <GO>}

Just to conclude then, we may understand that the margin of the fourth quarter, that is 32.5%, it is a floor for you as of now, because you have been discussing the new projects and they are better than the legacy projects. So we should not expect the project with a

margin of approximately 30, let's say, so there was a jump from the fourth. So, these are gradual improvements that you've introduced, right?

### **A - Elie Horn {BIO 1823000 <GO>}**

Yes, Rocha, we believe that it is sustainable. And, of course, the segment should not be analyzed quarter by quarter, but we increased the rate of the guidance on the gross margin. So we do expect that the gross margin is restricted according to the new guidance from 31% to 35%. Well, I think that everything that Florencio said is part of our strategy. For some quarters, we've said that we want to be selective. We want to make money in all of the projects. We want to control the costs, the margins. So we are going to differentiate ourselves by doing things not at random. We want to add value to the product and make money, so we are struggling to provide healthy gross margins, and that's our strategy. That's what the market may wait from us as of now.

### **Q - Guilherme Rocha {BIO 17303509 <GO>}**

Thank you. I wish you a nice day.

### **Operator**

The next question is from Luiz Mauricio Garcia from Bradesco Bank.

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

Good morning, everyone. I have three questions. The first is about the cash flow. As was said in the presentation and Florencio talked about that, we see the growth in transfers and payoffs. And when we see the deliveries in 2012, the company delivered 5.8 billion as part of the inventory. So it was not included in transfers and payoffs, but this is in line with the average of the volume that was launched in '08 and '09 that was 5.6 in average. When we address 2010 and 2011, that is delivery and also the transfers for the following quarters for 2014 and 2012, we had an average of launches between 2010, 2011 of 7.8, 7.7, I'm talking about 100% of the volume. So we see a cash generation that is quite strong, especially in 2014 and 2015.

And, of course, we do have quarterly seasonality, but I think that the scenario is about strong growth. And I would like to know what you think about this -- if these extraordinary dividends will continue to be offered, if that's the path. And if, in the company's radar, you have some strategy or something else. I would like to know from you your view about extraordinary dividends from now on, because the cash generation will keep on growing, if my analysis is right. Well, the other point. I would like to hear about the launches from March to July. What are your expectations?

The company had said that the many projects that were not launched in the fourth quarter, they would be launched in the first half of this year. So, possibly, halfway through the year, we'll see that. I would like to know how the launches are doing from March to June. And the third question is about mutual results. These benefited the free cash flow of the quarter as well. So I would like to know if we can expect something that is more normalized or if there are payoffs happening as of now.

## **A - Jose Florencio Rodrigues Neto** {BIO 17498585 <GO>}

Good morning, Luiz, this is Florencio. Quite a few questions. Well, let me answer the first of them, about the free cash flow and the mutual results and then I'll pass the floor to my colleague so that they can discuss the market. The free cash flow, well, actually according to the delivery volume, this allowed us to strongly generate cash. We hope to have a strong cash generation in 2013 and according to your calculation in 2014 we do believe in that.

Well what to do with the additional cash flow? I think we've done a bit of everything. So what we have in our menu to do by strategic plan, we've done that. Adjusted capital structure to settle our debt, we did that. We purchased the shares, we did that and now it's ordinary dividend. So this decision is based on each point, based on the volume, based on the strategy, based on the options that the company had.

What we would like to make clear to you is that all of the options are there on the table. And as a priority for our company, we want to reduce the corporate indebtedness, we want to further improve our financial soundness. And for the mutual well it was an isolated fact, it may happen in 2013 due to the cash generation of partners in JVs, joint ventures and other agreements that we may sign. Nevertheless, we don't think this is going to be relevant in terms of the cash generation for 2013.

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

Okay. And for launches?

## **A - Raphael Horn** {BIO 19714328 <GO>}

Raphael here again. We have no guidance for launches this year. What we had been saying is that as compared to 2012 you may expect growth because in 2012 many things did not happen. So we are quite confident that we are going to have many launches in 2013. But we do not want to be specific about that discussing quarter by quarter here.

So far we had launched Stora in Sao Paulo. We launched our undertaking in (inaudible) it was sold by 100%, another undertaking in Sao Paulo that was 100% sold as well. We launched the (inaudible) in Rio de Janeiro is 100% sold as well. We launched (inaudible) that is doing quite well. So things are going back to normal. I will pass the floor to Gilson, so that he may provide you further details.

## **A - Gilson Fernando Hochman** {BIO 17266675 <GO>}

Good morning, everyone. As Raphael said, this year we launched eight projects. It is important to notice that the year for us should begin after carnival because we have the carnival holidays and it's quite bad for launches. So we had eight launches, three in Sao Paulo, three in Rio, two in the city of Campinas, three in Sao Paulo capital city I mean. So what we may expect for the rest of the first half of the year is following through with the same level of launches. We are now preparing to keep on launching new projects in the first half of the year that we've done so far.



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

Just following up here, how about the approval or permits in Sao Paulo? Did it improve? Was there anything happening in the city administration? How is this going? Is it moving ahead again?

**A - Gilson Fernando Hochman** {BIO 17266675 <GO>}

Well, the situation has been improving. I think it's worth mentioning the projects sponsored by major companies, including Cyrela, to make this process automatic, having an electronic approval for the permits. This is something that is underway. This new administration, well, it's natural that they take a while to adjust to that. But we were quite impressed with the master plan of the city administration. And in the meetings that we had with the mayor and with all of the technical leaders of the administration, we were quite impressed with the results. The situation has been normalized.

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

Thank you.

**Operator**

(Operator Instructions) The next question is from Marcelo Motta from JPMorgan.

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

Good morning everyone. A question about the FB partner and the acquisition of corporate shares that generated 21 million. I would like to know if this is transferred to results or if this has been included in the investment line. I would like to know about the income statement, how this was included.

**A - Jose Florencio Rodrigues Neto** {BIO 17498585 <GO>}

Well, it affected the results. Yes, it did, but in a different line, others -- in the line of others. It's not in the gross margin, and the impact was 4 million.

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

My second question. When we look at the equity income and other investments I understand that this line is the -- I would like to further understand what you have included there, what is the composition of this line?

**A - Jose Florencio Rodrigues Neto** {BIO 17498585 <GO>}

Which line do you mean?

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

The equity and other results due to investments.

**A - Jose Florencio Rodrigues Neto** {BIO 17498585 <GO>}

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From the 9.4 were due to the FPE, but we also have other values here in terms of equity. The equity equivalents, well, in that line, basically, we have the FPEs that we consolidate. Actually that we do not consolidate in the lines above. And then we do the equivalents. These are FPEs in which we have a smaller share, so we do not consolidate. We have FPEs in which we have the majority of shares, and then we consolidate at the rate of 100%. And we did that in the minorities.

As for the others line, the relevant factor is really the effect of BRL4 million that we have just mentioned. Well, that is not relevant, as you can see in the balance sheet as a whole.

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

Perfect. Thank you.

## Operator

(Operator Instructions) From Eduardo Silveira from Banco Espirito Santo.

**Q - Eduardo Silveira** {BIO 16201252 <GO>}

Good morning everyone. I have a question about the mix of launches. Can you give us an idea? And CMV, what's going to be the share of that in Sao Paulo because of the reduction of the approval of permits? Can you give us an idea about the total launches in Sao Paulo for 2013? Thank you.

**A - Raphael Horn** {BIO 19714328 <GO>}

This is Raphael. Once again we are not providing guidance on launches. We do not want to provide breakdowns on the future launches. What you may expect is that Living which last year accounted for over 30% it should go back to that level, this year again 30% and the Faixa 1, the so-called Faixa 1, it is out there. So what we can capture in terms of opportunity with Cury, we'll do that.

So we are quite optimistic with this government program and by means of Cury, this year we intend to see a strong growth in Faixa 1 with higher 600 million in Faixa 1, for this year we expect similar number or even a higher number. I would say that Faixa 1 will total BRL6 million or more and we may expect more MAP in Cyrela's portfolio because Sao Paulo will go back to new launches, so MAP should grow in our portfolio once again.

**Q - Eduardo Silveira** {BIO 16201252 <GO>}

Thank you. Have a nice day.

## Operator

(Operator Instructions) If there are no further questions I would like to pass the floor to Mr. Elie Horn for his final remarks.

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## A - Elie Horn {BIO 1823000 <GO>}

Ladies and gentlemen, well, that was a quite strong year with some adverse effects, but we recovered our strength, we gained solidity and your sympathy. We are doing everything possible to improve our balance sheet, our results, our performance. God willing, we will have a stronger performance so that you may feel comfortable in investing in us. And wish you all a nice day. Thank you very much

## Operator

Cyrela's teleconference is closed now. We thank you all for participating. Have a nice day.

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