

## Q1 2015 Earnings Call

### Company Participants

- Emilio Fugazza, Chief Financial and Investor Relations Officer
- Pedro Henrique Rocha Nocetti, Investors Relations Coordinator

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's First Quarter 2015 Results Conference Call. Note that this event is being recorded and then all participants will be in listen-only mode during the company's presentation.

After the company's remarks are completed, there will be a question-and-answer session when further instructions will be given. (Operator Instructions) Today's event is available through a live webcast that maybe accessed through the EZTEC Investor Relations website at [www.eztec.com.br/ri](http://www.eztec.com.br/ri) by clicking on the banner 1Q15 Webcast. The following presentation is also available for download on the webcast platform. The following information is stated in Brazilian real and in BR GAAP and IFRS applicable to real estate developers in Brazil, except where stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call, regarding the business outlook, forecasts, and financial and operating target is based on the beliefs and assumptions of EZTEC's management and the information currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties, and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

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

#### **Emilio Fugazza** {BIO 16474296 <GO>}

Thank you very much. Good morning, everyone and welcome to our presentation of the results first quarter 2015. Besides me, we have here today, Mr. Pedro Nocetti, IR

Coordinator and Mr. Erik Rodrigues. And here, we are to present the main operational and financial highlights.

Before beginning, I'd like to say that May 6, 2015, it was the last date of Mr. Marcelo Zarzur as CEO of EZTEC, accumulated with the function of Engineering Officer. From May 7, 2015, he will be working as Engineering Officer contributing in one of the most challenging departments of the company. As CEO, Marcelo Zarzur sought to encourage cooperation of engineering team with other areas of the company.

In order to make the process more productive and profitable, the results can be seen along this period, from second quarter 2013 and this first quarter 2015, in which the average 12 month's gross margin increased from 52% to 55% and the annual income from BRL409 million to BRL512 million.

Moreover, he devoted the company's restructure to turn the EZ Towers into the most profitable and the greatest project of the history of EZTEC. The results can be seen this first quarter 2015 when including regarded debt [ph] transfers.

Marcelo handed the company in a solid financial position, in one of the most challenging periods of Brazilian homebuilding history in the recent years. The function of CEO is been assumed by Mr. Marcos Ernesto Zarzur, elected in the last Board of Directors' Meeting held on May 7, 2015.

Marcos will accumulate the function of Commercial Director exercised throughout the past eight years. Marcos has been in the company since 1986 and contributed to its formation and growth, particularly with the creation of Tec Vendas, Tec sales, that today is an essential part of the operation of EZTEC. At this challenging period, in times of Marcos, in which the intelligence of the areas of sales and marketing becomes even more differential.

The arrival of Marcos to be CEO represents a greater focus on what has always been one of the pilots for EZTEC, liquidate of its products, whether launches or inventory with differentiated margins and rational use of sales expenses. Therefore, I congratulate Marcos on behalf of all Executive Officer and wish success in the new cycle as CEO.

Talking about the results, in a year that proves to be even more challenging, EZTEC managed to get in this first quarter of 2015, the best net income since the 2013, when it performed its highest volume of launches and recognized the sale of Tower A of EZ Towers project.

The result demonstrates the strength of an operation able to get appreciated profitability even when operating in different scenarios, growth or contraction. Working its products rationally and with selectivity and always focusing on maintaining margins at higher levels.

Please, I ask you to observe the slide number three. I will talk about the main operational and financials aspect of the first quarter 2015. On the operational size, the company

focusing on inventory, launched only BRL72 million in own PSV. With this Splendor Ipiranga project, which ended this quarter, with 64% of its units sold.

Sales, maturities on inventories finalized or under construction reached BRL161 million in this period. Land Bank ended the period with the potential for BRL6.1 billion in PSV, the cost of this Land Bank is around 12%, equivalents to over five years of launches.

About financial highlights, the good performance of sales in our inventory combined with an engineering that has been able to deliver products in line with the budgets or with economy added to revenues from brokerage and construction services enabled the company to obtain the significant gross margin of 58% in this first quarter, with the gross profit of BRL133 million.

The quarterly net income was a BRL133 million, more than obtained in all periods of 2014, with annualized return on equity of 24%, one of the highest in the Brazilian industry. Maintaining profitability at the higher levels is not understood by the management as an advantage, but as a basic requirement of the operation, justifying the investments. The company, after the conclusion of Tower A sale operation and the consequent transfer of that, ended the quarter returning to net cash position of approximately BRL311 million.

The financial strength has always been updated to premise of operation and today, it makes a difference. Whether to support, more challenging periods or to capture good investment opportunities. In addition, the company has performed receivables of BRL423 million, yielding IGP-M plus 12% per year, which is nowadays around 15% to 16% per year, and which qualified for securitization.

About subsequent events on April 3, 2015, it was held Extraordinary and Ordinary Shareholders' Meeting, when it was approved. Capitalization of BRL170 million of its earnings reserves with issuance of more than 10 million new common shares without fair value, credited on May 7, 2015 to shareholders on April 3, 2015. The payment of BRL162 million as dividends, adding BRL50 [ph] million to the originally proposed to be paid on due November 30, 2015.

The setting of seven members of the Board of Directors for a two year term, Ernesto Zarzur, the Chairman; Samir Zakkhour El Tayar, the Vice Chairman; and the Independent Members, Nelson de Sampaio Bastos, Mario Guy de Faria Mariz, Gustavo Diniz Junqueira; and belonging to the Controlling Shareholders' Group, Mr. Flavio Ernesto Zarzur, also our Vice President, Executive Vice President; and Mr. Silvio Ernesto Zarzur, also Vice Executive President and Real Estate Director, were re-elected for their respective positions.

Also, as a subsequent event on May 7th, 2015, it was held the Board of Directors Meeting to resolve on the new Executive Board, except for the appointment of Mr. Marcos Ernesto Zarzur as Chief Executive Officer, all the officers of EZTEC were re-elected for the same position as the year occupied previously for a period of two years starting from now.

Now, I'd like to hand the presentation to Mr. Pedro Nocetti, who we will talk about some operational highlights. Please, Mr. Pedro.

## **Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}**

Thanks, Emilio. Good morning, everyone. Please, I would like you to turn to the slide number four, where I will talk about the Land Bank, which as Emilio said, ended the first quarter of 2015 with the potential of 6.1 billion in own PSV, with an average cost of acquisition of 12.5%, including cost with expanding construction potential.

We had that vision of one new piece of land in the first quarter of 2015. It was a piece of land located in the City of Sao Paulo, in which has a potential 140 million of EZTEC's PSV, with an average cost of almost 8.6%. Please, if you look at the chart on the top right, you will see that 81% of our Land Bank was acquired after 2011. If you look at the chart on the bottom left, you can see that 76% of the Land Bank is destined to the residential segment and 23% destined to the commercial segment, which is historically with higher margins.

In the chart on the bottom right, you'll see our focus of performance -- our focus of launches based upon the metropolitan area, in which we have a 93% of our Land Bank position. We keep our confidence in this location and we are confident that we can keep this performance, as you can see, as we are launching projects and having a good sales performance.

Please turn to slide number five. I will talk a little bit about EZ Towers. As reported before, we delivered Tower A to Sao Carlos in the last year, in the final period of 2014. Along this first quarter 2015, we had the debt for the production of the project transfer to Sao Carlos. Therefore, we had all financial obligations results during this period.

Very important to say, Tower B is kept in our balance sheet as inventory and we have a total cost incurred for this tower of 236 million. And very important to say, we will only recognize 100% of Tower A sale to revenue as we finish Tower B. Nowadays, total debt as recognized revenues by the PoC method, we have 90% of the revenues recognized until this moment.

Please turn to slide number six. This slide is about the volume of construction held by the company. In this first quarter of 2015, we had a little increase in terms of volume being constructed. As we initiated the construction of, the phases of Cidade Maia, and the phases of projects we launched until September 2014. Our expectations -- as we expect to deliver almost the same volume this year, our expectation is to keep the same volume under construction we had in the past periods.

Please turn to slide number seven. I will talk a little bit about launches. We had the launching of our project in the City of Sao Paulo, in the South Zone of Sao Paulo, a project that into the high-end residential segment, with an own PSV of 72 million. Today, on May 7th, we have 68% of the project sold, which make us very confident about the performance of good projects located in good regions, launched with good prices and well worked by our company.

In the slide number ten, I will talk a little bit more about upcoming launches. First of all, we'll talk about sales in the slide number eight. We had 161 million short of contracted

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sales in the first quarter, in which 72% of it comes from unit launches until 2014, 79% of the sales percentage of EZTEC were done by Tec Vendas, EZTEC's own brokerage team.

First of all, it's very important to talk a little bit about inventory. We ended the period with 1.3 billion in terms of inventory share EZTEC. We reduced 80 million from the last quarter. Very important to say, we always work inventory with intelligence, we always try to keep the value of the inventory and we are doing it very well. As you can see, looking at the margins got in the first quarter 2015.

Now please turn to slide number nine, I'll leave with that, I will talk a little bit about Tec Vendas, which nowadays is very important, extremely important for our operation. Tec Vendas was created in 2005 and most of all because, we needed a brokerage house, a brokerage team to focus on inventory. But nowadays, Tec Vendas is responsible for more than 80% of the total sales of products launched by the company.

Nowadays, we have more than 1,000 brokers registered and between 2007-2014, we had a growth in terms of sales of more than 500%. So, we keep our confidence in Tec Vendas and we keep our confidence that, with Tec Vendas, we can keep performing well.

Now, please turn to slide number 10, I will talk about launches. Upcoming launches and launches in the month of April, in which we launched Massimo Vila Carrao, a middle high-end residential project, with own PSV of 53 million, in which now is 30% sold.

We have projects to be launching in the next months. The main one is the -- are the two, the main ones are the next two phase of Jardins do Brasil, located in Osasco, Sao Paulo Metropolitan Area. Those both phases combined has an EZTEC PSV of 172 million. Also we have in the City of Sao Paulo, the project In Design Vila Mascote, with own PSV of BRL78 million.

Now, I will hand back the presentation to Mr. Emilo Fugazza, who will talk about the main financial highlights. Please, Emilo.

### **Emilio Fugazza** {BIO 16474296 <GO>}

Thank you very much, Pedro. On financial performance, number one, page 11, let's start with net revenues. Net revenues on top, on top left of the slide. Net revenues in the first quarter 2015 came 10% better than first quarter 2014, despite the fact that we launched (inaudible) in the first quarter 2014, something like 14%, 13% Vendas sales than first quarter 2014, we have BRL232 million in net revenues.

So, net revenues recognized by the project EZ Towers, it's important to bear in mind that, we haven't recognized the whole project yet. So, nowadays it's about 90%[ph], so it's more to come, there is more to come and it's important to bear in mind that the majority of the projects we have been dealing with, we have been seeing some cost savings. And that can be proved by the gross margin we have on the top right of this slide.

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On the top right, you can see gross income and gross margin first quarter 2015, BRL133 million of gross income, in a gross margin of 58% jump from first quarter 2014, or 8 percentage points from 50% to 58%. So, some cost savings here occurs but more than that 72% of the total amount of sales, we performed in the first quarter, we performed in sales of inventory. Sales of inventory historical prices show selling this units, without making some discounts to sell, the outcome is more gross margin.

Let me remind you that gross margin is about the cost of the land, the cost of the construction, and the cost of financing the project. So in that sense, the whole pack of other costs is completely under control. On the bottom line, you can see G&A expenses. When you see, BRL26 million in the first quarter 2015, this cannot represent what's going to happen in the whole 2015, as we performed some adjustments in our G&A expenses.

Last August and last April, you are going to see a drop of these expenses for the upcoming quarter. So, nowadays it's about 11% over net revenues and I think that, with this trend, we can reach something closer to 10%, 9% to 10% over net revenues. In terms of selling expenses is more of the same, so BRL12 million is because, nowadays we have to expand -- to spend more money to sell almost the same thing. More money because, we have been dealing with television, advertisement on television, we have been sponsoring some programs on open television. And obviously, more marketing, more marketing actions on public spaces to perform the sales of inventory we have done in the last quarter. My personal opinion about this one is about this 5% we have been seeing in this first quarter 2015.

So let's move on to page number 12, financial performance number two. So financial results on top left, financial result come in better than last year, even fourth quarter or first quarter 2014, that's because obviously all the money we have on in our banking accounts. Obviously, nowadays it's yielding something close to 13.25%. So nowadays, with a net cash position, obviously the financial performance, the financial result will perform better results than we saw in 2014 and 2013.

So, equity income on top right, you can see the results come in from projects we have been sharing the control with other partners. We are sharing the control and in some cases, we have been sharing the construction, but we are not sharing the management and the administration of those projects. So, 100% of the administration of this project is belonging to EZTEC.

So nowadays, the results, the outcome from this project is about BRL29.6 million first quarter 2015, much better than first quarter 2014 and a very good trend from fourth quarter 2014. So better result coming from better margins in this slide. So, the whole margins of this project, regarding the sales we performed in the last quarter was much better than in the 2014, in that sense better out comings coming this quarter.

Finally, net income. Net income on bottom left, we can see BRL133 million, a huge increments coming from fourth quarter last year, 39% increment, despite the fact that we saw something close to 10% increment in revenues, we provided 39% increment in net

income, that's because of better financial results, better gross margins and obviously a much better control on the G&A expenses, the SG&A expenses side.

In that sense, net margin 57% is important, so bear in mind that, this is not a guidance, this is not a trend obviously the company has been performing gross margin around 50% and net margin around 50% that's not a guidance, but we can see, we can forecast something close to that for the upcoming quarter, because of the sales and of the control of the causes we have been seeing under our control.

So, results to be recognized at the last chart on this slide on the bottom right, you can see BRL519 million and a backlog margin of 49%. 49% that's why when you see this quarter, we have consolidated all the Cidade Maia project, Cidade Maia project, it's a project of BRL1 billion net revenues to come, and an average gross margin of this project is about 47%, 48% in that sense, the majority of those revenues mixing with other products nowadays backlog margin is 49%, 49% pretty sustainable for the upcoming quarter.

It will turn in the next gross margin for the company. So let's move on to slide number 13, page 13 where you can see accumulated results for the 12 months each quarter. So when you see each quarter 12 months in the first quarter 2015, you can see on the red line, on the red line above, you can see 55%, that what our gross margin for the past 12 months. When you see net margin, 54%, so the good highlight of this information is because when you think about a weak markets and lot of doubts about what is going to happen with the market when you provide a company with this kind of a strength. So the margins, such as margins and a net cash positions as you can see the red line below BRL311 million of net cash position, you can think that EZTEC is far way the best company prepared to deal with challenging scenarios ahead. So let's move onto slide on page number 14. Let's talk a little bit and quickly about dividends regarding 2014.

So, first of all, it's important to bear in mind that the -- your planned dividends for 2014 was something around BRL112 million. So an additional BRL50 million was approved by the ordinary meeting -- shareholder's meeting held on April 3, 2015.

In that sense, we are going to pay something close to BRL162 million in dividends, which means BRL1.11 per share. So when you can see if you can see in the chart right in the middle of the slide, you can see cumulative growth of dividends per share of 29.5% per year, which is from 2010 to 2014, never we dropped never we decreased the volume of dividends paid to our shareholders.

That's important because despite the fact that we are net cash position, we have the strength to deal with a challenge moment in the homebuilding, the homebuilding side of this country and paying more dividends to qualify investors to understand that our business is completely sustainable. Apart from that the extraordinary shareholders' meeting held on the same date of the ordinary shareholders' meeting approved the capital increase of around BRL170 million from our earnings reserve with the issuance of around 10 million shares, which can represent something close to 7 shares for each 100 shares you won.

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So it's important to bear in mind, the last Monday when the market was open trading the share of EZTEC around BRL16 per share that was because last Friday -- when last Thursday when we approved all these dividends and capital increase, so the market adjusted by almost 5%, the dividends in 7% the incremental share. So, the new price of the share is about BRL16 per share compared to the last week. So it was not a drop, but an adjustment, because of the issuance of share and addition dividends.

Let's move on to slide number 15, the last one for today. And this slide is a brand new slide, talking about the potential value for EZTEC. We have been thinking about, how to you explain what kind of value we have behind our scenes, behind our operation. When I think about the price EZTEC has been trading in the market share nowadays, it's a market cap of BRL2.5 billion.

So, the markets cap and the book value of the company is almost the same. But when you think about the company, a company trading this price, and at the same time releasing return on equity sustainable of 24% in the last seven years. It's important to bear in mind that what's going to happen in the near future is not, but the same we saw happening in the last seven years.

So, first of all, let's see, inventory. So we have a pretty sustainable inventory. All the inventory located on the City of Sao Paulo and Metropolitan region of Sao Paulo. We are selling this inventory right now without making discounts on the side. So in that sense, we have BRL637 million of results coming from the side which can represent BRL4 per share.

When you see, the second point, the Land Bank. The Land Bank on the company is BRL6 billion Land Bank without using swaps, paying in cash 47%, 48%, 49% gross margin each project. Projects completely help with all the liquidity we need to achieve 60% of sales within six months at the moment we launch the project.

So, at the moment, we are going to launch the project, we can get something close to BRL2.8 billion in potential results from this side, which can represent all those BRL18 per share to add our book value.

Third point, EZ Towers, Tower B. As Pedro mentioned before, it's important to bear in mind that the Tower B is ready, ready to use. We're going to deliver the Tower B this year, 2015. At the moment, we sell the Towers B, we can get at least BRL382 million in net profit from this site, which can add something close to BRL2.43 per share.

Backlog results. Backlog results from the units we sold, but we haven't delivered yet. So, we are going to recognize those results as we are going to, as we are finishing the construction of those project. So, backlog results, 49% of gross margin, BRL519 million of results coming from this site. So, BRL3.30 per share. So all in, we have BRL27, almost BRL28 per share, we can add -- the potential value to be added of this book -- on this book is about BRL4 billion.

So the right value of this company this something close to around BRL6 million to BRL7 million. You can provide any discounts you need, any discounts you need to understand



what's going to happen with the company. But obviously, the company is cheaper for a company that is providing to 24% of return on equity without (inaudible) budgets in project and without making any kinds of approve limits of all those projects of the company in the last seven years.

In that sense, I trust firmly that even with the challenging scenarios we have ahead, the company, this is the best prepared company to deal with this scenario. Thank you very much for your audience today, and now, we are completely open to questions. Thank you very much.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) That will conclude our question-and-answer session. At this time, I would like to turn the floor back to Mr. Emilio Fugazza for any closing remarks.

### A - Emilio Fugazza {BIO 16474296 <GO>}

Thank you very much, everyone. Let me remind you that, we are completely available to answer any further questions you have. Apart from myself, Mr. Pedro Nocetti and Mr. Erik Rodrigues Kragegaard, they are completely available on EZTEC's office to answer your questions. Thank you very much. See you next time.

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

Thank you so much. See you.

### Operator

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

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