

## Q4 2016 Earnings Call

### Company Participants

- Andre, RV
- Leonardo Guimaraes Correa, CFO, IR
- Rafael Menin, CEO Region I

### Other Participants

- Gustavo Cambauva, Analyst
- Marcelo Motta, Analyst
- Rodrigo Fraga, Analyst
- Victor Tapia, Analyst

### Presentation

#### Operator

Ladies and gentlemen, good morning. And thank you for holding and welcome to MRV Engenharia conference call. All participants will be in listen-only mode during the company's presentation. After the company's remarks, we will have a Q&A session when further instructions will be given. I'd like to give the floor to Mr. Rafael Menin. (Operator Instructions)

#### Rafael Menin {BIO 16905756 <GO>}

Good morning, everyone. I'm very pleased to announce another annual results with excellence indicators. In 2016, we reported evolution in virtually all financial indicators. We increased gross margin, improved margin and net profit. And reduced the Company's leverage even further. It is also worth to highlight the reduction in the volume of mutual recession and the continuous growth and qualification of our land bank. After some years of great investments in team's land bank, IT process. And new productivity methods, we feel quite comfortable with restructuring you qualified cycle of growth [ph].

Our current structure allows us to operate at a level of 50,000 units per year with no need for additional investments. We chose not to establish a time limit to achieve this new site. But when we look at the maturity of our land bank, commercial strength. And market conditions, we believe it's possible to get there in mid-term. Thank you. And I'll now open to the Q&A session.

### Questions And Answers

## Operator

Thank you. The floor is now open for questions. Mr. Gustavo Cambauva, BTG Pactual.  
(Operator Instructions)

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

I have two questions. The first, I'd like to elaborate on the gross margin that increased, we saw the cycle over the city [ph] is important to have a relevant productivity gain. What is your expectation with a more mature operation in the city? What is your margin expectations, maybe this 40% that you showed for some cities, is it feasible or these are data for smaller cities where prices are smaller? And my second question is related to the land bank in Paulista, how is the launching of this project? When do you expect it to be launched? Can you give us a general update in this project? Thank you.

### A - Rafael Menin {BIO 16905756 <GO>}

Gustavo. Good morning. So the first question, we highlight those indicators to give you a flavor of what we were able to achieve in our operations in the last two, three years. You see a substantial growth. We mature in the city and improved a lot the operation quality. As for our expectations, as we continue with our operational improvements, we'll be able to get some margin gain. It will be 40% in average, no, I don't think so. You were right. In some cities, we have an average growth that is smaller, reducing the margin potential. So the average that we see is around 30% as we mentioned in the past. Today is around 33%. I think we can still have some increase during this period. As for MRV, we have the official launch rescheduled [ph] for Friday, the day after tomorrow. So on Friday, this will come to the market with a very good expectation. We have already opened the sales booth, we are receiving some visits. The responsiveness and the acceptance has been great because the project is fantastic. It's unique for the site. So I think that in the First Quarter, we will capture good sales volume that will be coming stronger and stronger.

## Operator

Victor Tapia, Bradesco. (Operator Instructions)

### Q - Victor Tapia {BIO 20566083 <GO>}

So following this path of large projects, I'd like to know your IRR [ph] projections in projects in Curitiba, Fortaleza, Rio de Janeiro and Bahia. Thank you.

### A - Rafael Menin {BIO 16905756 <GO>}

Good morning, Victor. It's Rafael. For all these large projects, we are disclosing this in the delivery. Navim [ph] is the first one. Last year, we launched a large project in Rio with 3,000 flats and its being well accepted with good sales, good margin. A large project is about during [ph] the Third Quarter in the great BH, Belo Horizonte, one in Goiania by the end of the year. So from now on, you will see an increment in launching in large cities. We did our homework. We bought very good land in a time that nobody was buying and as the projects become feasible, we start to launch the projects. We have a very good

expectations about this. These are projects with good margin and this will improve the growth of the Company. Our objective is to reach 50,000 units per year.

## Operator

Rodrigo Fraga, Citi. (Operator Instructions)

### Q - Rodrigo Fraga {BIO 20043127 <GO>}

I was listening to your comments about the variation due to a sales reduction. Can you elaborate on the business margin in the Fourth Quarter and have you seen relevant reduction in these months [ph] and can you tell us or share with us what do you think about this new First Quarter?

### A - Rafael Menin {BIO 16905756 <GO>}

Good morning. (Inaudible), we had an increment along the last year. We are in a normalized level now and in the next quarters what we may see is a reduction in commercial expenses especially due to these new launchings. During the crisis we were facing, we had to spend more to sell these units and now, with this improvement in the economy, we see a different scope and due to Minha Casa Minha Vida program, it is improving also the amount of people who will be inserted in the program and this points to an increase in the demand, which will reduce these commercial costs.

## Operator

Marcelo Motta, JPMorgan. (Operator Instructions)

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

I have two questions. First, if you can elaborate about the Fourth Quarter, what you saw and the expectations you have for this year, is it going to be more flat or how do you see 2017?

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

Marcelo, its Leo speaking. Concerning G&A, we are restricting our expenses as you saw in our general comments and even with this sales expansions in these large projects, they are more effective in terms of the cost. But we see that we aim to have a G&A nominally equal to last years. And to the net income, this has been totally addressed. The margin is slightly higher than the gross margin. So it is reflecting positively. The Company is well leveraged and this will contribute during some quarters negatively in terms of net income. But the important, the operation is healthy. We have an increment and as its entering in a phase of cash generation, it will reduce the debt. We had some developments, launch [ph] developments, they were more affected by the crisis. But now this part of cash generation will decrease the gross margin and little by little, we'll reduce the negative contribution of travel [ph].

## Operator

Gustavo Cambauva, BTG Pactual.v

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

I want to ask two more questions. The first relates to the purchase of land. You had a great acquisition. So what is the outlook for land purchasing? Did the conditions change or this scenario is it still easy to continue to buy more land? Do you think the volume will be like 2016 or are you going to increase it? And the second question relates to cash generation because you are generating -- you announced the dividends of BRL150 million. What do you think about the leverage of the company due to the cash generation for 2017? Do you think the leverage level is comfortable or do you think it's necessary to leverage more before paying greater volume of dividends?

### **A - Andre** {BIO 17219127 <GO>}

Gustavo, it's Andre[ph]. As for your first question, the purchase of land, we still see a window of opportunity. We see very few companies buying land. We know that this will change. But we will buy much more land because we want to launch more this year. We will [ph] have an investment of BRL400 million for land purchase and we estimate for next year the same level and we believe that it's important to have this investment to look for the Company in the mid and long run. So we will see HG growing, increasing and next year, we want to reach more than BRL50 billion [ph]. I think this will be a great competitive advantage of the Company.

As for your second question, the Company this year is in a similar level as previous year. The first half was weaker and the second half stronger. And since we are a very conservative company, real estate goes through cycles. So we don't see a problem of the level of leverage we have today. When the capital cost reduces, we can be less conservative in terms of dividends. So looking forward, you see dividends higher than last year. But still having a conservative approach just the way we like to run our business.

### **Operator**

Victor Tapia, Bradesco. (Operator Instructions)

### **Q - Victor Tapia** {BIO 20566083 <GO>}

One more question in relation to PGB [ph]. You did a provision of about 30% of the current portfolio after the keys. So how do you see the future scenario? There is no scenario, do you think it's going to increase the provision?

### **A - Andre** {BIO 17219127 <GO>}

Well we have a rule, we follow this rule that is related with the performance of the Company, of the economy, the availability of income in general and clients. So as the financial conditions improve, we can see. But for now, we will continue with this provisioning level as it is, maybe something more. But not much different from what we presented in the last quarter.

## Operator

As there are no further questions, we would like to turn the floor to the CEO for his final considerations.

### A - Rafael Menin {BIO 16905756 <GO>}

Well I'd like to highlight two important things for us. First, this gross margin issue, along the last years, we've been in a efficiency that came mainly due to the Company management. The banks were strict here in credit. So this also impacted our capacity of repassing the price. So this year, we will continue to have these operational gains with chances to gain also in the price line. This is a result of the economy. But also of the Minha Casa Minha Vida project. We just received communication of the new rules for the new phase of the program, which in our opinion is very beneficial. We see a potential to increase sales and also to increase the number of units, which will reflect on the margins. So I'm starting 2017 very optimistic with our goals [ph]. I expect very good surprises.

And another point is, what is our great differential of being more exposed in larger markets, a higher demand with higher income allowing for higher sales price. But this is extremely favorable. Traditionally we can put more margins in these capitals [ph], because the increment of cost is not proportional to the increment of sales price. So I think it's a very positive scenario and we'll be able to launch to the market, nice products in these metropolitan areas. So to close, we are starting 2017 year at MRV with a very optimistic view. We think we can continue to increase productivity and volume. I'd like to thank you all for your participation and let's meet again in the next release. Thank you.

## Operator

So we are now closing the MRV Engenharia conference call. Thank you. And have a nice day. (Operator Instructions)

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*