

Q1 2016 Earnings Call

Company Participants

- Eduardo Fischer, Chief Legal Officer
- Leonardo Correa, Chief Financial Officer and Investor Relations Officer
- Rafael Menin, Chief Executive Officer
- Ricardo Paixao, Investor Relations and Financial Planning Director

Other Participants

- Daniel Gasparete, Analyst
- Daniel Malheiros, Analyst
- Enrico Trotta, Analyst
- Fred Mendes, Analyst
- Guilherme Capparelli, Analyst
- Gustavo Cambauva, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst
- Nicole Hirakawa, Analyst

Presentation

Operator

Good morning and welcome to MRV First Quarter Earnings Conference for Analyst and Investors. Today with us we have both CEOs of the company, Rafael Menin and Eduardo Fischer; Leonardo Correa, Chief Financial and IR Officer; Ricardo Paixao, Financial Planning and IR Director; and Matheus Torga, IR Executive Manager.

We would like to inform you that this event is being recorded and that during the company's presentation, all participants are going to be in listen-only mode. We'll then start the Q&A session for analysts and investors only when further instructions will be provided. (Operator Instructions) The audio is also being simultaneously webcast on MRV's Investor Relations website.

Before going on, we would like to let you know that any statements made during this conference call relative to MRV's business outlook, projections, financial and operating goals are based on the beliefs and assumptions of MRV's management, and rely on information currently available.

Forward-looking statements involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors could affect the future results of MRV and lead to results that differ materially from such forward-looking statements.

Now we are going to turn the conference to Mr. Rafael Menin. Please, Mr. Menin, you may go on.

Rafael Menin {BIO 16905756 <GO>}

Good morning everyone. We are very pleased to report one more positive and consistent quarterly results despite the challenging moment we are going through in Brazil. We're able to deliver to our shareholders and investors a good level of launches, sales, revenues, record cash generation and increase our margins compared to previous quarters.

However, in addition to reporting positive results, we would like to expose the reasons why we believe that MRV is the most prepared player to continue in the leadership of the housing market in Brazil. Originally from the State of Minas Gerais, MRV started its process to expand geographically to the state of Sao Paulo 20 years ago.

Currently we are present in 142 cities in all the states of the regions, south, southeast, Central West, North East and in the federal district.

To get to this point, it was necessary to put together a highly qualified team in all the cities and perform lots of investments in technology and processes. We are therefore in our assessment, the only company in the industry with a capacity to operate with quality in such geographic extension.

That said, our next challenge will be to increase our market share in the cities in which we have started to operate more recently. For you to have an idea of how much we can advance in this area, it is worth comparing the performance of sales between what we call reference cities to MRV's general performance.

In our reference cities, we have had an average sales of 0.72 sales for each 1,000 inhabitants in the social class C.

If we look into MRV's general performance, this number goes down to 0.16 [ph] sale for each every thousand inhabitants in the same social class.

That is, looking ahead, we still have lots of potential to explore in newer markets. To reach such objectives, it will be fundamental to invest assertively in our landbank. For you to have an idea, in the last two years alone, we invested more than R\$400 million in the

acquisition of high quality plots of land, having a robust landbank with the suitable geographic dispersion will enable us to supply the inventory of units on sale, in a way we can capture the greatest potential in each market.

Finally, we would like to tell you that we are quite optimistic with future prospects and even in this process of political transition, we are going through, our industry will continue to be considered and valued for its important social role as a major generator of employment, contributor of taxes and protagonist of the country's developments.

Now I'm going to turn the call to Mr. Eduardo Fischer.

Eduardo Fischer {BIO 17580321 <GO>}

Good morning, everyone. I would like to start highlighting to very relevant points in our results in the first quarter of this year. The first is the strong evolution of gross margin. As we have released along the past quarters, we have been able to have expressive improvement in the management of construction site, renegotiating materials, lands and services. These improvements already appeared stronger in our balance sheet and our expectation that we continue to capture gains coming from renegotiations and also the operational evolution of our production areas.

The second point that is important to highlight is the reduction of our other expenses line. Along the whole of the year of 2015, we engage several efforts to reduce essential liabilities, especially, (inaudible) liabilities that's remove value from the company. We have had active campaigns of agreements, we closed important negotiations with consumer protection agencies and we also change internal practices, all to minimize the impact of this line. The results of this actions start to show, and we will continue focusing our efforts in these strategies.

Now, I'm going to talk a bit about the operating performance of our first quarter. We had already released a record amount for cash generation in our first quarter. We generated R\$180 [ph] million, which reinforces the success of our simultaneous sales models and efficiency of transfers to banks.

In the commercial area, we closed the period with sales about R\$1.200 billion, it's important to mention that although we feel a higher strictness of banks in the granting of credit to our clients, we have been able to adapt to a scenario of further restrictions and continued with sales levels absolutely normal, that, because of our major geographic dispersion that minimizes this effect and also was greatest efforts in the commercial area.

As for real estate credit, we are again growing in the number of the financing to individuals after the impacts that we had with the bank strike in October, from the implementation of simultaneous sales projects, the credit area has been working closely with the commercial area and that has been enabled us to be more and more efficient with transfers happening faster in comparison to sales.

Also, I'd like to highlight that today we have 73% of units that are about to be completed in 2016 already transferred to banks, which shows the efficiency of our business model. Going back to production, we had the first quarter with an execution of units below our historical average.

That's because of the seasonality and also because of the time of construction. Since in the beginning of the year, we had a large amount of construction in initial phases. In the second quarter, our expectation is that the number of units produced will go back to its normal level.

To close, I would also like to call your attention to the evolution of our landbank. As Rafael mentioned, we have been very active in the last two years in buying areas for replacement in mature markets and growing in cities where we have potential.

We invested more than R\$400 million in the period and we have been able to seize opportunities in times of crisis to close a better deal. And we are going to be in a more and more privileged position along the year to observe (inaudible) greater market. Thank you, and now I'm going to turn the call to Leo.

Leonardo Correa {BIO 15387486 <GO>}

Good morning, everyone. I'm glad to talk about our enhancements in terms of cost and consequent impact on margins. I would like here to approach the continuous improvement of our financial standard with a decrease in the need for our working capital.

This improvement is proved to up small enhancements in several areas. Notably, in the sale of launches of our project and immediate transfer of credit to banks, and also the extension of times for our suppliers.

We still expect to have gains in our financial cycle, and I mentioned here two points, electronic registrations in the notary offices that are maturing from a pilot event. Two, a current practice and the fact that the number of developments in construction and the metallic molding [ph] is increasing, therefore decreasing the time of construction.

Continuing on the same topic, but looking into a different perspective, our cash generation has been enabling us to decrease indebtedness. On first quarter, we had gross cash of R\$2 billion and part of it will be used to amortize corporate debt. Our Board continues with the same determination of making our cash accumulate in the balance sheet and the allocation is going to be decided in a moment of more economic clarity.

Cash generation together company's economic [ph] result has enabled us to have the best credit rating in the industry and free to seek a best positioning in the company for a better economic time with higher trust from our consumers.

Our LOG subsidiaries reported their results two days ago. It showed an adjusted FO -- FFO higher compared to the previous quarter and also compared to the first quarter '15,

with margins up almost 43%.

LOG has ventures whose basic infrastructure was all applied and not all possible shares were added in a series of cities outside the Campinas, São Paulo (inaudible) area. The marginal return of those new warehouses is extremely high and will be achieved as the economy starts to have a higher level of activity.

Finally, I'm going to talk about Urbamais. It's already robust land bank increased by 10% in this first quarter, contracted sales had expressive growth of almost 600% compared to the first quarter '15, margins are great.

Its contribution for the (inaudible) line is still relatively small, but certainly growing. Now I'm going to open for the Q&A.

Operator

Okay. Okay. The okay. Yes. Okay. Okay. The okay. Okay. Okay.

Questions And Answers

Operator

Thank you. We'll now start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Luiz Mauricio Garcia from Bradesco.

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

Hello, good morning everyone. I have two questions. The first -- well in view of the changes in our political scenario that were confirmed this week, I would like you to talk about your expectations with regards to Minha Casa Minha Vida program especially for price levels 2 and 3.

So if you could tell me a bit of your interpretation about that, I believe that along with the processes of change, the company had a chance to talk to different stakeholders that are involved in the process and I think it would be interesting to hear from you.

The second question is with regards to Caixa Economica Federal. Some companies reported bit of a delay in Caixa's approvals for credit. I think that we are going to see some changes there, but I would like you to comment a bit about Caixa in terms of release of credit, analysis of credit and what we could expect from Caixa in the new economic, political scenario?

A - Rafael Menin {BIO 16905756 <GO>}

Hi, Luiz. This is Rafael speaking, first about the Minha Casa Minha Vida program, it was the most successful program of the previous governments generating employment, a very important social role and perhaps the most important point is with regards to taxes.

FINAL

So it is -- we had a study that says that every Real that is spent in subsidies, the government has a return of R\$5 in taxes. So in the price trend 2 and 3, tax wise, this is very important for the government.

So we strongly believe that the government will be interested in continuing the program operating in its full, because it is a program that is positive, tax wise, it has a very important social role and it is a major generator of employment.

(inaudible) is an association that is very strong, we have had a very good contact with political agents, so we'll certainly have meetings with them as of now, and we believe that Minha Casa Minha Vida price then 2 and 3 will be preserved.

There can be some changes here and there, but I think the most specific aspects of Minha Casa Minha Vida will be preserved. As for the bank credits.

We have seen that they are more stricter, especially in 2016, both Caixa and Banco do Brasil are bit stricter. What is good about our business is that, when we see the main hits to our portfolios coming to our construction sites, the demand for MRV products has grown, because we are the only company with capillarity.

We operate in 142 cities. We have markets that perform a bit better, others are bit worse. But the flexibility of operation in such geographic dispersion makes us to have people looking for our product and that in a way has offsetting a greater restriction of credits from public banks.

In the first quarter we talked about that, we've reported good sales volume, a bit below the fourth quarter, but still it was a good sales volume. We are going to have a second quarter with a bit of more volumes in terms of launches.

And we are going to have Caixa's auctions. So with that, I think that we are going to be able to dribble this higher restriction of the credits from both Caixa and Banco do Brasil.

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

Well, very clear. Thank you very much.

A - Rafael Menin {BIO 16905756 <GO>}

Thank you. Bye-bye.

Operator

Our next question comes from Nicole Hirakawa from Credit Suisse.

Q - Nicole Hirakawa {BIO 18242556 <GO>}

Bloomberg Transcript

FINAL

Good morning, everyone. I have two questions. The first is about the volume of contracted units that is still below the number of launched units. So if you could get us an update to the side of the backlog of contracted units that you have today, and also, if you see a bit more difficulty in the contracting with corporations that some companies have mentioned.

And also about your gross margin. I would like to know what your stable volumes would be, and also, if you can tell us the difference between gross margins and backlog. Thank you.

A - Eduardo Fischer {BIO 17580321 <GO>}

Nicole, this is Fischer. Good morning. Okay, first, about the difficulties to higher corporation, we haven't had any problems with that, no problems whatsoever.

Of course, we have a business policies that we only launched today when we have the contracted corporations, and we have a huge backlog, we had major contracts with corporations along 2015 and we are quite comfortable with that.

Difficulty with corporations for us is zero, both with Banco do Brasil or with Caixa Economica Federal, they are inline, they are working no problem, so this rumors about difficulties with the contracting or preparations for me, it's absolutely new.

As for the gross margin and this is something that I did mention in my opening remark, we have been saying for a long time that we have been getting relevant operating gains.

This intensified along 2015, we were able to capture the benefits of a crisis, we intensified our areas of supplies, we negotiated with our suppliers, all the time we had very good deals with lands and also labor. And that allied [ph] to the majority of our operations in areas where we operate for longer resulted in what we saw today.

What's our expectations from here on? I think that we have a small room for improvement, but this is a number that along the quarter is going to be close to what we have today.

And if you could comment about the difference of trend, the gross margin is constantly improving, but when you look at your backlog, it's going down a bit, some quarter. So I would like to help to reconcile these two numbers.

Well, today when you take a look at the difference between the two margin, you will see that they have been converging. We have accelerated production, you see that we are capturing margins faster and when you look at these two numbers in the line of taxes, you have numbers that have not been captured yet and when you take them into consideration, you see that you tend to have a conversion looking further on, you're going to see the numbers at the levels that you see today.

Bloomberg Transcript

Q - Nicole Hirakawa {BIO 18242556 <GO>}

Okay, thank you very much and have a good day.

A - Rafael Menin {BIO 16905756 <GO>}

You too.

Operator

Our next question comes from Enrico Trotta from Itau BBA.

Q - Enrico Trotta {BIO 16742911 <GO>}

Good morning, Rafael, Fischer, Leo, I have two questions. A bit on a follow on of Nicole, you had another quarter with cost savings, you have been using the crisis well to renegotiate contracts with suppliers, at prices on the land.

Could you talk about the monetary, financial impact of your cost savings in this first quarter. And indeed, if this will repeat along the following quarters, because you say that there is a bit more room to improve margin, but in its limit, it should be very close to the first quarter.

And the second point, again as a follow-up to Luiz questions about public banks being more restricted to credits, we see the number of cancellations is still a bit flat, accounted for approximately 26% of gross sales. Do you think this process, the fact that public banks are a bit more restricted, mainly the cancellations to take a bit more to go down in this year, a bit more than what you were expecting for the year. Thank you very much.

A - Eduardo Fischer {BIO 17580321 <GO>}

Hi, Enrico, This is Fischer again. I'm going to start with the cancellations, okay? We have been talking about that. We started our efforts in 2014 and along 2015, with our simultaneous sales and that starts to show results. So the number is going down, you have to remember the following.

Each cancellation represents our negotiations, and it has its own time. Even if I want to accelerate the backlog to have cancellations as best as possible, because this is interesting for us. I have to -- have these units to be resold as soon as possible, but sometimes we cannot be as fast as you want.

I'll give an example. A client bought units for R\$100,000 in the past. The unit today is worth more. Even if the clients cannot raise funds, they don't want to cancel the deal. So each negotiation had its time, each cancellation has its time, so we have been working a lot. We want to have cancellations as best as possible, but it has its own pace.

And looking to the future, what we are going to see is that as we are able to do more, this number is going to continue to go down. So I think that's what you're going to see for the next quarter, a trend down.

FINAL

As for gross margin, I cannot quantify that in Brazilian Reais. What is important to highlight is the following. We are capturing gains at its peak that is even faster than what we expected with better negotiations, better volumes, but you have to take into consideration that our improvement in production areas when you get at the end of construction. We have been able to capture gains that we hadn't in the past. I have a budget that is X in the end of construction I have X minus Y for instance that has to do with management efficiency and that has been showing more strongly.

So putting these two things together, we go back to what I said in the beginning, I think that this margin is going to be at the level it is today and eventually even better.

As the scenario of the country changes as well, and we can change our prices -- sales prices for real estate, we can see this moving -- movement even more intense.

Q - Enrico Trotta {BIO 16742911 <GO>}

Okay, Fisher. Thank you very much and have a good day.

Operator

Our next question comes from Daniel Gasparete from Bank of America.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Good morning everyone, thanks for the call. My question is with regards to lands. We saw an increase in the net exposure of the company, the accounts payment for lands have grown. I would like to know your expectation about the cash consumption in this line in the next quarter, you're talking more with swap, now you're more into buying.

Is that your strategy for metropolitan region? What is the level of the prices that you're having there? This is my first question. The second is the still [ph] about cash generation, we saw that you had a higher level this quarter and I would like to know if this is a seasonally factor and if you're going back to average levels of the past. Just for me to have a potential of this line.

And if you allow me I will apologize but I would like to like to ask a third question. You said that gross margin should be at this level, even better, but can it get even worse? Can it, I don't know -- have something wrong and then get worse?

A - Rafael Menin {BIO 16905756 <GO>}

Hi, Daniel. Well with regards to cash consumption and lands, MRV has strategically defined that we would invest more money in lands and that started about two years ago. We thought that the competition was moving and because we generate cash and we have low leverage, we were a bit more aggressive in the purchase of land.

So we wanted to buy the best plots of lands available in major cities.

Bloomberg Transcript

FINAL

We intensified our efforts there to do the best deals, and for you to do the best deals, you have to have some cash disbursements. You cannot do the best deals just with cash, a land swap, and we invested more than 400 million in the past three years.

Looking ahead 2016, 2017, the level is going to be basically the same. We are probably going to have a disbursement of about R\$500 million in plots of lands, for the next two years, this is in our cash. And even with these acquisitions, we will be able to generate good cash.

And as I told you, we have been intensified the purchase of lands in the cities, in which we had a land bank that was a bit less robust. We were quite aggressive from 2007 to 2012 in a smaller cities, in a movement that was the opposite of most of our competitors, our competitors went to capitals to Rio, to Sao Paulo to the south and southeast. And we had an opposite movement, and we invested more in lands in Brazil.

After 2012, 2013, the company just started to be so aggressive and we improve aggressiveness in large cities. So this is the balance of our landbank to have more inventory in larger cities in capitals and that will make us have more launches and more sales in the cities, increasing our market share.

As for the recurring gross margin, it is what Eduardo said. We have been finishing some of our developments. Some time with an accounting budget, that is a bit higher than the cost of the construction. And then we have to adjust the numbers and that has enabled us to have margin gains.

In the first quarter, we do not see that as a recurring effect, but I think that we are going to see margins along the year at the same level, of course, there is a bit of volatility let's say quarter-on-quarter, but if you think of 2016 as a whole, we are going to have gross margins close to the first quarter of 2016. It can be slightly up or down, but basically the same.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Okay, thank you very much. And once again, I apologize for asking three question. Good day.

Operator

Our next question comes from Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hi, good morning. I have two questions. The first is looking into the average launch price, it went down a bit this quarter. I would like to know, if this was because of our mix, that is what I suppose, or if it was a strategy, because of the way your inventory is positioned? Was it to adjust the mix to the Minha Vida free market because you had a change in interest and that makes the purchase a bit more difficult for the customer. So I would like

you to comment a bit on this shop in average prices and how the mix adapted to this quarter compared to previous quarter?

And the second question, you did mention in the beginning of your presentation about your gross cash that is at the higher level of almost R\$2 billion. You said that indeed, you should have a higher growth cash, but what do you think would be the level of leverage that would make you more comfortable to perhaps have a higher payouts? Do you want to be a net cash before you start to pay out dividend? So if you could talk a bit about the payout of this cash [ph], I would appreciate it.

A - Rafael Menin {BIO 16905756 <GO>}

Okay, thank you. First, I'm going to talk about prices. We have increased the price in line with inflation. Of course, every quarter there are changes. It depends on several things. Sometimes, you have the influence of larger cities, the smaller cities, there are differences there.

But as a whole, we are following along in line with the inflation rate. In some cities, because interests are a bit more expensive, we have more products inside the Minha Casa Minha Vida program, and with that you have the possibility of having a small drop of prices in some places.

As for leverage, the recommendation of our Board of Directors is to continue to accumulate cash. This determination has to be, has to do with the country's political economic scenario, of course, our expectation is for things to get better.

We have had our economy being affected for two or three years now, but in the short-term, we do not have any further decision. If the company's net cash, we don't see a problem, this is something that may happen in the short term, if we continue at the pace that we are doing in terms of cash generation, but the decision of payout of dividends and how they're going to be payout will come when we have better clarity of what is the political economic scenario is going to be like.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay, thank you very much have a good day.

Operator

Our next question comes from Guilherme Capparelli from Citibank.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Good morning. I have two questions, the first with regards to revenues, you've had a small drop in this quarter I would like to know if this is a seasonal effect and if you're going back to the 1.1, 1.2 billion in following quarters or if it's going to be closer to the level that you have today?

FINAL

Bloomberg Transcript

And second about the inventory, you have about 6 billion, do you think that this is a level of concern? Does it impact your expectation of launches for the year? Or do you think this is a suitable level? So if you could talk about your strategy I would appreciate it.

A - Eduardo Fischer {BIO 17580321 <GO>}

Hi, Guilherme this is Fischer. Again I'm going to start with the last question. Basically in our strategy, we want to capture the potential market. So what we have been doing along 2014, '15 and '16, we have a more aggressive purchase of landbank, exactly to try to capture all the potential that we mentioned in our presentation with regards to cities that we believe there is still room to grow.

So the first movement is to buy land and make launches, and as the cities mature along the process, the trend is to pick up speed of sales and raise the level of the cities in terms of markets. So we are going through this process now. So it's not a concern, it is our strategy.

So if we are able to put that into prices, we are going to see an increase of our market and this is our strategy for the long term. As for revenues, I did mention that in my presentation, we produced less in this quarter compared to what we had produced and also sales, we had a robust launch in the fourth quarter, an average sales had a lower movement.

From here, now, we expect a higher production in the second quarter and also as sales pick up the idea is that the revenues will go back to the levels that we we're used to before.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Okay. Yes, thank you very much.

Operator

Our next question comes from Daniel Malheiros from Votorantim Bank.

Q - Daniel Malheiros {BIO 18660708 <GO>}

Good morning, gentlemen. Thanks for taking my question. I have two questions, indeed. One is about your equity line, you had a very good breakdown in the quarter and the prime went down in terms of the losses of this line. So if you talk a bit the evolution of this line for the following quarters.

And my second question is about the G&A, you had about 66 million, do you have room to decrease the G&A, if you analyze that, should it be for the year, how do you think this line is going to evolve? Thank you.

A - Leonardo Correa {BIO 15387486 <GO>}

FINAL

I am going to start with G&A. Once again, I'm going to say that the recession in a way helps us to renegotiate contract supplier. So our objective to have G&A similar to last year, not with an evolution of prices, because of the improvement of the efficiency of our team, compressing cost and renegotiations. So we see room to have G&A basically the same that we had last year in nominal terms.

As for the equity lines, it's interesting that you have raised this point, for some time now, we have been talking about the work that we had with our company's subsidiaries with prime -- to review cost to where there were problems before. We believe that the new units are at a level of construction units are in a level that it is completely different from what we had in the past. That will reflect on the equity line, and this is going to be completely different.

So this is something that is going to show from quarter-on-quarter, but we are going to see this line of equity methods going from negative to positive.

Q - Daniel Malheiros {BIO 18660708 <GO>}

Leo, thanks for the answer. If you could just talk about the line of equity methods more specifically, what is the time for this line to go from negative to positive? If you could talk about that?

A - Leonardo Correa {BIO 15387486 <GO>}

Well, I think that will need one or two quarters from negative to zero and then more towards the end of the year, we are going to see this line eventually positive or at least past zero. So that is it's starting to go from negative to positive.

Q - Daniel Malheiros {BIO 18660708 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Marcelo Motta from JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have also two questions. If you could talk about sales expenses in the beginning of the presentation, you talked about the idea of increasing sales in some cities, getting to the level of reference cities. I would like to know if that involves a more aggressive marketing that can impact margin? And if you could go back to the question of cash flow, (inaudible) about seasonality, we did see a decrease quarter-on-quarter, is that a new level or not? If you could go back and elaborate a bit on that, I would appreciate it.

A - Rafael Menin {BIO 16905756 <GO>}

Hi Marcelo. This is Rafael. Well, as for commercial expenses, I did mention that in the beginning, we have been able to have a large volume of customers coming to our marketing channels and construction sites. We have had higher commercial efforts, but it's

Bloomberg Transcript

FINAL

important to highlight that MRV has commissions in our balance fee and certainly our commercial expenses are a bit higher, but looking further on, commercial expenses are going to be in line with what we saw in the fourth quarter and first quarter between R\$115 million and R\$120 million, a bit above what we wanted, but because of the current times, we decided to be a bit more aggressive, because of the geographic dispersion, a very high quality inventory.

So we believe it is suitable to be a bit more aggressive in terms of commercial expenses and so we have been able to have evolutions in those line, so we think this is a correct decision. As far as cash generation, cash generation had some volatility. Generally, the month of January is a month that show less results, especially in Brazil.

If we look back to the three years, we had a first quarter that is slightly lower and because we have a backlog of units to be canceled, we see cash generation a bit higher than company profits. We're going to have a better second quarter, better third quarter and along the year, we're going to have cash generation slightly above net income.

So we do not see a trend of deterioration compared to the first quarter.

Again, you can have some quarters that are slightly worse, but if you think of the year as a whole, the level is going to be close or even better than the first quarter.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay. Yes, thank you very much.

Operator

Our next question comes from Fred Mendes from HSBC.

Q - Fred Mendes {BIO 17221617 <GO>}

Going back to one of the first questions, when you take a look at your sales volume 10% year-on-year, the demand continues to be strong. That is undeniable in the segments in which it operates, but you have the restriction of banks, that I don't think is going to change and will have an impact for further quarters.

So compared to 2015, do you think you're going to be below? Do you think you're going to be flat comparing 2016 to 2015? And the second question, if you take a look at the pro-soluto especially after the units are delivered it went up again 36 million, 13%.

I would like to know what is your view of this line is -- do you think you're going to minimize the losses and again because credit restrictions are not going to (inaudible) especially with unemployment going up?

A - Eduardo Fischer {BIO 17580321 <GO>}

FINAL

Fred, this is Fischer. I'm going to talk about sales and then I will turn to Ricardo to talk about pro-soluto. As for sales, it is what Rafael mentioned. The demand is there, we have been have more investment in media and we still have lots of people coming to look for us.

So we do have a strong demand. What happened in the period and we have also mentioned that is as banks are more restricted in terms of credit, but there was no rupture there. So we have some difficulties, sometimes we have to spend more money to capture the sale, but this is not something that causes rupture in the process.

So to answer your question, I think, in the year we're going to be basically flat compared to 2015.

Again, there will be better and worse quarters but as we put into practice our evolution and improve our sales, we are going to be even better.

So I don't see anything along the year that may lead to rupture or a higher drop. I think that things are happening more or less in line with what happened last year.

A - Ricardo Paixao {BIO 19698260 <GO>}

Ricardo here. As for pro-soluto, it's important to mention the following. Inside the pro-soluto lines, we have to think about what is before or after the unit is delivered.

Before the units delivered is basically something that is part of the business. We won't -- I mean, before the delivery of the unit, after the unit is delivered, then we have to work hard to decrease that. We have the new agreement now that for our customers to receive the keys to the new unit. They have to settle the pro-soluto.

Okay, so in 2016, even with the changes the trend is that this amount continues to go up, and in the short-term, there is no reason for you to revise your PDT ratio that is in the high single digits.

Yes, every moment, that these contracts get to our default criteria, we are going to have a review. So when the contracts gets to this point, we recognize them as losses. So we don't have any surprises in this loan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay, thank you very much. Very clear.

Operator

(Operator Instructions). Thank you. Our Q&A session is now closed. We are going to turn the call back to Mr. Menin for his final remarks. Please Mr. Menin, you may go on.

Bloomberg Transcript

A - Eduardo Fischer {BIO 17580321 <GO>}

Well, this is Fischer speaking. Well, just to close, I would like to highlight that all the efforts that we have been talking about and doing in last quarters are starting to show results. Our operation is growing, it's becoming more and more efficient. This is going to show in the gross margin. The efforts that we engaged in our -- with our partnership has started to show results in the line of equity in the other expense efforts for the decrease of liabilities are starting to show as we put our action plans into practice. So the idea is that we are going to follow 2016 with this action, and we'll be able to deliver more and more solid results along the quarters.

Just to close, this is a result of all efforts that we engaged in the year of 2015. Thank you very much for joining us and see you next time.

Operator

Thank you. The conference call for this release of earnings of the first quarter 2016 of MRV is now closed. We thank you for joining us and wish you a good day.

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.