Y 2020 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazzar, Chief Financial Officer and IR Officer
- Hugo Grassi, Investor Relations Coordinator

Other Participants

- Nicole Inui

Presentation

Hugo Grassi {BIO 22045963 <GO>}

Good morning, one and all, and welcome to EZTEC's Results Presentation for the Fourth Quarter 2020 as well as for the entire Fiscal Year of 2020. Please note that this call is being recorded and that all participants are in listening-only mode.

By the end of the presentation, we will begin a Q&A session when further instructions will be given. Maybe in case, if you may need any assistance over the call please let us know through the chatbox. In case you have any connectivity issues, you may reuse the same web link or ID to return to the presentation. You may find that link and Id as well as the slides for this presentation at our website at the address ir.eztec.com.br.

Before we start, we'd like to mention that any statements during this call pertaining to EZTEC's business projections, operational and financial targets are based on management's beliefs and premises, as well as on currently available information. Future considerations do not constitute an assurance of performance.

They involve risks, uncertainties and premises, investors may take into account that general economic conditions, industry or operational circumstances may ultimately affect EZTEC's future performance, they may cause the company's results to differ materially from those expressed in those forward statements.

Now, I will start the conversation, here is Hugo Grassi Benevides [ph], EZTEC's IR Manager. I'll begin the conversation alongside Emilio Fugazzar, our Chief Financial Officer as well as Investor Relations Manager.

Now if you can just give me one second. Moving ahead to Slide number 3. Very briefly, we -- 2020 was a year hit by the pandemic yet net sales -- both net sales and launches were curtailed due to the results yet. Net sales outpaced won't just land bank landed at 11 billion, net gross profits at 105 million, net income at 140 million, net cash at 1.72 billion and portfolio of receivables at 504. Now more in -- more detailed fashion going ahead towards the operational session where we'll add more detail and more new ones to the years result.

Now looking at the land bank, I'd like to bring your attention to the first to the graph above where you look at the evolution from 2019 to 2020, which is basically defined where EZTEC fulfilled its mandate that it was given at the time of the follow-on in September 2019, where we injected as much as 940 million in cash.

And over the course of the year, up until right now, we have effectively fulfilled that mandate with acquisitions, which is what -- which is why you see the volume of land bank reaching all the way up to 11 billion by the 2020 carve-out. But if you were to actually include acquisitions that happen by the first quarter and that by this point are already definitive acquisition you're mentioned, for example, (inaudible) where you're actually already had the first installment already paid which adds an additional 1.6 billion to the 2020 carve out.

And on top of option that positions, where we still have the capacity to move on the acquisition or not if we so choose, we'd land at 13 billion -- 13.3 billion in available land bank as we speak today.

Please note that if we worked the -- exclude from this figure, the 3.4 billion in commercial land bank. Basically, what we'll be saying is that we have enough land bank for as much as four years launched at a base level of 2.5 billion per year which constitutes a very, very robust, very comfortable operational base for us to think of this cycle going head.

Now moving to the bottom left corner of that slide, you notice the composition from that land bank may very well distributed healthy diets between all types of segments. Basically when you look at the mid and economic segments, that there's even some room for maneuver here from projects that made -- that we may choose to adopt from one side to the other.

And -- but by and large, that's enough material for us that have a very strong start. Most -- you'll be noticing that the cash burns we've registered over the past quarters have been basically on the back of these acquisitions, but as of now, we're still spending as much as a little bit over 650 million in disbursements still to be made referring to these acquisitions, much of its still to happening 2021 and 2222.

Now moving on to -- moving on to Slide number 5, where we talk about the both sales as well as launches. You noticed that we naturally were hampered by the pandemic in 2020 and we resulted with any news that list of projects on the bottom left, you realize that much of the launches that took place in 2020 actually happen by the very end of the year by December.

That has to do with the pandemic shock naturally, but it also mounts with a bottleneck that we faced over the course of the year in admitting approvals for projects upon the secretariat of licensing from the municipality. It was an issue that we struggled with over the course of the third and fourth quarter yet where we will touch on how we're doing that thus far and as a spoiler that's just as much as BRL550 million in projects already approved.

Even so, that took a hit on the sales performance in the fourth quarter, which didn't really take the edge off [ph] of an overall year of surprisingly good performance, I here like to call your attention at the top right graph to the fact that we had net sales of valid inventory, surprisingly large, you notice 314 million of gross sales basically in line what we delivered in 2019 despite the fact that the underlying availability of the inventory is straight and significantly, so very good news across the board.

And let's look at cancellations in the second on the mid-right. You may notice that there was a perceptible spike in the third as well as in the fourth quarter, but here like on a more qualitative note try to mitigate any concerns you may have on that subject because the third quarter specifically and you're naturally had some scare from the shock of the pandemic. Yet, as much as 50% of those cancellations on the third quarter were actually upgrades, downgrades and transfers. In other words, they were cancellations that were registered, but they were immediately accompanied by a subsequent sale. So in any way reflects the proactive stance from the internal team.

When you look at the fourth quarter, you still have the lingering cancellation, but as much as 60% of the fourth quarter cancellations are actually on the high as well as smart-living segments, which really reflect in any way a more malleable approach, the cancellations in projects where you actually have significant increases in prices and you really make sense for your company to take those units back and be able to resell them with no much-added effort and with increasing margins.

With that, I'll move ahead, the Slide number 6 for addressed inventory. I think that the result from these trends, I just mentioned, where we had limited launches in the face of -- the man that -- the face of sales that actually drew a V-shaped return as early as July, and that has actually working quite well up until now I'm naturally takes a hit because of the red phase of the pandemic, but if you really led to a contraction of the available inventory to 1.8 billion, and if you were to look up until today, you probably see something short of 1.6 billion in available inventory that because of what has been sold thus far.

Naturally that, you also noticed at the bottom graph, that it is a very young inventory, is a very fresh inventory for projects that were recently launched and they're currently in construction. There's not much more of that symptomatic ready inventory that's lingering in the balance sheet, the remainder of the ready inventories mainly concentrated in Guarulhos, which in its own turn has been selling at a gross margin north of 50% consistently over the past quarters.

Overall, the fact that the inventory levels are very much contained, very much under control, really give an additional confidence in our capacity to fulfill the launching guidance going ahead with the tranquility that you may have some additional gross inventory permission, but they're still very much under control given where the starting point would begin at.

Now, moving ahead, the Slide number 7. I'll actually start introducing the launches that we made over the course of 2020 and a very strong start in the first quarter of 2020, specially marked by the Air Brooklin launch. That was the centerpiece of the quarter, naturally prior to the pandemic you saw sales really outperforming and Air Brooklin as of now is ready at 70% of the product sold, but generally the sales performance across the board.

Over the course of the second quarter, we were major [ph] but pandemic in the third quarter we actually would have desired to launch more than we actually did here that the approval bottleneck kicked in, yet we managed the launch projects to the extent that we were getting those approvals emitted, where's Gran Maia, especially Piazza with an outstanding 59% sales performance.

And especially in the fourth quarter, where again loans were concentrated in the very end of the year by the month of December. So knowing the visual project had much more than a few weeks to be sold over the course of the fourth quarter before we had the holiday recess both for the administrative staff as well as for the commercial staff, but when you look at the current picture of where they're standing as of February 2021 that the figures you're looking at, you realize that you have generally two positive trends, you have Fit Casa projects, the low income projects which cost us hundreds that when you faster and minimum distance from market delivering something like 20% of sales within the very first month -- within the very first months.

It is very compatible, very adequate for the profile of Fit casa projects, that low income projects. If you look at the average of the first pre-launch to maiden Fit Casa thus far the all have the same pattern where you (inaudible) where you save, you sell us something like 20%, 25% in the first quarter, but you follow up with a full-year where you're sell an additional 45% in average.

So Fit Casa generally has that flatter -- a flatter sales curve mostly due to the bureaucracy that's added to the process as a very early stage of sale when you have the arranged the financing for the client prior to the construction that introduces the bottleneck. But that doesn't really hampered the fact that you have an underlying demand that's very deep for Fit Casa projects for -- low income projects with data CD [ph] of Sao Paulo that exactly where EZTEC's business model lazing.

Now, when you look at the other two launches, Signature by Ott and Eredita - Parque da Mooca. You really have a much brighter note where you have a sales performance where over the course of a little more than two months, you've had as much as 39% and 35% of the projects sold in here we're talking about mid-high income projects mostly in regions like a (inaudible), which naturally very much consolidated neighborhoods, but they really not on the very inner core of the prime regions of San Paolo that up until now has been the center of price gains in the city.

Now when you look at the performance for these projects as a -- it was in a way a first that we actually managed to sale some very quick speed of sales, while at the same time maintain -- or at the same time, taken up in prices. So Signature by Ott for example is a project that its original feasibility analysis by April 2019. We point something like 8.5 to 9,000 per square meter. Well, we're actually selling it at an average of 12.5 right now and it's stuff like the Mooca's similar trend, Mooca is place where we have a large land bank exposure so we'll see very promising site. We managed to also sell the most recent units at a price of BRL10,000 per meter, very, very surprising figure.

And now moving ahead, it's also important to point to launches that we have scheduled for the following months. And here I emphasize the fact that these projects on the screen right now are actually already approved by the city -- by the municipality by licensing officials. So basically here is the first important sign of breaking through that bottleneck that we were facing in the course of the fast quarters.

We naturally something that it's an awkward moment to make lunches in the face of sale stands that are closed by the time by through the red phase of pandemic. So it's more likely that these projects may be happen in affect subsequent the red phase where actually get, the bring the client in a very organized and adhering to the sanitary protocols, break that client that the sale stands accompanied by broker where -- he'll feel the enthusiasm of visiting the decorated stand and committing with a long-term purchase.

Still, these projects are available and the commercial team is lining up there commercial strategy so that we can execute a quick deployment as soon as possible. On top of these projects, we're also having an additional projects on-track to be launched for as soon as those approvals are emitted. So you have a -- Altta Vista Residence Resort are also lined up and inspire more confidence in our capacity to fulfill the guidance, the two-year term guidance that we emitted one year ago, which basically implies that going ahead, we still have something like 2.8 billion to 3.3 billion of additional launches to be made up until the end of the year-end. We started with some Qs of how that should happen.

Now, moving ahead, i'll pass the word to Emilio, who will -- who'll start addressing the financial performance.

Antonio Emilio Clemente Fugazzar

Many thanks, Hugo. Let's talk about Slide number 12, financial performance. Let's start with net revenues and gross profits and gross margin. So both are subjects that we can see one complimenting each other.

It's important to mention that when you look deeply at the results of the fourth quarter 2020, you can understand what happened in Brazil in terms of the construction costs, in terms of the national inflation index up for the construction costs.

So first of all, it's important to understand that 2020 was a year that we saw INCC bringing something around 9% year-over-year and the 12 months by now, we have something around 12%. So inflation is in a clear order to ramp up, especially in the construction materials. Materials that are tradable. Materials are completely -- materials that are completely connected with the current price and the cost of the steel for instance, the copper, plastic and all of the materials that are tradable and can be exported from Brazil to abroad.

So first of all, so the inflation was high was something around 3.5 in the fourth quarter 2020. And by (inaudible), we have been using to recognize revenues. You have to recognize by the percentage of completion park. So park is you have a base of cost. When you expand the space of costs by 3% to 4% in just one quarter, obviously you are getting down and you're diminishing the total amount of the percentage of completion for that same site. So -- and that's why in order to see, for instance, one certain amount of construction recognized or revenues recognized, you see -- you can see a little bit less than we thought before.

First of all, second of all, let me remind you that by is tax methodology to recognize cost, so it's our paramount importance to recognize all the incremental costs by INCC or by the negotiations we have with our supply chain at once in the fourth quarter 2020 to have a clear status of the current situation in the construction costs. And that's what we have done. That's why you can see (inaudible) coming down from 44 in the third quarter 2020 to 40 in the fourth quarter 2020.

That's not proxy of you are going to see in the next few quarters because if you pay deeply attention at the backlog March number, our company as you -- we're going to see on the next slide, we are going to see something around 45% backlog. Last, some taxes, we are going to see something around the 43% of gross profit -- gross margin in the coming quarters.

Apart from that, it's important to mention that's part of our operation, is just sell back to the market that the units recovered from that the prospect of providing finances weren't quite. So the -- some kind of units instead of bringing the units to the banks in order to get mortgages and receiving the money advance, we can provide financing to them. As you know very well, it's that has been holding something around 1,600 units -- 1,600 clients, which are we are providing finances to them.

So from those clients, we have recovered some units because of delinquents. We are going to talk a little bit more further, and obviously, we have to sell back to the market. In the last four quarters, all the units sold back to the market was something around the BRL13 million, fully recognizes in the results of 2020, but the margin obviously is not the same margin of unit fresh provided by the company. So our units launches and sold by the company. It's immunity that the cost is, including the depth of that -- of the unit provided by the client.

So that's why the margin -- gross margin on average got from those units so bad. It's something around 6% all over the year, but 13% specifically on the fourth quarter 2020. That's important to mention.

Another fact that's important to keep in mind. It's about our work with Fit Casa segment. Our Fit Casa company of launches (inaudible) company EBITDA, the low income segment here in the City of Sao Paulo and it Intercontinental region of Sao Paulo.

So those units will bring the contracts to cash economy (inaudible) as soon as we start the construction. So which means that when you think about adjusting those contracts for the INCC is not that true because the total amount of the value is going to be paid by the cash amount without any kind of adjustment.

That is the regular work from companies working with (inaudible) among others. So in this specific segment without would change the receivables adjusted by INCC and the cost adjusted INCC in this specific segment, obviously there is a much more pressure over gross margins and this pressure can be seen exactly in the fourth quarter 2020.

So moving on to selling expenses. It's important to me remind that there was one of the better rates talking about selling expenses over gross profits I think ever for this company, specifically because selling apartments online, again be a little more profitable, a little more rational than the way we spend (inaudible). Specifically because we have know the same amount of publicity. We have another kind of sales stand, we have another kind of -- I will say choose to sell which is -- which are less expensive than we were before.

That's why when you look deeply at the fourth quarter 2020, we can see the ratio at a level of 3% in the third quarter 2020. Talking about the G&A expenses, G&A expense in the fourth quarter 2020, there was an adjustment of over BRL5 million. In the fourth quarter specifically because of the IPO's path has been lower and auditing companies from the IPO of (inaudible) that we have canceled in the first quarter of 2021.

So we booked it. We recognize expenses in the fourth quarter 2020 without moving this expense to be recognized in 2021. Apart from that, you can see the volume of G&A expenses can be a little bit flat at a level of BRL26 million and BRL5.6 million over 2020.

Moving on to Slide number 13. Let's talk about the bottom -- on the top left financial results. Obviously one of the main highlights from these fourth quarter 2020, which was something around BRL76 million. Mostly because of the adjustments in IGP. So IGP exclusively in the fourth quarter recognized this result was something around 11%.

So all-in-all, IGP last year was something around 26%, but only in the fourth quarter 2020 something around 11%. Apart form the -- apart from these receivables, adjusted by IGP plus 10 on average, we have to bear in mind the volume of cash and equivalents to be -- we haven't voted in our company, which is something around BRL1 billion with a new 2% on average in the first quarter -- in the fourth quarter 2020, get enough a little bit despite this end of the first quarter 2021, because the -- rates was moved by the Central Bank last year from to 2.75% [ph].

Talking about equity income, let me remind you that the equity income up right that we have under in that -- in a mix of control with our partners. And the most expressive project in the fourth quarter was -- very well sold in a project of something around grows to 40% gross margin.

In the next coming quarters, you're going to see as augmentation little bit earlier project like Signature by Ott, Eredita - Parque da Mooca and Meu Mundo Estacao Mooca all of that projects launched it in the fourth quarter 2020, but without any revenue recognition so far because they have achieved six months or 50% sold so far. We're going to see improving -- those progress improving the equity income results in a very profitable way because all of them -- we are talking about project that are coming with gross margin better than 40%.

Talking about the bottom left, net income of this company, BRL140 million in the fourth quarter 2020, the most expressive -- the bigger result for one single quarter -- one single fourth quarter since 2015 and even talking about it over year 105 million [ph] in a net margin of 43% is their biggest the results since 2015 excluding the fact of sale of EZ Tower's Tower A.

Exclusively the fourth quarter 2020, the net margin reached something around (inaudible). Important to bear in mind that not only because of the operational results, not only because the financial results, but even because when you look deeply at the other revenues or other expenses for the revenues again 2020 was positive and positive because we sold to -- we sold one project to (inaudible) and one project of -- in a branch -- in the level -- Lever 2 branch beyond much more specialized it on doing that. And the part we could see from this sale was something around BRL8 million [ph].

And in terms of -- we bought what very big projects in 2020, project located in the neighborhood of Mooca, (inaudible) and even buying this project saw -- we have paid less than they would value of the project. That's why we had to recognize because of 60 number 18. We have to recognize again of something around BRL8 billion too, that's important to bear in mind.

And finally, backlog margin. Backlog margin came at a flat 45%. 45% become what is going to turn into something around 43% because of the debt, but remains step which is very, very good compared to the -- compared to the current gross margin of 40% in a level of BRL421 million to results to be recognized. So far, no trends or no more trends in terms of gross margins in the coming quarters.

Moving on to Slide and Page 14. It's our receivables. Performed receivables that we have been providing financing to our clients. That's an interesting because looking deeply at the short note, you can see that the 2018 we had something around 1700 clients. 2019, we ended up the year with close to 1900 clients, and 2020, we ended up this year at a level of 16,000 client.

So there was an acquaintancy of 475 compared to the origination of a 162 clients. The -- especially because obviously the inflation index we have been using to adjust this portfolio, is something around 26% over the year or which is the IGP.

But the good news coming from this, this slide is the foreclosure. The foreclosure is about seven units only. Talking about -- talking about the Board of this portfolio ended up 2020 at BRL509 million with only BRL3 million foreclosure.

The Highlight is the total amount of payments around BRL198 million to around BRL200 million of cash received within 2020. That's important because you can see, because of the short note, you can see people paying in advance their obligations, so we can see it reducing the number of the clients we are providing financing, without experiencing greater, a greater the full of this portfolio. So the same units on the default situation at the beginning of this year -- at the beginning of 2020 are the same at the end of 2020.

So -- and obviously because of it we are going to see improving the numbers of foreclosure in the coming quarters, but nothing that one person's opinion creating a trap or trend for these (inaudible) portfolio. And let me remind you that all the audience -- foreclosure, we are selling back -- we can sell back providing a gross margin of on average 13%.

Moving on to Slide and Page number 15. An important subject which is, Fit Casa, as you can see on the left -- on the top left, you can see BRL42 million of net income contribution to EZTEC in 2020. So all in all 10% of the total amount of net income (inaudible). And gross margin of almost 44%.

So what I've got is it isn't that, you can see on the right -- top right side of this slide, is the return on equity of 20%. So thinking that in the coming quarters, we are going to recognize under these numbers, Fit Casa (inaudible) in a gross margin of 40% and it moves us in Mooca in a gross margin of 50%. So there will be a possibility to see it likely the return on equity coming at the same level for 2021 because of the projects coming to be recognized in the next coming quarters. So a very, I would say profitable unity under EZTEC's management.

Slide number 16, you can -- we can talk a little bit about EZ Inc [ph]. EZ inc. is important to understand that the fourth quarter 2020 brought asset value at BRL865 million and shareholders equity around BRL716 million. So the remaining BRL148 million of liabilities are because 104 from this number mainly because one piece of land -- one Tower we bought in the Sao Paulo, very close to (inaudible) that we have to pay the installments if six months adjusted by silly plus 150 basis points.

So there is a great news coming in the first quarter 2021, over EZ Inc is the approval by the municipality of -- the tower -- the project, gross leasable area of around 8,000 square meters despite the fact that nowadays there was not the way -- which means that so we are not looking for capital increment. So this moment for this company due to the status of the capital markets and our economy indeed.

So Slide number 17, the value generation is a very common, it's like we have been doing which means that in 2020 they -- a whole shareholders equity in this company ended up this year in -- of around BRL4.1 billion, which means that the controlling shareholders group -- they have -- they've got something around BRL4 billion [ph] in this amount. This will be some of the great -- this amount is in terms of assets, a cash on equivalents, can represent something around 25% of this equity.

The receivables coming from finished new units formed the receivables. We are talking about 16% of the equity BRL571 million, the cost of the revenue that was something around 8% of our equity BRL281 billion, and what important to than that, when we say we'll go measure earlier led by (inaudible) of around BRL10 billion, it means in our accountancy that these amount of land are broken by a cost of BRL1.77 million, which we -- at 11% ratio cost over PSP.

Let me remind you that when you see this -- when you see these figures in terms of land bank, including all the grants, all the setbacks we have a -- it to lauch the (inaudible) like for instance amazing project (inaudible) is a product that we can understand something around BRL9 million of land and another BRL9 million of the facts or grands. So all of them book it inside BRL1 billion in land bank cost.

So in terms of liability, there is -- there are only two worth to mention. First of all, BRL184 million of land to the paid in the next coming quarters, mostly because of BRL104 million coming from the project of (inaudible).

And finally BRL96 million of dividends to be paid, dividend that we are make the proposal, other dimension proposal. In the next coming days to -- to the annual meeting of shareholders to be helped and at the end of the next month.

So only best -- that's our conference call for today. We are completely open to receive any further questions you may have. Thank you very much, guys.

Questions And Answers

A - Hugo Grassi {BIO 22045963 <GO>}

(Question And Answer)

Thank you, Emilio and this is Hugo speaking and here for logistical reasons. I will invite the sell-side analysts on the room to raise their hands and maintain their hands raised while we give the responses we can have it back and forth back and forth response. Now, I noticed that Nicole Inui from Bank of America has her hands up. So I invite her to speech, please open her microphone.

Q - Nicole Inui {BIO 17757166 <GO>}

Great, can you hear me okay?

A - Hugo Grassi {BIO 22045963 <GO>}

Perfectly.

Q - Nicole Inui {BIO 17757166 <GO>}

Great, well thank you Emilio. Thank you Hugo for the call. That's great. Can you talk a little bit about the impact of these renewed lockdowns in Sao Paulo on your business? You mentioned perhaps some of the launches may be delayed till we get out of this red phase, but how do you see it impacting also sales and also your pace of construction and also approvals for additional projects, additional launches down the road? Thank you very much.

A - Antonio Emilio Clemente Fugazzar

Nicole, I thank you so much for the questions. Obviously, it's the kind of subject that brings a lot of concerns to a company like to EZTEC specifically because we have been working not only to see that's about when some products in the metropolitan region of Sao Paulo and sector -- the whole sector -- the real estate sector is to -- is the government has a consideration to keep the sights under construction working so far. So the news we have so far it -- it's to bring the earlier the holidays to Sao Paulo in the next two weeks. We are going to see for one whole week the entire city close because of those holidays and those has dissipated holidays.

So let's talk about some two kind of things, two kind of different impacts. So first of all, in terms of site under construction. Site under construction so far, Nicole let me remind you that's phase see June, July last year, we have been working with some impacts specifically in the supply chain, not because of the workers, not because of the workforce, but because of the supply chain. So it's hard to see the same amount of materials, the same amount of services provided by the -- to the construction in the right time and that's why we saw less advance in the construction than we thought before.

In the first quarter of 2021 is not different than that. We have some sites under construction bringing to an end with much more I would say, safe than the sites under construction in the beginning of the construction. So it's simply because in the beginning of the construction, it will depend much more all debt raw material there, the finishings over the others. So on the means, in the first quarter, you don't expect much great improvement in terms of revenues recognition because of it and obviously, this impact we're going to see also in the second quarter of 2021 too.

But in terms of sales, it's a little bit different. So far, we have achieved something around the BRL240 million of gross sales. So it's a very good number especially because we haven't launched any project yet and we're expecting to launch the first developers project at the end of March, at end of this quarter specifically because we can't get approvals of BRL400 million in the east zone of Sao Paulo. We don't know for sure because -- we don't know for sure what's going to happen with the sale stands. Obviously by March, we know that the sale stands are not going to be open as to something because of those new measures to be taken.

So we expect this project specifically (inaudible) Sao Paulo that we had kind of warm up in these projects since the January, since the last January and we think that there we can sell something because of this warm up, even the line with the (inaudible) in the Portuguese conference call, measure that the project ID by Israel, which is a very small project BRL26 million outlook, our stake is a potential sales value. He think that he can't sell it only for current clients of these effects. So he thinks that we can -- we have a way out very interesting, but that's it. It's not much more than that. So we are talking about BRL200 million [ph]. So to launch another BRL300 million [ph] of the well-off the -- approve the projects, we have to sale stand -- sale stands open again. And gives up taking approval, taking little licenses. It's a little bit complicated because obviously we can see nowadays the response getting all employees from the those offices releasing the approvals, working (inaudible). We know that they pace of releasing licenses is not going to be slower than we saw in the last four to six months.

So all in all, we have about a mindset to launch something around BRL1 million in the next coming months, specifically to launch we have already approved and part of it in the point to get the licenses. This is someone to sign all these someone to sign his approval. And it's not what we had, we're going to take, which means something around one-third of the whole guidance for this year. And that's it. That's the whole perspective we can get you to think, Nicole.

Q - Nicole Inui {BIO 17757166 <GO>}

Great. That's very clear. Emilio, thank you.

A - Antonio Emilio Clemente Fugazzar

Thank you very much Nicole.

A - Hugo Grassi {BIO 22045963 <GO>}

Thank you, Nicole. Now in the absence of any hands up, I'll take the chance to different communicator to make choose us some questions that we got from first investor from non institutional investors over the Portuguese call. I'll do a quick translation and enjoy Emilio's presence here. Now, we have a question from Joelle Paulo [ph] who ask for more details as far as what happened as far as construction inflation. How that affects the budget for the quarter? And I'll combine that with Rafale's [ph] question and no surname given, who asked about what's the -- how are we doing as far as prices as if we're able to pass through the construction cost inflation the prices? He is asking specifically about (inaudible).

A - Antonio Emilio Clemente Fugazzar

Hugo, thank you very much. Thanks to Joelle for the question. It's important to understand that we have been dealing with (inaudible) construction, the same way we have been dealing for 15 years. So as we are trying to take advantage of a very good position of cash, a very safe position of cash. Let me use it as an example, lifts, elevators. So we have a major conference to buy lifts with (inaudible) one of the biggest supplier for this chain and in Brazil.

So this contract is adjusted by IGP and then the 12 months from now, any now our IGP is very close to 30%. So we have some discussions with (inaudible) to pay in advance all the bills open for lifts we have in all the construction sites, under construction right now, which means that we can avoid something around 30% increment and the prices -- increase the prices and the latest insights in the construction. So it's a way to avoid. In terms of skill or prices and everyone knows that Brazil is one of the major producers of iron all of the world, but obviously I am (inaudible) and so a company selling as fuel all of the units the construction site here in the city of Sao Paulo they have to practice.

The copper prices the common (inaudible) prices of this. We have a great push to buy iron from China for instance and there is a lack of -- in the supply chain because of a lot of countries we can see closures in those factories, in those mining components. So that's why the beginning of January this year they still increase put us something about 40% and next April (inaudible) 1st of April we are going to see another 30% incremental price in steel. So that's why last year we bought 100% of the steel we need for that year and was generally. This year unfortunately the company are not allowing us to do the same but at least we are bind six months in advance of steel avoiding 30% improvement of prices in April.

Which means that a lot of piece of land, piece of land that we are not increasing the construction or doing the construction right now are nowadays the storage of the steel for constructions coming in the next quarters. We are trying to make (inaudible) sale in order to avoid these -- those incremental price. But obviously it's a kind of thing that we are doing for now, taking advantage of our cash equivalents position, but it's not sustainable for the long -- in the long way, the long term. Nowadays, we have been -- we can sell the units with a little gain or no gain but in the same things of INCC.

As we know for sure that -- the INCC is not adjusting for sure the real prices we are facing in a city light Sao Paulo. So all is to bear in minds -- so thinking about a project that we have launched two years ago and trying to make the budgets for now. So the adjustment is something around 150% of the INCC. So INCC in projects that we're going to see timeline of the construction any two years from now three years from now, there's no doubt that the INCC are going to get deployed to show us all the incremental prices we are facing today.

And the -- the INCC has done that. We are going to see an incremental gross margin specifically because the price to sell the units all around 40%, 45% is the cost of the construction. So including the price over 10% means that from the price, I am incremented -- incrementing something around 10% which mean and the base hundred -- I remember 510 [ph] and they cost from 40 to 44, which means an incremental gap of gross margin of around 6% to 5%. So but now currently we can see some of constraints to improve the margin so far that's the explanation.

In terms of (inaudible) it's important to bear in mind that the way we have to practice and not only bringing the quarter (inaudible) without any kind of adjustments of inflation. The other way to practice to sell is to sell as we have been selling all the units in this company without bringing the context of (inaudible) . So we made the contract, there I would say the major contract with the bank. But we provide to the bank only half of those units we need to provide keeping 15% of those remaining units under the management of our company adjusting those units to INCC adjusted those units to the inflation costs. So which means that we are going to try to take an assurance of this incremental cost, using a tool that we have the most which is our position of cash.

A - Hugo Grassi {BIO 22045963 <GO>}

And given the time that concludes our conference call for the fourth quarter and for 2020. Thank you Emilio, and thus far the Investor Relations team will remain available for whatever questions, whatever concerns. Feel free to get in touch.

A - Antonio Emilio Clemente Fugazzar

Thank you very much. Have a wonderful day and keep safe. Thank you.