

Q1 2014 Earnings Call

Company Participants

- Emilio Fugazza, Chief Financial Officer, Investor Relations Officer
- Pedro Henrique Nocetti, IR Coordinator

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's First Quarter 2014 Results Conference Call. Note that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session, when further instructions will be given. (Operator Instructions)

Today's event is available through a live webcast that may be accessed through the EZTEC Investor Relations website at www.eztec.com.br/ir by clicking on the banner 4Q13 Webcast. The following presentation is also available for download on the webcast platform. Following information is stated in Brazilian Reais and in BR GAAP and IFRS applicable to real estate developers in Brazil, except where stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call, regarding the business outlook, forecasts, and financial and operating targets, is based on the beliefs and assumptions of EZTEC's management and the information currently available to the company. Forward-looking statements are no guarantee of performance. 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 the company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Emilio Fugazza, Chief Financial and Investor Relations Officer, who will begin the presentation. Mr. Emilio, you may begin the conference.

Emilio Fugazza {BIO 16474296 <GO>}

Thank you very much. Hello, everyone. It's a high pleasure to be here again. We shall be talking about EZTEC's financial and operational highlights. I am Emilio Fugazza, CFO and

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IRO of EZTEC, and apart from myself Mr. Pedro Henrique Nocetti, our IR Coordinator in EZTEC.

Let's go to slide number three to talk about the financial and operational highlights. Slide number three, let's start talking about launches. Launches reached BRL311 million in the first quarter of 2014, 7% above the same period first quarter 2013. The contracted sales reached BRL143 million in the first quarter 2014. This -- I have to say that is 91% of this amount of sales came from the units launched prior first quarter 2014. And the Land Bank of the company, the Land Bank reached BRL5.2 billion by the end of the first quarter, which means 3.5 years of launches ahead.

Talking about the financial highlights, the gross profit of the company. The gross profit was BRL105 million, gross margin of 50% in line with our track records. Net income reached BRL95 million, the return on equity of the company was 19% in the first quarter -- annualized return on equity 19% in the first quarter 2014. Net margin reached 45% in the first quarter. And I have to say finally, that we are in a position -- in a net debt position, this net debt position reached BRL94 million, plus performed receivables of BRL282 million, including IGP-M plus 12% per year.

In our last Shareholders Meeting, April 1st, we have the annual compensation approved by the shareholders meeting of BRL19 million for the whole 2014, and the payment of the dividends of BRL139 million, we are going to pay by the end of November 2014, which means almost BRL1 per share.

Now, I would like to turn the presentation to Mr. Pedro Nocetti to talk about the operational figures of this company. Please, (inaudible) Mr. Pedro.

Thanks, Emilio. Good morning, everyone. Please, I will ask you to turn to slide number four, where we talk about the Land Bank, which Emilio told, ended the first quarter of the year with BRL5.2 billion in own PSV. We benefit cost of acquisitions of almost 13%, including costs associated with expanding construction potential. It's very important to say that, even 2013, being the best year of the company in terms of land acquisition; we are still looking for very good opportunities in the Cidade, Sao Paulo, in the Sao Paulo Metropolitan Area. And we are finding good opportunities to buy good lots and keep the profitability in high levels.

Looking at the chart. In the chart, on the top right, you can see that 78% of our Land Bank was acquired after 2010; it was acquired between 2011 and 2013. Then you can see that our Land Bank is a new Land Bank. And looking at this chart, in the bottom left, you can see that 73% of our Land Bank investment to the residential segment from middle to middle-high end, and 20% to the commercial segment.

Looking at chart in the bottom right, you can see our focus. The Sao Paulo Metropolitan region including the Cidade, Sao Paulo, this region corresponds to 90% of our Land Bank.

So, I'd like to please turn slide number five, where we talk about the EZ Tower's project. Now, in this picture you can see both towers. Tower A is with the -- looking at the structure

of Tower A, you can see that the front glass is installed until the 30th floor. And looking at Tower B, you can see that 100% of this structure is complete. Looking at the -- you cannot see, but the entrance of the project, the entrance of the both towers is stone floor, grass areas and landscape under way. Until the end of the first quarter of the year, 58% of the costs were already incurred, including the execution of the project, including setback and including the land.

Now, I'd like to please turn to slide number six, where we will talk about the deliveries of the company, projects which we had already delivered this year and project which will deliver soon. In 2013, we delivered more than 2,000 units and we predict to deliver this year, the year 2014, we predict to deliver more than 2,400 units. Since the beginning of the year, we have already delivered 700 units. It's very important to bear in mind that, even executing more projects, more units, our engineering team is capable of doing that. We are very comfortable about our engineering team.

Then now, I'll ask you to please turn to the slide number seven, where we will do a little bit disclosure about the projects under construction, about PSV Under Construction. Looking at this chart, you can see the PSV under Construction from quarter-to-quarter. You can see the PSV Under Construction, the entrance of the new projects under construction and the delivery of projects.

So looking at this slide, it's very important to say that, in the last six months, EZTEC delivered 817 million of own PSV, and began the constriction of 460 million. It is very importance to say that, projects to which construction is initialized, those projects; they still have many simultaneous activities running. So, their revenue recognition in the very beginning of construction is not so much, the revenue recognition occurred during the whole time of the construction. One very important thing to bear in mind also is that, in the first quarter of 2013, when we sold the Tower A of EZ Tower, we had already 29% of the cost incurred.

Now, I'll ask you, please, to turn to slide number eight, where we talk about the launches of the company. The company started the first quarter of 2014 in selling units and inventories, therefore the two project launches in the quarter, two phases of the project Cidade Maia, totaling BRL311 million of its own PSV. Those stages were launched by the end of the quarter. So, they didn't have many units to put in our balance sheet, to put in -- consider in our sales figures.

So, now -- one of the thing is very important to bear in mind also, when looking at the whole project, Cidade Maia, the five phases launch, the three phases of launch in Guarani [ph], in the first quarter of 2013, and these two phases launched in the first quarter of 2014. We are already 52% sold, a very good project in which we are very comfortable about working with it.

Now, further I will talk about the coming launches, but first, I want you to please to turn to slide number nine, where we talk about the contracted sale of 2014. You can see that, we sold 143 million in our sales, and so from those, 91% of it came from units launched 1Q

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[ph] 2013. And we ended the inventory with 1.4 billion, above this inventory, which is very important to say that, 15% of this inventory is already delivered.

It's only few part; a small part of our inventory has been already delivered. 80% of the projects which are under construction are sold and considering projects which we have already launched, and in which we have not started construction, 56% of this is sold. Therefore, we are very confident -- comfortable about the liquidities of our projects and we are very comfortable about our market.

So, I'd like to please turn to slide number 10, where finally, I will talk about upcoming launches. We have projects being prepared to be launched in the next weeks, in this quarter, and maybe in the beginning of the next quarter. So, you can see here, three projects in the City of Sao Paulo, focused on middle-high income. Three projects that they invested together, they total BRL225 million in own PSV.

Apart from that, we have one project being prepared to be launched in the City of Osasco, in the Sao Paulo Metropolitan Area. These projects may have almost BRL120 million in own PSV. Therefore, totally we can launch -- in the next month, we can launch BRL345 million in own PSV. We are very comfortable about this market and we are very comfortable about the performance that we will have with this facility.

So, I will hand back the presentation to Mr. Emilio Fugazza, who will talk about the financial performance of the company. Thank you. Emilio?

Emilio Fugazza {BIO 16474296 <GO>}

Thank you very much, Pedro. Let's talk about financial performance on the slide number 11. In the first chart on the top left of the slide, we can talk about net revenue. Net revenue ended up the quarter in BRL211 million, down 35% compared to the first quarter 2013. This is not a big concern; in fact this is the situation coming from last sites under construction right now.

As Pedro told you before, we have delivered BRL800 million, almost six projects in the last six months. So in that situation, results the same amount sites under construction to replace the volume of our revenues to recognize, we are going see these seasonal diminish in net revenues. But it's important to bear in mind that when you look at the growth income chart on the top right, BRL105 million, you can see the gross margin of 50%. So 50% is barely the same gross margin of the first quarter 2013, 51%.

So, this means that all the projects we have been selling, all the sites we have under construction are following the cost booked in our accountancy and we have been the selling the products with the same prices or the prices to compensate the incremental costs we could have.

When you see on the charts below, both the right and the left on this slide, you can these expenses, G&A expenses and selling expenses. When you see, this increment also is seasonal, because when you see BRL23 million barely the same of the fourth quarter

2013, which is almost BRL25 million. This can represent the entire G&A expenses to control the whole sites we have under construction.

I'm saying that we are managing both, the sites we have a 100% stake and the sites we have 50% stake or 70% stake, which are not under the recognition [ph] of the revenues in this net revenue chart. This is because, in Brazilian accounting method, all the revenues coming from projects, we are not the owner of a 100%; they are coming under recognition by the equity income method.

The equity income method we can see in the next slide, the slide on the page number 12. The equity income method or the equity income results you can see on the top right of this slide. You can see in the first quarter, the results of BRL18 million comparing to almost BRL20 million in the first quarter 2013 or BRL33 million in the fourth quarter of 2013. This is also because, we have delivered some products to the client between October of the last year to March of this year, and we are not beginning the new projects that we have to start the constructions.

Those projects we are going to see the start of the construction by the end of the second quarter, second quarter 2014. And then, you can see a new improvement in the results coming from the equity income method.

When you see the margins of this equity income method declining from 44%, 45% in the last quarter to 38%, 39% in the first quarter 2014. This is also because, not only because less sites under construction, but also because we have some cancellations. Cancellations are quite common when you deliver the case to the client, for instance, 5% -- 4%, 5%, 6% of the clients, they lose the capacity to get financial from the financial agents in Brazil. This is because, or they lost their jobs or they bought another kind of apartment or another kind of lot, losing the capacity of afford with the installments or the mortgages for these apartments.

In this case, for this 4%, 5% or 6% of net sales, we have to cancel the sell and re-sell to another client. Seasonally, when we cancel, this kind of things has an impact in our revenue recognition which happens in this first quarter 2014. But this is not a big concern, this is not a trend. In fact we have, as Pedro told you, we have all the sales we have is completely healthy in the company with the same prices with the same margins.

We delivered our financial results of the top -- on the top left, you can see BRL14 million, this is barely the same of the fourth quarter 2013, and this is because we have almost net debt position. In terms of debt, we have only SFH lines, which mean the production lines. And production lines, we have the recognition of the cost in our gross profit.

As we don't have, we don't peruse in our company working capital debentures or that kind of cash, so all the money we have is even when you, when we are providing financing to our clients. We have to recognize our positive financial results coming from this. So this a trend, BRL14 million is a good for the next couple of quarters.

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In terms of net income and net margin; net income, we ended up for first quarter 2014 with BRL95 million, we have net margin of 45%, far from this -- it's almost the highest margins, net margins of the sector, far from the second place.

Again, this is seasonal, 95% you don't have to take this as an example for the whole year 2014. As you are going to see the improvement in terms of revenues, you are going to see more dilution of the SG&A expenses and then an improvement in the volume of net income, the total amount of net income. To reach approximately the same volume we reached last year.

And to support my opinion about the situation, you can see the last chart on this page, on bottom right, about the results to be recognized and margin to be recognized. When you see the margins, all the support we have is coming from this margin, the margin is about 54%, almost the same gross margin we have been delivering to our investors. And the total amount of BRL514 million in term of results to be recognized. So, we have almost four quarters, four to five quarters in terms results to be recognized in the next four quarters in a margin of 54%, which can provide all the sustainability to the results we have been seeing so far.

So, next slide is slide number 13, we can talk a little bit more about the cash position. As I mentioned before, we are net debt position, but since the fourth quarter 2013, we have the same net debt position of BRL94 million. If I could see the position of that of cash of the company, excluding the total amount of debt we have coming from EZ Towers, I would -- you would have seen a net cash position of BRL115 million, increasing 80% from the fourth quarter 2013, coming from BRL63 million to BRL115 million.

And I have to say that, exclusively because, by the end of construction of Tower A, the tallest Tower A, we have to send the contractor this financial agreement to the owner, to the real buyer of the Tower A of EZ Tower. So, the buyer of Tower A of EZ Tower will support the total amount of debt coming from EZ Tower project, which means that in the first quarter 2014 was 209 million. So, the cash position of the company is completely healthy regarding the situation of news of the amount of money, which is only to paying for SG&A expenses and the investments or reinvestments in the Land Bank, we have to acquire in the couple -- in the next couple of quarters.

Finally, I'd like to talk a little bit more about capital market on the slide number 14. As we have been disclosing the net asset value statements, you can see in this final, at the end of the first quarter 2014, a total amount of -- I'm sorry, an adjusted net asset value total of BRL28.48. That's an increment of 28% yearly in terms of cumulative growth, one of the best in the sector.

Even with an return on equity, this quarter annualized return on equity this quarter of 19%, one of the best in the sector. I have to remind you that we are doing this, I mean, some effort to keep the return equity of the company at the same level we have been seeing in the past year, so above 20%. And I have to remind you that, when you see the Land Bank inventory in this net asset value statement, which means BRL580 million, this represent the cost of the total amount of our Land Bank of BRL5.2 billion.

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BRL5.2 billion delivering above 40% of gross margin, we can see in next couple of years an increment of more BRL2 billion in adjusted net asset value in the upcoming quarters. So, this can represent more than BRL10 per share to add in terms of value for this company. And nowadays, we -- the stock price of the company is almost 15% less than these net asset value we have right now. So, we are cheaper than in the last quarter regarding this net asset value statement.

To end our conference call today, I'd like to say some kind of thoughts regarding the operation in the first quarter and for the next couple quarters. It's important to say that the operational consistency we have is completely focused on the selling of our inventory and keeping the budgets of our sites and the construction completely controlled delivery, on time delivery on the cost as planned by the company.

We have plenty confident in the market we been acting, like the City of Sao Paulo in the Metropolitan Region of Sao Paulo. So the liquidity of our products, the liquidity of our inventory, the quality of our inventory is so high that we have no problem to offer discounts to see our products being sold in the next quarters. And that's why we have plenty confidence that we are going to launch at least BRL345 [ph] million of new projects by the end of the second quarter 2014.

The Land Bank we have is, it's the Land Bank of BRL5.2 billion, and we have been acquiring very good piece of land, well located to achieve gross margin above 40%, and return on equity of the plots at least 20% to 25%. The profitability we have in our Land Bank right now is announced to keep the margins and the return on equity of the company in the high levels, in high stand as you saw in the last two or three years.

The company is completely strong financially saying, so we have the cash we need to support the acquisition of land; we have the cash we need to support the SG&A expenses. And obviously, we have the performed receivables returning to cash, if we need an extra cash to pay for extra opportunities throughout the year. Nowadays, these performed receivables are helping the company to achieve very good financial results, a positive financial result, which means something close to BRL60 million a year, because this performance is achievable. The yield spot is, it's about IGP-M plus 12% annually, which means something close to 16% to 17% yearly, which is very good to compensate some part of the cash we have in our balance sheet, in our assets.

Finally, it is important to bear in mind that all the sites we have under construction are completely on time. The budgets are completely under control and the management of the company is focused on keeping the -- keep the profitability in the same levels we have been seeing since 2007.

Thank you very much for your audience. I have to say that apart from myself, Mr. Pedro Nocetti and Mr. Erik, they are completely available to answer any further questions you may have. Thank you so much.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate the question-and-answer section. (Operator Instructions) There are no questions at this time. So this concludes the question-and-answer section. And at this time, I would like to turn the floor back to Mr. Emilio Fugazza for any closing remarks.

A - Emilio Fugazza {BIO 16474296 <GO>}

Thank you so much. It's important to bear in mind that you can expect much better results for the next couple of quarters. It's important to say that all the IR team is completely available for any further questions you may have. Apart from myself, again, Mr. Pedro Nocetti and Mr. Erik, they are completely available to answer you. Thank you so much for you audience today, and we can see you again in three months. Thank you.

A - Pedro Henrique Nocetti {BIO 20904123 <GO>}

Thank you. Good day. Bye.

Operator

Thank you. This does concludes today's presentation. You may disconnect your lines at this time and have a nice day.

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