

## Q1 2022 Earnings Call

### Company Participants

- Miguel Maia Mickelberg, Chief Financial and Investor Relations Officer
- Raphael Horn, Co-President and Co-Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Aline Caldeira, Analyst
- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Elvis Credendio, Analyst
- Fanny Oreng Avino, Analyst
- Marcelo Motta, Analyst
- Pedro Hajnal, Analyst

### Presentation

#### Operator

(Starts Abruptly) (Operator Instructions) We also inform that this conference is -- will be conducted in Portuguese by the management of the company and the conference call in English will be made by simultaneous translation. This event is also being broadcast simultaneously on the Internet via webcast.

Before proceeding, we would like to clarify that statements that may be made during this call regarding business prospects of the company, projections, and financial and operating goals are based on assumptions and beliefs of Cyrela's management, as well as on information currently available to the company. Forward-looking statements are not guarantee of performance and they involve risks, uncertainties, and assumptions. They refer to future events and, therefore, depend on circumstances, which may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors may affect the future results of the company and lead to results that differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor over to Raphael Horn, who will start the presentation. Mr. Horn, you may continue.

**Raphael Horn** {BIO 19714328 <GO>}

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Good morning, everyone. In a challenging scenario, both in a global and local context, that we had in the second half of 2021 continues a trend. Despite that, we continued with a good solid result during 2022. Despite the seasonality of the beginning of the year, the launched PSV was 146% higher than the first quarter of '21, exceeding BRL1 billion [ph], with project Wave in Rio de Janeiro with 82% of units sold. The pre-sales of BRL1.3 billion [ph], 27% up from the 1Q21. As a result of operating revenue, we had net revenues of BRL1.2 billion [ph] and gross margin -- and ending at net income. We have a gross balance sheet; despite the complex scenario, we'll have a solid cash generation.

Let's talk about operating results now.

## **Miguel Maia Mickelberg** {BIO 20023910 <GO>}

Thank you, Rafa. Good morning, everyone. On Slide 5, we would like to comment on the launches of Cyrela. In the first quarter of the year, we have launched six new products with a PSV of BRL1 billion, 146% above the same quarter previous year and 59% lower than the fourth quarter of '21. The participation of the company in the volume launched was 59% -- I'm sorry, 85%.

On Slide 6, we highlight the launch Wave by Yoo in Rio de Janeiro, with units 82% of the units sold in the quarter.

On Slide 7, let's speak about the sales performance. In the quarter, sales reached BRL1 billion with a reduction of 17% when compared to the fourth quarter of '21 and increase of 27% against the same quarter of last year. Including swaps, sales reached BRL1 billion and the percentage of Cyrela -- Sao Paulo accounted for 59% of our sales.

On Slide 9, we talk about the total inventory of Cyrela. At the end of the quarter, the value market inventory reached BRL7.215 billion, a reduction of 3% with regard to the previous quarter, driven by the sales in the period. The movement of our inventory can be seen on the chart on the left.

On Slide 13, we'll talk about financial results. Net revenue of the company reached BRL1.2 billion in the quarter, 7% lower than 4Q21 and 23% higher than the same quarter of the previous year. The gross margin in the fourth -- first quarter was 31.1%, compared to 33.4% in the previous period and 34.5% in the same quarter of '21. We had a net income of BRL162 million, compared to BRL192 million in the 1Q21 and BRL218 million in the 4Q21.

Slide 14 talks about our profitability. In the quarter, our return on average equity in the net income of the next -- last 12 months over equity was 14.7%.

On Slide 15, we'll talk about the debt. The gross debt at the end of the quarter added to BRL3.576 billion, with a cash position of BRL3.2 billion, and net debt was -- net indebtedness was BRL334 million. Total gross debt, 81% as long term. Our net debt over equity is 4.8%, 0.7 percentage points above previous quarter.

On the next slide, we'll talk about cash generation. In the first quarter of '22, we had a cash burn of BRL53 million, compared to the cash generation of BRL100 million in the 4Q21 and generation of BRL70 million in cash in the first quarter of '21.

Now, Rafa and I will move on to the Q&A session. Thank you.

## Questions And Answers

### Operator

Thank you. We'll now start the Q&A session. (Operator Instructions) The first question come from Elvis Credendio from BTG Pactual. Mr. Elvis, you may continue.

### Q - Elvis Credendio {BIO 20084266 <GO>}

Hello. Can you hear me? Good afternoon.

### A - Unidentified Speaker

Yes, we hear you.

### Q - Elvis Credendio {BIO 20084266 <GO>}

Good afternoon, everyone. First question is about sales. I know it's been a very good quarter on sales, with many launches. I would like to know how were sales in the first half of the second quarter. If it's in line with the company's expectations?

And the second question is more related to construction costs, because we've heard incurred about the new increase in steel prices last week, we heard some news about that high increase. So, I would like to know what is your prospect for -- regarding that topic and the company was thinking about reviewing something that does not kind of conforming [ph]. That's the question. Thank you.

### A - Raphael Horn {BIO 19714328 <GO>}

Hello, Elvis. This is Raphael speaking. Well, I believe that in sales, so far so good. What we are launching and selling, within expectations. About construction costs, Miguel will speak about it. Wave was a very important launch for us in Rio de Janeiro. As we said, the result of gross margin was low, because it's a high swap. But ROE is excellent and sales really surprised us. They were very good. We're very happy with the outcome.

### A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

As for construction costs, Elvis -- good morning. As you said, the pressure is high. We had a 12.5% adjustment to the wages in addition to some increase in inputs that are important in our ABC curve, and we had an impact of BRL21 million in our reserves due to review -- budget reviews. It's hard to say how it's going to be for the future. It depends on how much -- because the actual variation of prices sometimes is higher in the input than the

INCC or the inflation rate and sometimes not. So, we understand that the main budget reviews have already happened in our understanding.

**Q - Elvis Credendio** {BIO 20084266 <GO>}

Okay. Thank you very much.

**Operator**

Then the next question comes from Fanny Orenge from Santander.

**Q - Fanny Orenge Avino**

Yes.

**A - Unidentified Speaker**

Hello, we hear you.

**Q - Fanny Orenge Avino**

Great.

**A - Unidentified Speaker**

Good afternoon.

**Q - Fanny Orenge Avino**

Good afternoon, Raphael, Miguel. My question is about Rio de Janeiro. I think this launch Yoo made in Rio really caught our attention, because it's high quality launch at Rio de Janeiro. There's -- there have been so little launches. And so, how do you see the pipeline of launches for Rio de Janeiro? And would it make sense to increase your position in Rio, considering the company -- number of companies that are already maturing the investment they made in the past? So, what could you do to improve that area?

**A - Miguel Maia Mickelberg** {BIO 20023910 <GO>}

Fanny, this is Miguel speaking. Yes. In fact, Wave was very successful. But it's important to highlight that's not something we can copy, because there is zero competition. It's looking at the ocean line. So, it's very hard to find land in the south area of town. But we do not have so many plots of land in our pipeline. Actually, at Baja neighborhood, we didn't do much. We did -- starting in 2020, we launched (inaudible) but they did very well. It's a difficult market, because it's limited in size, but we've been successful. So, towards the future, we'll try to replicate that strategy such as much as possible.

**Q - Fanny Orenge Avino**

Okay. Thank you, Wonderful, Miguel. Thank you for your answer.

## Operator

The next question comes from Aline Caldeira from Bank of America.

**Q - Aline Caldeira** {BIO 20890902 <GO>}

Hello, everybody. Do you hear me?

**A - Unidentified Speaker**

Yes. If you could speak a bit louder though, that would be good.

**Q - Aline Caldeira** {BIO 20890902 <GO>}

Good morning. Thank you for your question. How do you see the competition? If you could share your strategy about that?

**A - Unidentified Speaker**

Hello, Aline. How are you? In cash, it's according to schedule. It's a small company. It's -- day after day, it's interesting. In the competitive dynamics, it's as usual. Every market -- there is competition in every market and it's up to us to do something new. But that's just every day, usual business.

**Q - Aline Caldeira** {BIO 20890902 <GO>}

Okay. Wonderful. Thank you.

## Operator

The next question comes from Pedro Hajnal from Credit Suisse.

**Q - Pedro Hajnal** {BIO 21159036 <GO>}

Good afternoon. Can you hear me?

**A - Unidentified Speaker**

Yes, we can.

**Q - Pedro Hajnal** {BIO 21159036 <GO>}

Thank you for the question and the presentation. I have two questions. First, I would like to understand more about margins for the rest of the year. You mentioned that may be this dynamic would be different. But this -- there was an impact on this quarter by Yoo. But without considering this project, Wave by Yoo, what levels would be margins, and if this dynamic will continue towards the end of the year?

Second question, I would like to understand more about the cash burn. Could you give us some more color of what were the main reasons for it?

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## **A - Miguel Maia Mickelberg** {BIO 20023910 <GO>}

Pedro, thank you for the questions. First, regarding Wave by Yoo, the margin of the quarter would have been 1.2 percentage points higher than the gross margin reported, not adjusted. So, 32.3%, if I'm not mistaken, and the partner was 1 or 2 percentage points on margin. It's worth highlighting, to make it clear for everybody, the effect that the swap creates. This project has a 24.9% margin, which is lower because of the swap which was higher. So, if we maintain the current prices, the margin will be 29%, but it has a spectacular managerial reserve for us. We do not take into account the swap revenues as being our swaps, but this margin -- has a margin of 24%, which is much higher than our minimum of 16.5%, is 48%, which is very high and it's already cash positive in the amount -- month of launch.

So, we had very little capital exposure and the region [ph] will be very high. So, this is a very successful project. We're very pleased with it. But accounting terms, it does have a bit lower gross margin. The gross margin in the quarter was impacted by the construction costs as well, a little bit more than 1 percentage point and by Wave. Comparing to last year, last year there was a positive effect of INCC, which brought margins up. This year, we may have something like that.

On the other hand, launches of the year had a gross margin of 34% in the next quarter, so up -- if margins go up, the margin of this launch -- of this quarter, because of launch was lower because of Wave, then higher margins would be recorded [ph]. It will depend a lot on price dynamics and our capacity to recompose margins on the next launches, but -- because we believe that the gross margin of the year will be a bit higher than this one for the first quarter, although lower than that of '21.

## **Q - Pedro Hajnal** {BIO 21159036 <GO>}

Thank you, Miguel. As for cash generation?

## **A - Miguel Maia Mickelberg** {BIO 20023910 <GO>}

Oh, yes. I'm sorry, I forgot about that. The cash burn was BRL50 million in this quarter compared to BRL100 million of cash generation in the fourth quarter. The two main variations are, first, more disbursements of land -- BRL200 million of disbursed land, compared to BRL100 million in the 4Q21. And also this fourth quarter, we had a lot of dividends received, dividends from Lavvi, significant; Cury; and CCP, a firm of which we have a small stake. Since dividend received were considerable amount, that generated an impact. That's what explains the -- these two factors explain the difference from the fourth quarter to this quarter. But we believe that this year there will be a cash burn. So, this figure, the first quarter is completely within our expectations.

## **Q - Pedro Hajnal** {BIO 21159036 <GO>}

Perfect. Very clear. Thank you very much, Miguel. Good afternoon, everyone.

## **Operator**

The next question comes from Andre Mazini from Citibank. Andre, you may continue.

**Q - Andre Mazini** {BIO 20377100 <GO>}

Okay. My question is about the speed. Could we expect this figure for the rest of the year too or, let's say, (technical difficulty) compensation or the compensation of people could impact that? Thank you.

**A - Unidentified Speaker**

Andre, good morning. Well, there is some 60% in May, 20% June, 20% July. And there is a ceiling of compensation for sellers. I think it's 6,000. After that, it's a fixed amount that decreases. But on the construction side, it's a small impact, which is most of our labor. So, the impact is significant on the compensation on the budget of the construction.

**Operator**

Our next question comes from Marcelo Motta from JP Morgan.

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

Good morning -- good afternoon.

**A - Unidentified Speaker**

Good afternoon, Motta.

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

Two questions. You had mentioned in the SG&A of CashMe. Do you plan to keep it at the same level on the -- for each quarter [ph] of the year? When we think about the increase in prices of the units, looking at the grid of inventory variation compared to the total inventory, the adjustments of price increase seems very marginal considering the inflation rates we have. So, I would like to understand. Maybe this quarter was a bit lower than expected. What was the reason for that? Thank you.

**A - Unidentified Speaker**

Thank you for the questions, Motta. As for CashMe, the G&A is mostly or almost all of it, recurring. We, in fact, made the operation more robust. We have 340 employees now and we needed a stronger structure to face the growth that we imagine for the company. That's why SG&A is within our expectations. Also, we have been able to grow the portfolio considerably.

As for pricing, we were -- have been able to transfer prices in most of our projects. We adjust our price table by INCC every month. Sometimes, we make some specific adjustments to projects. But this line can also be adjusted by advances, is nominal. So, if the customer anticipates payment, somehow it may seem like a change in prices, but it's just a change in the payments -- flow of payments. But in the -- when we see that the speed of the sales of the supply is suffering a bit with prices, we make some adjustments to keep it in a happy level.

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

Okay. Thank you.

**Operator**

Next question comes from Bruno Mendonca from Bradesco.

**Q - Bruno Mendonca** {BIO 16313094 <GO>}

Thank you for the question. Follow-up on the margin. If you could give us some more detail? Because we saw the margin impacted by a project -- the REF margin of the quarter. Where is it offset to make it unstable [ph] looking forward?

**A - Unidentified Speaker**

Thank you, Bruno, for your question. The REF margin in this quarter has dropped a bit when compared to the fourth quarter. The main reason was Wave. Wave reduced this margin by 30 basis points. Other than that, it would have been 36.8% without Wave. The REF margin is -- has a positive effect, suffered [ph] by inflation. Because when inflation, we have more trade receivables than incurred costs -- construction costs to be incurred. And the REF margin does not translate the margin that will be posted in the balance sheet, because there are also some accounts such as interest that are not taken into account in the REF margin. But we have had it stable, partially because, except for Wave, launches have had a healthy margin at launch time, and inflation also contributes to that.

**Q - Bruno Mendonca** {BIO 16313094 <GO>}

Okay. Congratulations. Thank you.

**Operator**

This concludes the Q&A session. I would now like to turn the floor over to Miguel Maia Mickelberg for his final comments.

**A - Miguel Maia Mickelberg** {BIO 20023910 <GO>}

We thank you all. We know that the scenario has been challenging, but we've done our best to navigate through it, and we've been able to provide a good performance. And we'll do -- work even harder from now on. Thank you very much, and have a good afternoon.

**Operator**

Thank you. Cyrela's conference call for the first quarter of '22 has now ended. Have a good afternoon.



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