

Y 2015 Earnings Call

Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive Officer Region II
- Leonardo Guimaraes Correa, Chief Financial and Investor Relations Officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer Region I
- Unidentified Speaker

Other Participants

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

Presentation

Operator

Good morning and welcome to the conference call for analysts and investors of MRV Engenharia e Participacoes about the Earnings of the Fourth Quarter of 2015. Today with us we have both CEOs of the company, Rafael Menin and Eduardo Fischer; Mr. Leonardo Correa, Chief Financial and IR Officer; and Matheus Torga, IR Executive Manager.

We would like to inform you that the company presentation has been recorded (Operator Instructions). Then we'll start the Q&A session for analysts and investors alone when further instructions will be provided. (Operator Instructions) The audio is being simultaneously webcast on MRV's Investor Relations website.

Before proceeding, we would like to mention that, any forward-looking statements made in this conference call relative to MRV's business outlook, projections, and financial goals are based on the beliefs and assumptions of MRV's management, and rely on information currently available to the company.

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 may also affect the future results of MRV and leads to results that will materially differ from those in such forward-looking statements.

Now we are going to turn the conference to Mr. Menin, CEO of MRV, who will begin the presentation. Please, Mr. Menin, you may go on.

Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning everyone. Welcome to our conference call to present the earnings of MRV in the fourth-quarter 2015. I would like to start our presentation, highlighting our satisfaction with the excellence of our operating indicators even in such a challenging year.

Among the main indicators, I would like to highlight the unique record that we reached of 80,000 units delivered in the past two years, which make us the largest company in the western hemisphere and the second largest company in the world in this indicator.

In addition, I would like to draw your attention to our very low leverage, a very high gross cash, and the maintenance of the best rating in the industry. We had an important evolution in our gross margin, which contributed to the increase of our net income ex-equity. The same for our profit per share that reached 32.2% compared to the same period last year.

In line with our transparency policy, we decided to release the provisions amounts for losses coming from default pro-soluto or without recourse that reached 56 million in the fourth-quarter '15.

In 2016, we are promoting important adjustments to be more efficient in the process of simultaneous sales with consequent reduction of cancellations.

Finally I would like to emphasize our position in our urbanized [ph] subsidiary that has been presenting quite accelerated growth in its main indicators. In addition to being a company with a vertical operation, urbanizing a segment with low competition of structured companies, therefore its gross margin of 60% in 2015.

Now I'll turn the call to Eduardo for him to comment some of our results. Thank you.

Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Well, thank you Rafael, and good morning everyone. Indeed, we closed the year of 2015 with quite strong evolution in several of our operating indicators. Starting with cash generation that closed the year at a record amount of more than BRL800 million, that despite the bank strike that happened in October that somehow impacted the fourth

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quarter. Our capacity to generate cash continuously has been a safe harbor in a scenario of uncertainties with traction [ph] and more expensive credit.

In the closing of our results of the year, I cannot fail to give special highlights to MRV's production area. More than operating capacity, because we closed the period with almost 39,000 units produced, it's worth mentioning the increasingly efficient cost management of our project, which is a basic ground for the evolution of our gross margin perceived in the last two years. We're still in production. It's important to mention that we have been able to capture quite fast the benefits of the strong deceleration in the industry. Along 2015, we had expressive renegotiation with most of our suppliers and this movement will continue in 2016.

In the commercial department, we continued with our strategy to speed up launches in cities with greater demand or still with little penetration by MRV. The results of sales that we have been able to achieve this year are fruit of our focus on geographic dispersion and absorption of a much more extensive market than the other players in the industry. This strategy was reinforced along 2015 with major growth of our land bank that will also be our focus for 2016.

In addition, we'll also concentrate our efforts in markets of the larger cities that despite concentrating a larger number competitors still have great capacity to grow.

With regards to real estate credit, we closed the year with very good performance. Our build numbers of the fourth quarter were affected by the October's bank strike. Along 2015, we realized gain efficiency in the credit area especially with our relationship to transfer units earlier than earlier [ph].

With this, implementation of our strategy to reduce our receiving cycles follows along the lines that we had planned and shows increasingly better numbers. We believe that although we advanced a lot, there is still room to improve in the year of 2016.

Another point that is important to mention, regards our provisions for contingencies. Despite the number going up compared to the year of 2014, several actions were taken by us to mitigate the impact of greater discussions in the future. That was the case of the change in the form of commercialization when we re-seal -- re-sought brokerage commissions, as well as our strategy that led to the agreement with the Public Prosecutor's Office about our sales and by agreement. With that, we avoid surprises in the future and have more visibility and balance in our operation.

To close, although we see the year of 2016 as very challenging, the results that we achieved in the previous year gives us the belief that we have all conditions to keep operation at current levels and go on with operating improvements that guided the company in the last two years.

Thank you very much and now we'll open for the Q&A session.

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Questions And Answers

Operator

Thank you. We'll now start the Q&A session for investors and analysts only. (Operator Instructions) Our first question comes from Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hello, good morning everyone. I have two questions. The first, regards your MRV portfolio that you broke down, how much you provision for the year of 2015. I would like you to mention what the performance is like in this portfolio, since you disclosed the 29 million of provisions.

Because of this worse macro scenario, do you think that you are performing much worse, or it hasn't changed much from what you had in the past, which is about one-and-a-half years? So I would like you to give more color about this portfolio and how it should evolve along the year of 2016? More direct financing to clients or not?

The second question is with regards to provisions in other operating expenses. You mentioned in the beginning your agreement with the Public Prosecutor's Office, but I would like to understand exactly what this is like, because when I look at your numbers, the greatest increase in provisions were several lawsuits and there are many things there. It can be a delay in a construction, it can be cancellations, brokerage fees. So I would like to know how this is going to evolve along the year of 2016 because you provisioned a lot, but you have been paying more and more along the year of 2015. So if you could talk a bit about the evolution of this portfolio. Thank you very much.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hello, good morning. I'm going to start with the portfolio performance. I'm going to take a step back and make some comments there. First, we grew a lot in this portfolio as we mentioned before. This is already starting to get stable in terms of size and we have to take a look at this pro-soluto portfolio compared to the amount of higher sales. Because we are speeding up construction, I don't think it is so appropriate to make a comparison with accounts receivable because accounts receivable is moving a lot faster.

But going back to this portfolio, it is already stable. The volume of pro-soluto compared to units delivered was initially based because of the high number of cancellations we had in 2015, many of them in more advanced units, many of them finished products, and therefore you don't have much alternative.

If you want to sell the apartment and to receive the main amount in terms of the larger part of the financing made, you have to accept some kind of pro-soluto after the units delivered. Those amounts are also at stable levels, at what they should be, so we are not going to see this line going up anymore.

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And going back to your question about the portfolio performance, well, we disclosed the numbers. We have always had the provision. The way we had the provisions, we would launch the TRE and then discount from the amount to be received in the portfolio.

Obviously we are a bit more affected in the macro scenario today, but not really much different in terms of performance for this portfolio. We are always following this portfolio from close. When we are going to grant credits, we see the capacity of credit that we have, we ask for guarantees or endorsement from people. So, we are continuing to manage the portfolio as usual. We know that this is part of the business because we do have to sell units and the strategy is to pass on units and to transfer clients to banks as soon as possible and therefore we have to manage default levels.

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

This is Fischer, I'm going to talk a bit about provision. You see that the huge part of our lawsuits are civil lawsuits and you have two main points here. One that was quite strong last year and it is still strong today is brokerage fees in contracts, and the other is cancellations. So, these are the main discussions when we look into civil provisions.

What's important to highlight is that, despite the number of lawsuits increased last year, I mentioned in the beginning of our call and I talked about the last quarter of last year. In the last quarter, we made some movements to protect ourselves in the future. I don't know if you remember, in our contract along 2015, we absorbed brokerage fees to avoid this kind of discussion to go on, so you see a bit of this movement before the change.

What makes me comfortable with this issue is that, when I look into the future, we had already a defensive movement of this liability. So I believe as we move on 2016 and 2017, we are going to have a drop of lawsuits and we had the renegotiation with the Public Prosecutor's Office.

In the past, there was a major discussion about some points of our sell and buy agreement. Proactively, we went to look for the Public Prosecutor's Office, we sat down with prosecutors for six months until we came to consensus.

So, that is an ideal contract, an ideal agreement for all the parties. We did that, and I see from now on also a drop in provisions for the future. So this is what is important to highlight. We identified in the past problems that could cause imbalance for the company and liabilities, and we prompted, addressed these issues, as I said in the beginning, for us to have more predictability and balance in the future. Okay?

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Yes, it's very clear. (technical difficulty) are already in the current sales model or do you think we are going to see that more as of 2017?

A - Unidentified Speaker

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I think that the deliveries of 2016 still have part of the agreements in the old model. Gradually as of the end of the year in 2017, we are going to have everything according to the new agreements.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

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

Operator

Our next question comes from Nicole Hirakawa from Credit Suisse.

Q - Nicole Hirakawa {BIO 18242556 <GO>}

Good morning, everyone. I have two questions. First about cancellations, we saw a drop in this quarter. I would like to understand what you see for cancellations in 2016, are you going to have more improvement in the first quarter especially because in the fourth quarter of 2015 you had significant improvement? And also I would like to know about your vacancy rates just for us to have an idea of the net debt to EBITDA ratio for the company? And also your cash availability, if you see that they are going down. So I would like to know the capitalization moves of the company?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hello. This is Rafael. In terms of cancellations, we have been talking about that for some time. We started with our project of simultaneous sales in 2014. It gained momentum in sales in 2015, and within this new sales process, we already noticed much lower levels of cancellations. It was about 30% before, and now in the simultaneous sales it is much lower. We still have a backlog that was from the previous process that's still being digested by the company.

So we are going to see along 2016 still higher rates of cancellation, but this is going down quarter on quarter. In the first quarter, we are not going to see much lower of the fourth-quarter 2015, basically the same size. In the second quarter, it starts to go down, and in 2017 we are going to see much lower rates.

I'm going to talk about LOG. LOG vacancy rate is about 12% today. The level is going down quarter on quarter basically because the industrial warehouse market is a bit tougher this year. It is very correlated to the economy, so it needs no further comments. But, we do have the benefit of our geographic dispersion. The market in the Sao Paulo, Campinas area is a market we have more vacant space, and the market is being affected. But, that is not so true in other markets.

So again, our geographic dispersion works here. Part of these vacant spaces is in this area of Sao Paulo and Campinas, but in other towns, the rate is much lower. That makes us operate at a level of 12% that I mentioned.

And second, we have to say that, this number is going down month after month. We have been able to launch new things in the market.

As for indebtedness, LOG is decreasing its growth, obviously again completely correlated to the economic situation of the country and we are going to continue managing the company in terms of indebtedness and new activities at a slower pace, so to speak. But it's important to have our land bank and a series of projects that have already been started and we have already put together the infrastructure of this land.

Sometimes when you just build one or two warehouses, you still have the infrastructure to respond to the market when necessary. It's not the time now, but we are managing it quite well.

Q - Nicole Hirakawa {BIO 18242556 <GO>}

Sounds perfect. Thank you very much.

Operator

Our next question comes from Luiz Mauricio Garcia from Bradesco.

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

Good morning, everyone. I have two questions. The first is about your land bank. You increased the size of your land bank quite a lot in 2015, I suppose seizing opportunities where the competition was not active and also because of a reduction of prices as you included in your release. My question is, from now on, what is the strategy of the company? Do you still see region where it makes sense to increase your land bank in a consolidated manner or from now on you intend to maintain the size and the EBIT margin stable?

And still about land bank, I think that your increase of inventory brought an increase of capitalized interest. We see that most of your debt especially in debentures is capitalized in your inventory. Do you think that this somehow represented a change of your strategy, you did that because you are paying the land cheaper, so you have an impact in interest without impacting the margin or is it just an increase of volume?

And the second question is about your dividends you pay out. When you reach zero net debt, having a net cash position in 2016, what will be the company strategy once net cash or new cash generation will be a dividend payout, what do you think of payouts in the future when you get to your target net cash as you mentioned in your release?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hi, Luiz. This is Rafael. I am going back to the issue of the land banks. In 2009, 2010, and 2011, 2012, we had a lot of competition in land banks. At that point, MRV followed a different path; we worked much more in markets that had very good demand and lower

competition in the inland of the states, and most companies were competing in larger cities, we reduced our presence in those regions.

As of '14, the competition dropped substantially, companies started to work in different segments, or directed to other markets, and MRV decided to balance its land bank. We started in 2014 to buy lands in larger cities and this movement was intensified last year, which coincided with a moment of the company that we had gross cash that was quite high and our leverage a bit higher. And then, we decided to be a bit more aggressive in larger cities basically to benefit from the (inaudible) of the crisis. So indeed, we bought land of very high quality with a closer cycle of legalization and at a lower price.

In 2016, we want to be still aggressive in buying land. We think it's a very good allocation for the excess cash that the company has today. So we are going to be aggressive in 2016 in the buying of land. We think there is still room to increase. We still have a small land bank compared to the size of large cities. So as of 2017, we'll probably have a re-composition of the land bank. I don't know if I answered your questions, but I think that this is what our strategy is.

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

Yes. Thank you.

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

I'm just going to add with regard to capitalization that you asked. When we had some debentures last year, we allocated part of the resources to the acquisition of land and others, and so part of that has been capitalized. And as we start to use the land, we are also using the capitalized interest. For the next move, we are not going to buy land so that capitalized interests are kept at the level we have today or even lower.

And if you compare the capitalized interest in the context of the worst of the land bank, you see that the amount is quite low. And one of this debentures is going to be mature in mid-2016. When the debenture is mature, you settle the debt and you are not going to swap it for any other debt. So we will stop capitalizing. That's exactly it.

But some debt, corporate debt, should be renewed and it's good to use this time to say that you know that the company wants to keep low indebtedness, but also to have high gross cash.

So cash generation is very strong. Much of the debt is going to be amortized along the year, but perhaps will renew some kind of corporate debt along the year. Just as a reminder, in terms of payout, we are generating strong cash for some time now. Again, the ideal capital structure of the company should not be a structure where net debt is zero, but we have to take into consideration the time we are going through politically, economically, and et cetera. We have been saying that for a long time now. I'm just repeating myself. We are going through times of uncertainty and therefore we are going to be a bit more conservative while the uncertainty is around.

We are having a dividend payout now that is a bit higher than the mandatory minimum amount. Of course it is much lower than what we could pay out, but the message is to make it clear to shareholders that, the generation of excess result is to improve our balance sheet; if necessary, to lessen the capital to move on our projects, and the capital will eventually go back to shareholders in terms of buyback programs, dividends, at the time we are going to make the best decision possible.

But this is not a decision to make now. Once again, while we have such a challenging time in Brazil with such uncertainty, we are going to continue to be conservative. And eventually, it will come a time that the net debt is going to be negative and we are going to be positive in our cash.

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

Okay. Thank you very much.

Operator

Our next question comes from Priscilla Baptista Ferreira [ph] from Banco Votorantim [ph].

Q - Priscilla Baptista Ferreira

Hello, good morning. I have two quick questions. The first is that we heard from the competition that sales are a bit more restricted. I would like to know if you are feeling that. And also, I would like to have some color in terms of more restricted credit and future sales, what do you expect in terms of that. And also if you could talk a bit about the first quarter this year, you had very strong fourth quarter, if 2016 is maintaining the levels?

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Hi, Priscilla. This is Fischer. When you compare to the previous model that we had, the nature of credit is a bit more restrictive today because you have the filter at the time of sale. What happens is that the sales that are doing are going to be transferred naturally. So this is the nature of the project.

In terms of the behavior of credit, what we have seen at banks along the year of 2015 is that they were more strict in granting credit. This happened in 2015. In current months, it has been more stable but at a stricter level. So we have still very high demand. People want to take credit, but there's being a higher restriction from banks in the approval of credit.

But as you saw in the numbers of the fourth quarter was the behavior was already true. We have been able to convert this demand into sales even with stricter credit. As for the first quarter, I cannot disclose numbers objectively, but life continues as is, nothing really serious happened, although we are having a very adverse scenario. So the basic premises are the same that closed the fourth quarter and we are observing a very similar performance. Okay?

Q - Priscilla Baptista Ferreira

Thank you very much.

Operator

Our next question comes from Guilherme Capparelli from Citibank.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Hello, good morning. Congratulations on your results. I would like to ask about gross margin. It continued high at 31% in the last quarter. I would like to know for 2016 with the opportunity of increasing your inventory and also new launches at the right price in phase III, do you think there is room for the margin to go up or do you think it will depend on cost savings and if you are going to be able to have the savings along the year, what do you think the behavior of the gross margin is going to be like?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hi, Guilherme. This is Rafael. As for gross margin for 2015, we had an important evolution. We got (technical difficulty) First, better management. The newer regions where we started in 2008, 2009, and 2010, the first phase is obviously less productive, and as we go into the second, third phases, we gain efficiency and the project starts to converge with projects of older regions and with that the gross margin goes up.

Second important aspect as I mentioned to Mauricio, all crises have the good and bad sides. We had a strong reduction of the economy in our segment and MRV was the only company that was able to keep its level.

With that, we are stronger to negotiate with our suppliers. So we are buying more efficiently and we are managing our projects more suitably in these newer regions. And that's why we grew by 4 percentage points since 2013 on.

As of now, we see there is still room for a slight evolution of the gross margin now, much more residual than in the past, and the more efficient operations of 2015 are going to have an important role in the gross margin of 2016 (technical difficulty) make it possible for us to have a marginal increase of gross margin in 2016. But it's not going to be as it happened in last year. There is still room, however, to increase gross margins for the year. Okay?

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Well, thank you very much. That's very clear.

Operator

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

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Q - Daniel Gasparete {BIO 17999254 <GO>}

Good morning, everyone. Most of my questions have been answered. I would just like to ask you about competition in your segment. Do you have more players coming to the market? You mentioned that you're going to be more aggressive in metropolitan regions, do you see the competition disputing not only land, but also client, credit, other companies that were more idle in the past, do you think they are being more active now?

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

This is Fischer. Well, I mentioned in the beginning of the call exactly that. When we have this geographic dispersion, we have a 140 towns [ph], we are more protected against the competition because the behavior we see in this market, from the market that we have been for 22 years, is exactly that. Quite often you have zero competition. Then you have local competitors that are very strong, and the stronger competition, the more present competition is in larger cities. Obviously you have more competition there, but you also have a much larger market, very much in line with what Rafael mentioned about land banks.

We see in the cities a potential for growth because you have more markets. And in smaller cities, on the other hand, you will still have very little competition. One of the markers that we have is the purchase of land. The dispute for land in the smaller cities is almost restricted to us. So what I see in larger cities is a bit higher competition, but without the marketing absorbing that, so we are going to continue to invest, and in smaller cities still very little competition. Okay?

Q - Daniel Gasparete {BIO 17999254 <GO>}

Well, thank you very much, Fischer. When I see your portfolio, I see smaller cities, but you have also a large number of initiatives in the southeast region. So I would like to know even with your exposure with everything that you mentioned, isn't there anyone trying to get part of your market?

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Not yet. I do not see the behavior. Of course, we look into the competition all the time, but these smaller cities, I don't see that happening. We see that in larger cities, in the capitals of states, but as I mentioned, these are places where I also have a larger market and therefore we can capture part of that. So this is part of our efforts in terms of land bank for 2016.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Okay thank you very much. Have a good day.

Operator

Our next question comes from Enrico Trotta from Itau BBA.

Q - Enrico Trotta {BIO 16742911 <GO>}

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Good morning, Rafael, Eduardo. I have two questions, one going back to your land bank, between acquisition and adjustment of land you had almost 4.3 billion in PSV. I would like to know the cash impact of purchases in this quarter and if you are going to have an impact along 2016?

Also you said that you have a strategy to be a bit more aggressive in the buying of land in metropolitan cities, larger cities, cities that require bit more cash to buy land, if the cash impact in the buying of land of 2016 is going to change our expectation in terms of cash generation for the year?

My second question going back to your equivalents line and Prime talking a bit about results, I would like to know your expectations of this line along the year of 2016, if the operations are indeed getting better a bit slower than you expected. And also we see (inaudible) strong cash generation at consolidated levels, but when we take a look at Prime, MRL, are those companies burning cash? Is it anything relevant that you would like to disclose to us?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Enrico, this is Rafael. Hi. Starting with the land bank, last year we had a disbursement of BRL508 million in the purchase of land. Part of that was acquisition from previous years and part of acquisitions made in 2015.

Looking into 2016, the number is going to be very close to that. The number that we have is probably a disbursement of 300 million, part of that for acquisitions in '15, '14, and '13, and part of the acquisitions to be made in 2016.

The company understands that this allocation for land is suitable. As I mentioned, we do have excess cash and we think the current moment is suitable for us to spend part of our cash and acquisition of land. As -- despite those investments in land, we had a strong cash generation in 2015 and we do not expect any substantial changes for 2016. This is part of our plan for the year.

Leo is going to talk about our equity line.

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

Well, we still have Prime with a negative contribution. We already mentioned that some developments contributed more strongly to Prime's negative results. This is basically developments in the area of Brasilia in SPEs where we had excess supply and they also had a higher level of cost. These developments were a 100% completed already and all the part of Prime results, that is Prime's gross margin, is already at the right level and it is starting to contribute positively in terms of gross margin for the company.

Obviously, we had a high level of indebtedness that had greater weight in our result, but going back to the cash generation of these two companies, they had cash burn in 2015, but that was very low in the tens of millions of Brazilian real, so very low numbers. So the effort of Prime now is precisely to sell the units and generate cash so that we can

decrease indebtedness and make the equity line positive. MRL is having positive result, still small, within the context, and we do not see any difference for 2016.

Q - Enrico Trotta {BIO 16742911 <GO>}

Okay. Thank you very much. Have a good day.

Operator

Our next question comes from Fred Mendes from HSBC.

Q - Fred Mendes {BIO 17221617 <GO>}

Good morning, everyone. I also have two questions. If we could go back to the pro-soluto, you have the investments that you provisioned. Is it after delivery or is it before delivery? So this is the first question.

The second question is considering the 29 million. Then you have a bit of a different number that you have other companies. What is your provision like? Do you have a history of the unit and then you establish the price?

A - Unidentified Speaker

Well, first about the rules, we have a rule that when we have a certain delay in terms of numbers, I'm going to have a provision. This is the rule in the company. And then I'm not going to look into each one of the clients. This is basically pro-soluto in terms of after the delivery of units, this is most of our portfolio in terms of the provision that we have.

And regardless of having the provision or not, I will continue to charge from the client and I will continue to try to receive the amounts due. And with that, we can have some reversals and this is the net amount of our provisions.

Q - Fred Mendes {BIO 17221617 <GO>}

Okay. Thank you very much. I got it.

Operator

Our next question comes from Marcelo Motta from JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning, everyone. I have also two quick questions. First, if you could talk about your receivable cycle, we saw a series of improvements along the year. Perhaps in 2016, you can still gain efficiency. I would like to know where you can improve and what cycle we should work to. And also in terms ROI [ph], if you are going to improve your capital structure, what are you thinking of doing in terms of provisions and equity income? Is there anything that can still improve your EBITDA margin? I would like to know your mindset in terms of these indicators?

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A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

I'm going to start with receivable cycle. The answer is yes. We still have improvements to come. And another aspect is that because we have been improving the amount of construction, this means that the average time of construction is going down. Again, developments migrated and little by little we are going to see that happen. But those in the area of construction and also in the part of clients that were transferred, we still have improvements to be seen in the receivable cycle.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Marcelo, this is Rafael. As for the evolution of our index, it comes from two aspects. First, an improvement in our operations and there we can have an evolution of our net income [ph] compared to our gross margin that is going to be marginal for 2016, but we think it's possible to have some kind of improvement in our equity line.

In terms of provision for other expenses, the year is going to be very similar to 2015 and we are not going to see much evolution in this line. So if we have a gross margin that is similar, the equity line is going to be better and other expenses is going to be at the same level. With that, we are going to have an evolution in the net income and with that our IRR is going to be a bit better.

As for our capital structure, as Leo mentioned, 2016 is not going to be a year for us to be aggressive. We want to continue 2016 at a very high gross cash. We don't see any problem with our net cash, but we are waiting for the company -- for the country to be at a better scenario.

In our point of view, we are a company that has a conservative profile. The company is 36 years old now, and when the market is a bit more predictable, then we can be a bit more aggressive, increasing the payout of the dividends or the share buyback program and then the ROI [ph] is going to be better as well.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay. Thank you very much.

Operator

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

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Well, thank you very much for taking part in our conference call. We are quite satisfied and we're able to report good indicators in such a challenging year. Looking ahead, we think 2016 is going to be a difficult year. The company has been making important movements to be able to, even in such (technical difficulty) good day.

FINAL

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