

## Q3 2016 Earnings Call

### Company Participants

- Eduardo Fischer, Chief Executive Officer Region II
- Leonardo Correa, Chief Financial Officer & Investor Relations Officer
- Rafael Menin, Chief Executive Officer Region I
- Ricardo Paixao, Investor Relations and Financial Planning Director

### Other Participants

- Alex Ferraz, Analyst
- Guilherme Capparelli, Analyst
- Gustavo Cambauva, Analyst
- Luis Stacchini, Analyst
- Marcelo Motta, Analyst
- Unidentified Participant

### Presentation

#### Operator

(Starts Abruptly) analysts and investors MRV third quarter of 2016. We have the CEO, Mr. Rafael Menin and Eduardo Fischer; Leonardo Correa, Chief Financial and IR Officer; and Ricardo Paixao and Matheus Torga.

This event is being recorded and all participants will be in a listen-only mode.

Afterwards, we will have the Q&A session for analysts and investors. (Operator Instructions). We have the audio simultaneously in the Internet. Before proceeding, the forward-looking statements are based on the beliefs or assumptions of the MRV's management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to the future events and depend on the circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of MRV and could cause the results to differ materially.

Now, I would turn the conference over to Mr. Rafael Menin, CEO who will begin the presentation. Mr. Menin, you can start.

## Rafael Menin

Good morning, it's with a great pleasure that we announce one more quarter results with great indicators. In this third quarter, we had the best gross sales volume and the smallest volume of mutual rescission of the year. In addition to these good operational indicators, I also highlight the continuous evolution of our gross and net profit.

We generated good cash volume, which has made MRV leverage to reach approximately low 5.7% in relation to net equity. Our expectations for the future also deserve a highlight. After several consecutive quarters generating cash, we reached such a leverage level that allow us to increment the distribution of the capital surplus we have in the Company's balance sheet. Therefore, provided the current conditions are capped, we expect to have from now on a new strategy concerning dividends distribution and share buyback.

Finally, I'd like to emphasize once again how optimistic we are not only with the Brazilian housing market size for the next three years, but also with MRV capacity to have a biggest share of this market. As mentioned, we made a big investment in land bank in the last three years, which gave us a good volume of suitable properties in most of the series we operate. On the other hand, we still have a big number of series with a low number of products available to sell. As these land bank turn into products ready to sell, we expect some growth in the MRV monthly sales potential. Thank you, and now we open the Q&A session.

## Questions And Answers

### Operator

Thank you. And now we will start the Q&A session. (Operator Instruction) Gustavo Cambauva from BTG Pactual, would like to ask a question.

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

Good morning. I have two questions. According to the results, you have a great reduction in expenses especially in contingencies, and I would like to understand how this line will go forward to a reduction that was really strong. Do you -- you can keep this expenses level, does it make sense and my second question is related to the land bank. You invested a lot in properties and what about 2017 to work with this level of land banks of 40b. Is it reasonable for the company and then purchase land just to replenish or would you like to reduce the land bank, and how much would be invested in land bank in 2017? Thank you.

### A - Eduardo Fischer

Gustavo, its Fischer, Good morning. Other expenses, well, this is the third call I mention this. We started this strategy in 2015, more aggressive of agreements that were very beneficial to MRV. And this would give us better conditions. Unfortunately, we still have some liability scenario representing high values, but during 2015/2016, we changed this strategy. And now we are getting some benefits and it's hard to say that in the next quarter, this level would remain the same. Our view for 2017 and 2018 is to have a big reduction on this.

As for the second question, land banks. In 2015, we invested in increasing and diversifying our land bank following the strategy that we presented. We see a huge potential that we can capture in the markets we operate and this goes through the structure of the land bank. We continued this work in 2016 and I believe with the potential we have, that in 2017, we will keep this strategy. We are not just talking about replenishing, but to integrate new land and according to our planning, we would rework in refilling.

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

What was surprising was that the result was positive, but my question is what generated BRL2 million in this third quarter. Maybe winning more causes than you have provisioning, well, maybe I was not so clear?

**A - Eduardo Fischer**

When I have an agreement, this agreement has a value that is in the provision. When I have very favorable agreement with zero deposition, and the expense is marked. So you have this -- we have the charge back in the entire [ph] position. This quarter was different and this is what happened.

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

Okay, thank you very much.

**Operator**

Ms. Guilherme Capparelli from Citi would like to ask a question.

**Q - Guilherme Capparelli {BIO 21476330 <GO>}**

Good morning. I have two questions. First is the extraordinary dividends. You have the intention to incorporate a greater distribution or you would make the announcements when it is more adequate. And the second is about the cash flow of this quarter. Can you detail what was capped because of -- we had with the banks and are you going to have this amount in the fourth quarter or is it going to be diluted?

**A - Eduardo Fischer**

As for the first question for the dividends, we had a very low leverage in the previous quarter. We started with less than 10% with the favorable scenario to increment dividends distribution and the political and economic scenario was confused, and we are very conservative company. So we decided to be more conservative in the dividends for the half of the year.

And from now on, we are more confident, the scenario is more predictable. We think that we have done the best we could. So with the current market conditions, the Company will be more aggressive in terms of dividends.

We prefer not to have a pre-determined policy about this. We will analyze quarter-over-quarter analyzing the value of the bond, and we expect that part of this capital we have in

the balance sheet should be distributed to the shareholders, but if we want to have this, or to analyze this moment by moment, okay.

In terms of cash flow, this strike, the bank strike really harm us. We have the cash generation below the previous quarters. Part of this volume will be repassed on the fourth quarter making it better cash than in the third quarter. We've been facing, especially with Banco do Brasil, a difficulty to repass, but we hope to have a better generation in the fourth quarter. And then, we will include this in the first quarter of 2017.

**Q - Guilherme Capparelli** {BIO 21476330 <GO>}

Okay, thank you very much.

## Operator

(Operator Instructions) Mr. Alex Ferraz from Itau BBA would like to ask a question.

**Q - Alex Ferraz** {BIO 19294308 <GO>}

Thank you for the presentation. I have two questions. The first was a follow-up. How are you seeing this fourth quarter to reach this higher volume. Is it possible to see new launching's, new developments. And the second question, the scenario is still growing. Do you see the profit decreasing, or it will continue to increase as you expand your base?

**A - Leonardo Correa**

Good morning, this is Leo. I will talk about the launch and the development. We will have a big development in Pirituba. Something will be launched in the fourth quarter, but it still is small volume in the context of the whole development. In the fourth quarter, we have the 1.5 range, what is happening is a series of projects, we are working hard in several cities. And this will help us for the entire market, and we are well advanced in all our agreements with Caixa.

And as for pro-soluto, pro-soluto has an ongoing situation that is taking a volume after the keys delivery and since the speed of the work is going rapidly, we don't have enough time for the clients to pay. In terms of credit policy in our Company, we have even more restrictive credit policies especially for pro-soluto. Since we had a decrease of the volume given by the banks. So we decided to do more pro-soluto than we would like. We have to balance the sales volumes. When we want to grant credit, we have to grant credit for those who have capacity to pay. So I don't see a growth for pro-soluto. We are very closer to the level we expected. As we sell more, of course, in terms of amount of money, you have to increase pro-soluto because this is always a percentage of sales.

**Q - Alex Ferraz** {BIO 19294308 <GO>}

Okay. Thank you very much for your answer.

## Operator

Mr. Luis Stacchini from Credit Suisse would like to ask a question.

### Q - LuisStacchini

Two questions. One is a follow-up concerning your planning for the next year. Is it possible to have a conversions [ph] for the return or the pace of new launch. And the second question is relates to the -- your inventory of the total of interest in stock. How much refers to unities, ongoing units and how much refers to funding?

### A - EduardoFischer

As for launching in 2017, we will not disclose anything. The Company invested almost BRL700 million in land bank in high-quality land in strategic cities and we have a very balanced portfolio. We have our proper inventory to meet the demand. Our inventory available to sales is not so balanced. So for 2017, you still have a higher number of land that we recently acquired. And with this -- have more developments.

It's quite possible that we'll have a more active year in terms of launch with the commercial inventory much more coherent with the cities where we operate. And with this, we will have better sales next year. This is the mid-term project of the Company. We invested in land bank, IT, back office, so the Company today is ready to operate in a higher level than the 40,000 unities we have yearly. As for interest inventory, Leonardo will answer this question.

### A - LeonardoCorrea

I don't have with me. We will -- we have a note in the Note 11 of the balance sheet. Of this BRL34 million that were for the (inaudible) what was capitalized in land and what was capitalized in works, ongoing works. I can send you the number later on.

### Q - LuisStacchini

Okay. Thank you.

### Operator

(Operator Instructions) Mr. Henna Manda [ph] from Santander.

### Q - Unidentified Participant

Good morning. My question has been already answered, but you mentioned your intention to restructure the capital, the ROI. Can you give more details on the level of return you were looking for and how long it will take to reach this level?

### A - Ricardo Paixao {BIO 19698260 <GO>}

Henna, its Ricardo, well, with the dividends, we announced this extraordinary dividends, it's not novelty. We mentioned this when we have a better macroeconomic security, we would start to have this higher distribution of dividends. This money will go back to the shareholders. We have a very low leverage level. So cash generation from now on will be

dedicated to dividends or a payback -- a buyback program. Our capital structure, it still needs some decrease, and this impacts the ROI, but we are also having an improvement in both gross and net margin, this will also impact ROI.

## Q - Unidentified Participant

Thank you.

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

This is Marcelo Motta from JPMorgan. It's a fair question. Good morning. Can you comment on the gross margin. It reached a peak in the first quarter of this year. And it is still better than in 2015, but it had a slight drop. What can we expect that for these projects in the range of 1.5. Can you comment on this?

## A - Eduardo Fischer

Marcelo, this is Fischer. I mentioned this last month, the margin behavior in the last two years was exactly this, we have some operational gains. And in two points, one is because we are able to get the benefits of this crisis in our country, so we can have better negotiations, better agreement, but again, which is more representative is the operational evolution.

We are mature in all cities we operate, and we have very representative operational gains. So when we see this margin evolution in the last 18 months, this comes from our operational gain and a very small part from the price.

So we expect that for 2017 and 2018, we will have a margin gain from the price and improving our operational efficiency. We believe that in spite of what you mention in the variations of this year, the mid-term horizon points to evolution of gross margin based on this assumption.

Now talking about 1.5. Well, we have two new contracts yesterday. This 1.5 range has lower prices than the range 2, but we feel quite comfortable because the speed of sales is faster. So you collect this faster. It's very important to complement the operation of the Company. We want to participate even more, and this -- it's a complement of the operation. It does not conflict with what we do today is a new front for us. And this does not represent any drop in margin, well done operation in adequate cities, we will deliver this in a very shorter-term which is a great advantage. Thank you.

## Operator

Mr. Britto Becker [ph] from Bradesco BBI would like to ask a question.

## Q - Unidentified Participant

Good morning. I would like to update us on your work to improve the land bank in cities that you have inventory below the minimum inventory. And I don't know, if it was asked,

FINAL

Bloomberg Transcript

but the (inaudible) that is doing well. We'd like to know what other large projects can be launched soon?

## A - Rafael Menin

Britto, this is Rafael, okay. As for the land bank, we mentioned this some quarters ago, the Company is investing lots of resources, we have a high-quality negotiations. So we did our homework. Now, for 2017, it will be a year with investment level in land bank above launchings, and it will increase in cities where land inventory is not adequate to the market potential.

So it's a very assertive investment and it's important that in the more conservative environment, we are in a very comfortable position. And we took a very strategic approach looking to the long-term horizon. We are certain that the investment we made in land bank in the last six years brought a good position to the Company. And for 2017, we still need to adjust the land bank, because we want to have robust land bank in the more than 140 cities we operate. We want to buy land with very advantageous conditions and we should also always look ahead. And the Company is in good position different from the competitors. And about the larger developments, we have this in Sao Paulo. In Pirituba, we will launch the first phase -- a small phase in the fourth quarter, but most of it will be launched during 2017. And in addition to Pirituba's, we have great launches in Rio de Janeiro.

In Belo Horizonte, we have a very good piece of land, in the city of a Salvador as well. So the efforts that we did in the past will start to pay in 2017, 2018 and so on. Especially in the metropolitan areas, we've been very conservative in the past, but from now on with this high-quality project with good pricing margin, we will start to harvest the benefits in the metropolitan areas. Okay.

## Q - Unidentified Participant

Okay. Thank you.

## Operator

(Operator Instructions) Thank you. The Q&A session is now closed. I will turn over to Mr. Eduardo Fischer for his final considerations.

## A - Eduardo Fischer

Well, thank you very much for your participation. I'd like to highlight two important items quite relevant in this three quarter. We will start a new phase, we now have greater focus in the capital distribution in our Company. This is very important for our shareholders and we are proud of it. The second point, which is operational, but is very important is growth. We have a positive perspectives for 2017 and 2018. The markets we operate do have potential, so we can capture this in a very efficient way. We have a great focus towards growth and what was quite relevant in our strategy was the 1.5 range.

As I mentioned, we signed two projects yesterday and the government perspective is to sign 40,000 unities and this will be reached. And looking to 2017 and 2018, this project will continue and increase. So it's a good opportunity with a complementary product to our operation and this fits a customer that we hardly serve. So this is very important for us. This can be taken to 2017 and 2018. I thank you again and have a nice day.

## Operator

Thank you. This concludes today's MRV's three quarter 2016 conference.

*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.*