

Y 2013 Earnings Call

Company Participants

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

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to EZTEC's fourth quarter 2013 results conference call. Note that this event is being recorded and that 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 may be accessed through the EZTEC Investor Relations website at www.eztec.com.br/ir by clicking on the banner 4Q13 Webcast. The following presentation is also available for download on the webcast platform. Following information is stated in Brazilian reais 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 targets, 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 will 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 so much. Hello, everyone, welcome to our presentation of our results fourth quarter 2013 and full year 2013. I'm Emilio Fugazza, EZTEC's, CFO and IR and IRO since 2008 and along with me today Mr. Pedro Henrique Nocetti, our IR Coordinator who is

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managing the IR area, IR team of the company. Amazing and outstanding, but not a breakthrough this is what defines our results for 2013. We have record high results in a challenge sector reaching new levels of operational and financial results. Let's go to the slide number three to talk about some highlights for 2013. Let's start with the guidance, guidance of launches for the full year 2013. We had a guidance of R\$1.2 to R\$1.4 billion in new product. The company accomplished R\$1.35 billion in 2013 surpassing the midpoint of the guidance in four percentage points. We're including the Tower A of EZ Towers project this volume will achieve R\$1.92 billion.

A huge increment compared to 2012. When you see contracted sales we reached R\$1.04 billion in 2013 including EZ Towers we can see something around R\$1.61 billion, an increment of 84% in sales compared to 2012. The Land Bank the another operational figures. The Land Bank reached R\$5.3 billion by the end of 2013. And for that Mr. Pedro Henrique Nocetti will make some comments on this specific subject. In terms of financial highlights we have purpose [ph] of the gross profit. The gross profit was 76% higher than 2012 reaching R\$596 million, 12 percentage points above the minimal level of the guidance which was 40%.

So, our gross margins was something close to 52% in 2013. In terms of net profit there was a huge increment an increment of 74% compared to 2012. The net profit was R\$586 million which means return on equity over 35%. One of the best amount of the public traded companies in Brazil even in the sector of the real state. It's important to remind that even the quarterly net loss was a record high for the company reaching R\$159 million in the fourth quarter 2013. By the end of the fourth quarter 2013 the company had net debt position of R\$94 million. I have to say that it's completely comfortable, the company is completely comfortable with the liquidity position is specifically because we have in cash and equivalent of cash R\$199 million by the end of fourth quarter besides the performed receivables of more than R\$360 million using IGP-M plus 12% yearly which we can securitize as we meet as soon as we meet this amount of money.

Finally I would like to turn the presentation to say some operational figures and highlights of the company to Mr. Pedro Nocetti. Please Mr. Pedro.

Pedro Henrique Nocetti {BIO 20904123 <GO>}

Thanks, Emilio. Good morning, everyone. I would like to please turn to slide number four where we'll talk about our Land Bank which Emilio said ended the fiscal year 2013 with R\$5.3 billion in own PSV which represents more than 3.5 years of launches of the company. With an average acquisition cost of 12%, very good which gives us confidence to keep launching with the good profitability in the next years.

It's important to say that 2013 we had our record of land acquirement, land purchase with R\$2.4 billion in own PSV bought.

Looking at the chart on the upper right you can see that 73% of our Land Bank was quite up at, was quite up at -- 2011. We can say that those Land Bank, those Land Bank is very it's not old, its new and it is still can keep reporting more than 40% of gross margin.

Looking at the bottom left you can see our segment. The segment of our Land Bank reached 74% of that is for residential segment and 25% for the commercial segment.

Finally in this slide you can see in the bottom right our Land Bank by region reached 90% of the Land Bank is located in the Sao Paulo metropolitan area, including the City of Sao Paulo a region which we know very well in which we can have more than 40% a good profitability for the company. I would like to please to turn to slide number five where we'll talk about one of the biggest project of the company the EZ Towers. You can see the picture of the actual start of the project in which we had you can see that in Tower A the Facade has a Glass front installed until the floor 26 almost all of the installations are electrical, hydraulic and cooling system. They are in the final stage and the elevators. The elevators for the project very good elevators there they have initiated the installing. So, at the end of the fiscal year 2013, we had 49% of the total cost of the project incurred. So, I would like to please turn to slide number six where we'll talk about the deliveries of the company. You can see (Technical Difficulty)

Operator

Excuse me, this is the operator please hold while we check the speaker, the backup speaker line. This is the operator we have joined the speakers back in. Thank you. Mr. Emilio, Please go ahead.

Pedro Henrique Nocetti {BIO 20904123 <GO>}

Hello, this is Pedro Nocetti. I would like to please move to turn to slide number four where we'll talk about our Land Bank which Emilio said end of the fiscal year of 2013 with more than R\$5.3 billion in own PSV which represents more than 3.5 years of launches with an average acquisition cost of 12%. It's very important to say that in 2013 we had our best moment in terms of land purchase. We acquired R\$2.4 billion in own PSV, 12 new land pieces, eight of them in the city of Sao Paulo which is a very profitable area.

Looking at the chart on the upper right, you can see that 73% of our Land Bank was acquired after 2011. Looking at the chart on the bottom left, you can see that 74% of our Land Bank is back into the residential segment and 25% to the commercial segment in which we have been getting higher margins. Looking at the chart on the bottom right you can see that 90% of our Land Bank is located in the Sao Paulo metropolitan area, including the city of Sao Paulo a region which we know very well in which we are confident that we can keep having good profitability.

I'll ask you please to turn to slide number five where we'll talk about the biggest project of the company the EZ tower in which I have seen that picture you can see that almost the Facade of the Tower A, the third glass is installed until the floor 26. And almost all of the installations they are complete and elevators, they have initiated the installing and they have initiated the installing. You can see the status of the project in terms of execution in which 49% of the total cost of the project has already incurred. We are very confident about Tower B. We will make it have the same profitability that we had in Tower A.

Now, I'll ask you please to turn to slide number six where I will talk about the deliveries of the company. You can see in this slide project that we have already delivered and that we will be delivered in the next months. In 2013, we delivered 2,100 units and we expect to deliver in 2014 more than 2,000 units. It's very important to say those deliveries they are on schedule and on budget which make us confident of activity and keep our running operation with good profitability and without cost overrun.

Now I would like to please to turn to side number seven where we'll talk about the launches. In the fourth quarter of 2013 we focused on the launch of the project Cidade Maia in Guarulhos, Sao Paulo metropolitan area with total PSV of 352 million. By the end the year of 2013 we had on average 40% of the project sold, but as you can see on the images below each one of the phases is at least 53% sold two of the phases, in the phase Praca and in the phase Alameda they are more than 70% sold. So, we ended the year of 2013 with 1,351 million launches considering the Tower A of EZ Tower we had almost \$1, we had more than 1.9 billion launches. And we are very confident that we will keep launching with good profitability.

I will talk about the upcoming launches later, but first I would like to please to turn to slide number eight where we'll talk about the contracted sales of 2013. We ended the year with more than 1 billion sold in average project commercial and residential project. Considering EZ Towers we sold 1.6 billion which represent more than 80% more comparing to 2012. It's very important to say 40% of those 1 billion launches comes from unit launches in 2012.

The Tec Vendas our brokerage hub represented 67% of the sales of the year. Our inventory ended the year of 2013 with 1.2 billion, but it's very important to say a great part of this inventory comes from units that will be delivered through 2014 and more.

We are very confident about our inventory and we are -- and we will expect it to provide the same margins that we have in '14. Now, finally I would like to please to turn to slide number nine where we'll talk about that upcoming launches. It's important to say that 2014 will be a very challenging year. We will have the work in Brazil and we will have election for government and for congress. It represent challenges, but that is confident about its operation. And although we -- you have not launched a guidance we have projects to be launching in the next month.

So, you can see here in this slide two more phases of Cidade Maia, Reserva and Botanica that together represents 311 million also you can see two projects in the east zone of Sao Paulo with 50 million -- that should middle-high income segments and they represent the Florianopolis project it represents 49 million and the Gran Quadra San Felipe represents 130 million. Therefore we have for the next launches we have 490 million in new projects in new launches.

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

Emilio Fugazza {BIO 16474296 <GO>}

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Very good, Pedro. Let's start talking about financial performance on slide number 10. Let's start with net revenues on the top left and you can see that in 2013 we accomplished 80% of the increment compared with 2012 reaching R\$1.1 billion in net revenues for the company. It's important to say that when you see the gross revenue compared to the net revenue. We have some deductions from sales cancellations. In that subject specifically we have a better performance in 2013 compared with 2012. There was a 5.29% of revenues cancellations regarding sales cancellations in 2013 compared with 7.14% in 2012.

I have to remind you that in 2013 there was a change in our accounted method. Given the IFRS 10 and 11 we have some changes where some projects not completely or to fully control it by the company is not being booked in the top line our statement of results. We have these assumptions in the equity income method and we are going to see further in our presentation. On the top right you can see gross income and gross margin, gross about gross margin you can see 52% the final in 2013, 62% compared to 54% in 2012. I have to remind you that by the end of 2012 the fourth quarter 2012 we had some changes in our tax law helping the sector, the real estate sector decreasing the total amount of taxes we have been paying through from 6% of our revenues to 4% of our revenues.

In depth, in that quarter, so we recognized some gains about these taxes and that's why we have better margins in 2012 regarding 2013 in this specific subject, but I have to say that's improving revenues 80% and improving gross income 76% keeping the margins, keeping the gross margin is so high level 52% is completely outstanding compared to all the companies in the sector and even amount on the public traded companies in Brazil.

Let's talk about on the bottom right, on the bottom left the G&A and the SG&A expenses. I have to say that when you see the total amount of expenses we had in 2012 they accomplished for 14.5% of net revenues and in 2013 we accomplished something close to 12%.

So, there was a decrease in this ratio more than two percentage points showing that the company is improving its productivity as we get to launch more projects and recognizing more sales coming from this project. For the next couple of quarters you are going to see the same or turn off ratio. SG&A expenses and net revenues. Going to slide number 11 again financial performances. You can see on the top left the financial results, that's another very good story is simply because we can see R\$46.5 million representing 4.1% over the net revenues compared to R\$42 million in 2012 representing or extending for 6.6 % over net revenues which means that as the time goes by we can apply, we can use much more money of the company invest in our new projects, investing on the development of the Towers compensating assuming that's we are compensating this amount of money much better than in our cash and our cash and equivalents.

So, nowadays when you see return on equity over 35% in the results of 2013. So, the amount of money coming from the financial results is less represented than in 2012. On the top right you can see the equity, the returns coming from the equity income method as I told you all before. So, in 2013 we have a R\$104 of results coming from projects not completely consolidate by the company. So, we don't have a 100% stake of this projects. We have been holding since 26.5% stake to 70% stake of this project.

But this kind of things means that we have no other controls, but we are fully responsible for the construction in some cases and the administration of the projects. So, we have all the projects, all the account of this projects completely under control.

And the gross margin of this project and this 45.4% almost flat since 2012 to 2013 when you see this stake, the average console we have coming from the result in 2013. There was an increment, there was a increase to 55.7% compared to 46.3%. Very good project in a gross margin on average of 45% which is very good compared to the sector.

On the bottom left you can see net income and net margins. So, the net profit of the company was R\$586 million, an increment, an outstanding increment of 74% compared to R\$336 million of 2012. And even though we have this outstanding net margin of 51% or reaching 55% in the 4Q 2013. So, one part of it, so one part of it is related to the recognize, the revenue recognizements coming from the Towers. But even without booking EZ Towers in these situation we would increment our net profit at least at 25% to 30%. So, EZ Towers is assuming a good stake of this increment, but not all that 25% or 30% was given by the increment of sales and increment of site under constructions we had in 2013.

Finally in this topic we have the results to be recognized and then margins to be recognized when you see \$R593 million in the 4Q 2013 in a gross margin of 54%. We can assume that the gross margin for the next couple of quarter is almost the same of the gross margin we disclosed for 2013 and we have very the same amount of gross results to be recognized we did in 2013.

Going forward to slide number 12, a very good subject that always dividends. As we disclosed as we reached R\$586 million of net income, we have some legal deductions which means it's typically reserve of almost to R\$29 million and in that situation we are going to propose as dividends to pay in the shareholders meeting. R\$139 million which means R\$0.94 per share almost a 100% more than 2012. When you see a dividend per share we have cumulative growth since 2009 of 42.9%.

So, this is the outcome provided by and operation with budgets and control selling more apartments in a profitable way than we had before. And of course with all the management team of the EZTEC working on a collaborative way in order to achieve such good results. Going to page number, moving to page number 13. Information by segment as we have been doing this since 2011 we are disclosing our information by segment comparing commercial and residential coming from projects a 100% consoled by EZTEC. And the two or three main important information you can get from this slide is that when you see residential, the residential projects we have gross margin, gross margin was improved comparing 2012 to 2013.

So, 49.1% to 49.8% healthier and very good sales we had in 2013. In the commercial side we have a gross margin of almost 56% which 80% of this stake, I'm sorry 60% of this stake represented by EZ Towers. In this case EZ Towers has a gross margin they really are 53%. When you see the total amount of the stake of the commercial project in our

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booked in our net revenues you can see 42% coming from 28% and in 2012. So, nowadays commercial projects are standing more for the revenues than in the past.

And in terms of gross profit 45% of the total amount of gross profit EZTEC's gross profit. In terms of assets and liability I have to say that to when you see lower and financing and you see the commercial projects a R\$162 million, a R\$157 million is only for EZ Tower as we disclosed in January 2013 we have a financing agreement with Bradesco and a decline who bought the Tower A of EZ Tower should bring the contract to them after we delivered the keys.

So, this debt passing through our balance sheet is specifically because we are the owners of the project, we are the owners of the land and we have, we are the legal owners in terms of mortgages and because of it we are passing through this debt in our balance sheet, but after we delivered the keys to the clients we are going to bring the complex to them to assume this financing which nowadays it representing something around 54% of the total amount of financing we have. Talking about the cash position as I've started before on page number 14. You can see the total amount of both short and long-term debt you can see R\$292 million. Cash and equivalent we have something close to R\$200 million and at the bottom line is our net debt position of R\$93 million, but then I have to remind you that the company has been holding R\$363 million in performed receivables which is quite profitable specifically because is building something close to IGP-M plus 12% yearly which accounts for 18% the last year annually. If we need some money to support our investments on 2014, we can securitize them turning into cash without any kind of problem or bear in mind without EZ Towers without it's debt coming from EZ Tower projects our position would remain our net cash position of R\$63.7 million.

Another the last topic to say in this slide is that in the last quarter even in the last quarter and the full year 2013 we impacted a lot of money in land acquisition. When you see 2012 compared to 2013 we acquired in 2012 R\$600 million in potential -- in new projects for -- potential sales of R\$600 million. Seven spot in the city of Sao Paulo metropolitan in the region of Sao Paulo. In 2013 we reached R\$2.4 billion [ph] amounting for 12 projects in the city of Sao Paulo and we have spent something close to R\$270 million in cash to pay for this land. Lands in which you can count for a better margins and I will -- then we have been disclosing in our guidance of gross margin.

Finally the slide number 15 where you can see the net asset value statement that always I have been showing to you all these summary of our figures which is quite profitable to understand what is the potential value of the company. Nowadays the bottom line is that we have net asset value per share of 29.03 compared to the stock price actually was something close to 26%, but this is a company releasing every year about 20% to 25% of return on equity. In 2013 we've reached something close to 35% when you see the cumulative growth of the net asset value we can see since the fourth quarter 2010 something close to 32% yearly.

When see in this net asset value statement the Land Bank inventory we have is about R\$551 million it means that we can launch in the upcoming years something close to R\$5 billion which can -- we can book something close to R\$2.2 billion in new gross profit which can represent something close to R\$0.14 per share. So, there is a hidden value in our

company is not been taken into consideration when you see the stock price coming from R\$32, R\$33 by the end of 2013 to R\$26 by the end of February and mid-March.

So, our results are not representing the price, the stock price of this company specifically when you see a company reaching a return on equity of R\$35 million.

Finally, we have the final messages for our investors to you all. I would like to say that the company got in 2013 a record high results. It's not only because of the Tower A of the EZ Towers project, but also a very good operation compared to the margins in the sector and a new level of operational developments. We have been doing more launches, we have been doing more sales and we have been doing both with an outstanding profitability. Keeping the gross margin of the company above 50% [ph].

When you see the quality of our inventory in terms of apartments, the apartments sold in 2013 we have them prior the launches were prior 2012, 40% of the launches were prior 2012. So, even with the inventory we have been selling them in a very good pace of results. In 2013 we delivered more than 2,000 far more than 2, 000 units with the quality the clients are waiting for and keeping the budgets under control and of course on time and trying to show that the construction company and our company is one of the strength of the company. In terms of Land Bank, we not only, we not only bought our Land Bank in order to reply not to fill what we launched in 2013, but also to increase the volume of land we have.

So, we bought far more than R\$2 billion in new piece of land. So, and with gross margins above 40% in order to achieve something close to 50% or higher and we have been doing as we have been doing since two, three years ago. In terms of the position, the cash position of the company even starting from the net cash position to a Land Bank position.

This is not important at all is specifically because we're trying to apply, we're trying to invest our money in very project. Nowadays what our mindset is to buy a piece of land because there are a lot of opportunity in the market. There are less companies in which can afford with the new prices of land and the new prices of the owner rental we have to pay and that's why our company focused on the city of Sao Paulo and in the important region of Sao Paulo can afford with it. And also can make very good business is specifically not doing swap and paying all the piece of land in cash.

Finally, I would like to thank you all as our investors, as our listeners. I would like to thank the Board of Directors. I would like to thank the Directors and all the employees of the company even the IR team of EZTEC to support and to show, to disclose all the strengths we have as a public traded company.

Now we are completely open to listen to the doubts you may have. Thank you so much for everything.

Questions And Answers

Operator

Ladies and gentlemen we will now initiate the question-and-answer session. (Operator Instructions) At this point this concludes the question-and-answer section. And 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. I would like to say that any further doubts you may have please the IR team apart for myself it's completely available to answer whatever you want. Thank you so much for the support.

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

Thank you so much. Have a good day. We are fully available for any questions you may have.

Operator

Thank you. This does concludes today's presentation. You may now disconnect your lines at this time. And have a nice day.

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