

## Q2 2018 Earnings Call

### Company Participants

- Antonio Emilio Clemente Fugazzar, Chief Financial Officer and IR Officer
- Hugo Grassi Benevides Soares, IR Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Ez Tec's Second Quarter 2018 Results Conference Call. Note that this event is being recorded and that all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question and answer session and further instructions will be given. (Operator Instructions)

Today's event is available through a live webcast and maybe accessed through the Ez Tec Investor Relations website at [www.extec.cm.br/ir](http://www.extec.cm.br/ir), by clicking on the banner webcast. The following presentation is also available for download on the webcast platform the following information is stated in Brazilian real and in our BR GAAP and IFRS applicable to real estate developers in Brazil except or stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call regarding the business outlook, forecast and financial and operating targets, it's based on the beliefs and assumptions of easy tax management, new 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'd like to turn the conference call over to Mr. Hugo Soares, Investor Relations Analyst, who will begin the presentation. Please Mr Hugo, you may begin the conference.

#### Hugo Grassi Benevides Soares {BIO 20127334 <GO>}

Good morning. One and all and welcome for results presentation for the second quarter of 2018. Apart from me we also have Emilio Fuggazar here, our Chief Financial Investor Relations officer to announce Ez Tec's operational and financial highlights.

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That's complete, move to slide number three so we can begin. When you think this is of the operational performance, we had the launch of (inaudible) in the first quarter followed by a 5% stakes acquisition in the Jardins do Brasil in the second quarter, totaling an aggregate of BRL129 million in the period of PSV launched. Net sales reached BRL201 million in semester, much healthier than the 49 million for the same period of the previous year.

There is a [ph] performance that reflect consistency in inventory sales, as well as a continued decline in cancellations. These are sales mainly empowered by the new launches ahead. For that, we rely on the landbank of BRL6.7 billion which already account the very relevant contribution of the residential project of Parque de Cidade over PSV of 500 million.

In the quarter, we also delivered the second of the three projects to be delivered in 2018. Our engineering team also managed to recognize the colonies in construction and we had repeatedly indicated over the course of the last cycle of delivery.

In semester, we reported a gross profit of 58 million and net income of 20 million. These are values that tend to become more expressive to the extent that we have cumulative launches. They already indicated recovery in margin from the second quarter.

We have also generated 86 million in net cash in the semester and it is a consequence of a very strong ready inventory sales. The generation could have been even greater had it not been for the increased prices of direct financing by Ez Tec as well for the recent plot acquisitions.

Now I ask you to look at slide number four where I will speak of the company's landbank. In the past years, Ez Tec has been especially focused in capturing the investment opportunities, they were being presented by the economies globally. We are capable of such because of the solid cash position strategy that has granted us comfort to seek the best possibilities for returns to our capital which becomes even more true with the sale of EZ Towers.

With that, we've got a landbank that enables us to look ahead with great confidence that we will have adequate product for whichever situation that lays ahead. Our landbank to-date goes much beyond the Parque da Cidade which we will address in profit page ahead. It includes for example acquisition from the past 16 months from very well positioned projects in the City of Sao Paulo directed towards the high and mid-high income segments. And these are projects that have showed good traction in launching sales at this moment of the economy. And they're also able to safeguard solid margins.

We also have closed the older acquisitions for a broad range of segments. We were already be able to position some of them as it in the case of our experience in Minha Casa Minha Vida. It is also the case for the commercial project in (inaudible) which inherit the success from EZ Towers. All the top of we remain certain annual mission for gearing the strength and flexibility to deal the new operational cycle which will we will initiate with strength in the second half of the year.

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Now I ask you to move to slide number five, where I will peak of the operational performance during the second quarter. Operationally, the second quarter was marked by matter that were external to Ez Tec, but there is still impact in this performance. For three months, we had the Worldcup, as well as the construction unions and trucker driver strikes. Moreover, the Public Prosecutors Office admitted an induction that suspended the right of protocol in the City of Sao. As those jurisdiction has already been suspended, it prevented us from being able to launch new projects in the second quarter. However, we will carry through with an additional 5% stake acquisition in the Jardins do Brasil project reaching an overall 46.25% share. This incremental acquisition contributed both PSV of 24 million in the form of additional inventory and receivables.

In the absence of launches the quarter's gross sales were also impacted and in the period of BRL135 million. Nonetheless, inventory sales remained firm in the second quarter. Despite the truck driver strike have impacted the clients' confidence, we still sold 108 million of ready inventory. With the absorption of the ready inventory in the south zone of Sao Paulo, the central axis for residential inventory sales have become metropolitan region of Sao Paulo.

The highlight in the Cidade Maia project which comes with consistent demand from local consideration of City of Guarulhos, as well with -- as well as with the continued contraction in the cancellations. In the second quarter, cancellations reached 500, sorry, 55 million, representing an acceleration due to downward trend we have already realized [ph] for five quarters. Cancellations by period are still residual from the deliveries from the end of 2017. Remember that the periods we've delivered in 2018 is 83% lower than that from the previous year. There are only BRL122 million of PSV remains still to be delivered in 2018, which indicates the conclusion of cancellations as a latent matter for the company. At last, the drop in cancellations was not sufficient to offset the lack of launches and net sales dropped to BRL80 million in the second quarter.

Please, I ask you to turn slide numbers six and seven, where I will talk about future launches. These two slides list the few of the most adequate projects to be launched in the semester. The first slide outline the ones that have the most short-term perspective to be launched. The company has a variety of unrestricted options that derive an operational update. Includes, five projects that are already approved by Sao Paulo's city hall. The detailed mix of the launch cycle with the highland projects that are derived from recent acquisition.

And in the case of Diogo Ibirapuera, Z.Pinheiros, Indianopolis and Flechas, which are already conceived under the city's new master plan. These plots are also very well located noble regions in the City of Sao Paulo directed towards the client profile that has demonstrated resilience and interest to both invest and live in desired neighborhood.

The launches for this semester will be complemented by project Minha Casa Minha Vida, which already has achieved for the Fit casa Bras project than followed by Diogo Ibirapuera. These are plots originally intended to be launched in the mid-income segment, but they also have a location for Minha Casa Minha Vida. Considering there is strength and demand in the mid-income segment depends upon improvement in project metrics there

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is Minha Casa Minha Vida that these projects can best monetize and reward the company's capital.

And these plots can reveal a quicker turnover and a better protection from cancellations, as well as on the generation of margins they are compatible the company's historical standards. On top of these two Minha Casa Minha Vida projects mentioned retails and others are still being developed. The new Minha Casa Minha Vida projects the company created the Fit Casa Enterprise, a wholly-owned subsidiary to the Ez Tec operation. This new brand will mark the projects depth to Minha Casa Minha Vida presumably in product placement.

Now, I ask you to move to slide number eight, where I will address the Parque da Cidade project. Here we highlight the Parque da Cidade residential project giving other -- another resource at our disposal for the beginning of the new cycle. It consist of two residential towers embedded within the Parque da Cidade complex in Chacara Santo Antonio in south zone of the city. It is a region with a high density companies situated, which makes it natural location for this type of projects -- product. This product will be standard of quality that can hardly be found in its Brazilian residential counterpart.

It comes with a structure entirely made of concrete, it comes with a centralized vacuum-driven garbage collection system, it comes with a great utilization of common spaces throughout these towers with restaurants, spa, winery and et cetera. That makes the project will appear to be of at BRL500 million. The acquisition of Parque da Cidade cost BRL90 million, of which the first half has already been paid. However, all the initial BRL10 million were paid in the second quarter, the remaining 45, were paid up on the over coming of its due diligence cancellation clause, which took as a subsequent event in July, project BRL35 million. Therefore, the accounting submission of this acquisition is postponed to the third quarter, regardless, that it's a project that was acquired with a project already approved by Sao Paulo city hall. In other words, it is not about a purchase of the new plot but the whole project with the registered development, environmental licenses, as well as we paid for air rights. Today, Parque da Cidade is still to be launched and it is a resource that our disposal to promote the strong operational output.

Now I ask you to move to slide number nine, where I will summarize our launching capacity. And it should be clear by now, Ez Tec entered the second half of the year with a strong availability of projects on their path to be launched. From that 553 million already got Sao Paulo City Hall approval. Another 360 million are under track for it. Not to mention, Parque da Cidade, which contribute with another 500 potential PSV. On the aggregate, we have 1.4 billion in PSV as a resource there -- at our disposal for the delivery cycle. Not to mention, other product -- products that can also be accounted for in this metric.

Considering there is -- it is an electoral year, the management is focused and channeling the launches from its landbank in the best way and in the best time possible. We remain sure that we will accomplish its launching guidance within BRL500 million and BRL1 billion in launch guidance [ph] for 2018.

Now, I would like to pass the word to Emilio Fugazzar, who will speak of our financial results. Please, Emilio.

## Antonio Emilio Clemente Fugazzar

Thank you very much, Hugo. Hello, everyone. It's always glad to be here talking about Ez Tec financial performance. I'd like to start talking about net revenues. Net revenues on the slide in -- on top left. Let's start talking about BLR69 million of net revenues on this second quarter of 2018. It's important to remind that, perhaps, we have made since 2015 a huge recession, something like a regression in terms of the real estate markets and performance. But even though we are happy is indeed with our results remaining on blue. Blue because -- part because we have took the decision to launching less projects since 2015, trying to focus on -- solving problems about cancellations, about the depth of the project under construction at that time and really trying to understand what kind of outlook, what kind of strategy we have to address for the upcoming years. And the decision we have been was a decision to launching less projects up to the moment some kind -- some sort of benefits, and I would say, better blue sky could be foreseen ahead in terms of political -- economical decisions. And up to this moment, it's important to bear in mind that 2018 second half, we are going to lead the elections in -- the provincial election in Brazil and ultimately this is the kind of a turning point for launching and sales maybe between the moment we are and 2019.

And that's why from the beginning of 2018 up till now we have launched just one project, partially -- apart from that let me add that partially we were offset by the prosecutors trying to address difficult cause in the City of Sao Paulo for bidding new approvals up to June 2018. But from July and August, we have -- as Hugo mentioned before, a lot of projects with all the license completely free to start launching from August and on.

Then saying that, I would like to address the gross profit and gross margin. Gross margin now rated about 38%. 38% is something better than the fourth quarter 2017. Let me remind you that in '17, we end up the 2017 with 29% of gross margin and that gross margin was there exactly because of the cancellations we have been leaving since 2015. But its typically because of Cidade Maia project, Cidade Maia project was a project that we delivered the whole project 2017. And something around 40% of the whole units sold, we have paid some cancellations.

Cancellations, as Hugo mentioned are dropping right now and this drop -- this year drop we have been leaving for five quarters that's the reason for trying to get better gross margin, because cancellations are not sending in more the sales we have been receiving and because the prices are recovering a little bit since the fourth quarter of 2017.

The forecast for the whole year is something in line of those first quarter and second quarter 2018 margin. It's specifically because the projects we are launch -- we have launched since 2015 are projects under the pressure of the prices are of the moment we leave in a recession. And that's why, I think, 12% between 30% to 40% of gross margins is a good target for the margins of those projects.

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But, nonetheless, the projects we started to launch in 2018 because of yeah -- because of indeed, the margin was above 40% and the projects, Hugo -- as Hugo mentioned before, like in the Cidade Maia project, a project that we can expect something better than 40%. So, all-in-all, I would say, 2019 is good to see a ramp up of margin, specifically in gross margins a ramp up from 38% to something above 40%.

Another kind of important situation to be address are the expenses. You can see on the chart below this slide, slide on page number 10. The G&A expenses and the sale -- and the selling expenses. The G&A expenses remain almost the same. We are leading something around BRL21 million, compared to BRL22 million is indeed better than the second half of 2017.

In terms of selling expenses that is the major again we can see, we can get from the second quarter 2018. Because you can see since the third quarter, fourth quarter 2017 the selling expense is dropping a little bit from 20 -- almost BRL22 million fourth quarter to BRL17 million first quarter almost BRL14 million second quarter. Mostly because obviously we have no launches in the second quarter, no launches not because was our choice, but because of the market and prosecutors. But unarguably I would like to say that, probably, we are going to speed up a little bit the selling expenses because of the sales, we said, we are going to open up in the second half 2018. But so far, obviously, less expenses can help a little bit to increase the bottom-line of our company.

Let's move to slide number 11, talking again about financial performance. But now talking about financial results, on the top of the chart on the top left. The financial results for the second quarter were BRL24 million and down BRL\$20 million over the first quarterly 2018. That's because -- mostly because of the IGP-M inflation index adjusting our contracts with -- the contracts with the client we are financing. We are providing mortgages to them.

The IGP-M, I would say, the IGP-M have a real increment, it's not a real, but an increment in the second quarter 2018 and third quarter 2018, specifically because the exchange ratio, the exchange rate of our currency. Dollar here in Brazil that the rates came from something around 3.3, 3.4 to 3.8, 3.9 in the first half 2018 and dollar have huge impact in terms of -- specifically in terms of commodities in Brazil, commodities like, say, soil and coal and those kind of (inaudible) oil and steel. But the impact is -- so those items can impact directly -- straightly the IGP-M index and these adjustment of inflation is a kind of index we have been using in our contract. And I am going to address a little bit more on this subject -- this specific subject on the next slide.

And secondly in terms of financial results, obviously, because -- the increment because the volume of mortgages attracted by this company -- by Ez Tec about, I would say, 20% better or 20% higher than the fourth quarter 2017.

In terms of equity income, equity income on top right in the -- in slide on page number 11 is almost zero. And the main reason for being zero is because obviously we have been buying the stake of these company from our profits, mainly because they need a little cash, they need a kind of way out from this project so we can provide its way out and obviously the remaining results coming the equity income is decreasing, proportionately

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also because delivered -- at the beginning of this year we delivered a project called (inaudible) project and the (inaudible) and this delivered between December 2017 and January 2018. The capital ratio over there was something around 40% to 45%.

So the times you deal with those cancellations was between January and May or April and May, and that's why the results of -- mostly because the results of equity income since the third quarter were results weaker than 2017. But in July, at the beginning of the third quarter 2018, you are going to see -- you guys are going to see, I would say, a ramp up of results because the sales of business affected projects and the projects in partnership are a little bit than the first half in all and that's why, I think, we are see an increment in equity income in the third quarter and fourth quarter 2018.

Finally the bottom-line, the bottom-line net income, net income in the second quarter 2018 was BRL15 million twice as much we saw in the fourth quarter in 2018 of BRL6 million. All-in-all, first half 2018 was BRL21 million, obviously, weaker, softer than previous years with that, but again, as I said before, some companies working on mid-income segment, middle-high-income segment, where you see weaker results, but remaining on blue is the kind of history, it specifically in our sectors, specifically moment we have been leaving is a kind of picture. And I think, obviously 2018 is a kind of weak year for our operations, but with all the launches, Mr. Hugo said, with all the launches we are going to see a ramp up in the revenues and even in income 2019 for sure.

And finally, results to be recognized in the backlog margin, backlog margin remained flat, flat since first quarter 2018, 36%, representing the whole project we launched since 2015. So that going to -- that is the kind of results we are going to expect for the next two quarters, three quarters in terms of gross margin, 36% to 40%. But when we started launching the projects in the harvest of 2018 we are going to see a little incremental on this margin, but for now on, I'll say, 36% is a good gap for the gross margin the next couple of quarters.

I would like to move to slide number 12 to address the portfolio receivables subject. It's the kind of new information we are trying to show you in order to understand a little bit better what kind of operation we have. We have in our company providing a very good financial results. That financial results we can get from the last two years or three years.

Let's me start explaining the first chart, the first chart can show you that by the end of the fourth quarter 2016 we have something around BRL300 million -- BRL292 million of mortgages, mortgages we provided to our clients, increasing to BRL406 million in the fourth quarter 2017 and ended up the second quarter 2018 to BRL478 million. BRL478 is an increment of almost BRL72 million from the beginning of the first half 2018. That's -- and the reason for that is BRL111 million of origination, new mortgages, 41 million of interest paid on, I am sorry, through -- to add in our assets, BRL69 million of payments and BRL11 million of foreclosures.

So we are comparing to the second chart, the chart below, we are financing BRL478 million, which represent something around 2,000 units in all. So something around 1,800 - 2,000 units is almost 1,800 units to 2,000 units. The foreclosure was in the half -- in the

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first half 2018 was something around 18 units. The origination was -- we have 387 units and acquittance something around 166 units. So you can see that almost half of the total amount of origination in terms of units was same -- in the same was fully paid in the same period. The main reason for that is because that the increment of the IGP-M, I mentioned, before. The IGP-M being so high is a very good monetization [ph] to or clients coming from the mortgages provided by Ez Tec to the banks. Just to have more comparison you can see Ez Tec provided mortgages in an interest rate of 10% yearly plus IGP-M provided maximum time of 20 years. Compared to that the commercial bank now a days which you would see something 8.5% yearly of interest rate and the maximum period of something around 30 years. So it is a huge change. That's a good monetization [ph], probably, not all those people can afford or can provide the whole recommendation, the whole instruments to get the mortgage transferred, but for now it's a very good part of our provision, providing a very good part of our results.

Moving to slide number 13, the final two slides we have to show you now, is the potential cash generation. We have been giving this slide just to make sure our point of a solid position of cash and solid balance sheet. So talking about the potential of cash, now a days we have a net cash position of BRL412 million, mainly because in cash we received BRL536 million and the debt -- the gross debt of this company mainly because of the project debt, we have no corporate debt in our company, the project debt somehow BRL185 million. So that's why net cash position of BRL412 million.

Apart from the cash we have the performed receivables, part of that are the mortgages, I mentioned before, and part of that (technical difficulty) being transferred to the bank because we are at the moment to deliver those units. So, all-in-all, we had BRL546 million of performed receivables.

Unperformed receivables means that we have BRL261 million and nearly that we are under construction right now, people have been paying the installments of those units, paying I would say last delinquent rate, but they have been paying the mortgage rate of about (inaudible), they have to chose between transferring the contracts to the bank or accepting the mortgages provided by the banks.

Apart from this 261 unperformed receivable we have the provision of dividend payment of BRL85 million to be paid, I think, between October and November, so the next couple months, BRL85 million and we have BRL185 of construction obligation. So all the constructions we have, all the projects we have launched so far, the total amount of money we have to spend in order to fulfill the cost of the construction of this project are -- is something around BRL185 million. All-in-all, we have a balance 1 is about BRL1 billion in cash. So money -- the whole situation of cash without selling a one unit from our inventory, without selling our -- unit from our inventory we can provide something around BRL1 billion in cash.

Selling the inventory, the inventory -- the market value of our inventory is about BRL1.3 billion within which something around BRL2.3 billion, BRL2.4 billion in cash, in potential cash generation. So if we are paying this amount of cash in business or reinvesting partially this amount of cash in new piece of land, in new kind of project, the new acquisition of projects, with the help cash so far, but the profit or the situation addressed (inaudible) we

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have complete amount of chose to deal with the movement or the movement we are going to see from the new movement of political and economic provided that by the department who is taking charge Brazil in the next election.

And moving to -- move on to a slide on page number 14, I would like to address the balance sheet situation. Balance sheet situation starting from the left to the right. Our balance sheet is -- are somewhat up BRL2.9 billion of assets and mainly those assets represented by 500 million -- BRL536 million of bank balance and cash equivalents. Performed receivables are BRL546 million. Inventory ready to leave by cost, not by price, by market price, by cost -- by cost of the construction of BRL486 million and finally landbank and assets cost of BRL776 million.

So, landbank, again, so this piece of land we have or the whole piece of land we have, as Hugo mentioned at the beginning of the presentation, the cost of acquisition from this landbank is about BRL776 million. But this BRL776 million can provide a generation of the potential landbank, you can see, looking at this, I would say, second graph, you can see on the same slide, BRL2.6 billion in potential gross margin coming from this landbank. This potential landbank can provide -- can add something around BRL16 per share in terms of shareholders equity in our balance sheet. So, all-in-all, we have BRL2.9 million in assets, comparing to almost BRL400 million in liabilities. And mainly those liabilities because of the BRL130 -- BRL125 million of debt coming from the projects we have under construction right now.

The bottom-line from our book value is about BRL2.6 billion in shareholders equity, which means now almost BRL16 per share, BRL16 per share from now came toward into BRL35 per share in the next couple of year after we launch the whole amount of landbank we have in our balance sheet.

So let me brief with the conclusion right now. To conclude, I would like to deliver the management message. We begin 2018 with goal of increasing the company's operation, I am pleased with few launches due to the crisis. The recovery is important for the company to show results without proportionate with its capital structure again, we have said that in 2018. However, we remain confident in our launching guidance. The launch is concentrated in the second half of the year. The management is focused in coordinating the launches agenda, looking out for the best site and the best way to pass its project. We are honored through our these assets to mobilize our sales force. We are also honored to the impact from electoral year with a certain results.

Yes, we will rely on a platform of qualify landbank for the current moment. This landbank with quality product which will help us receive margins like it used to be. We also rely on a very honorable cash position and allowance, the company is still financing to own clients. This direct finance not only create an attractive financial revenue, but also allow us to grow revenue (inaudible) banks and help us to make sure we go on with consistent inventory sales and maintain slow margins.

Looking at the big picture, in the second half a very comfortable capital structure able to allow us to (inaudible) a new cycle, it give us comfort to have lot of numbers of

construction site we had, including sometime a challenging construction, such as, Parque da Cidade or Minha Casa Minha Vida project, the low end project. However, we are able to generate strong operational growth and a better outlook for profitability.

In the microeconomic point of view, there are lot of threats, there is a fall in inventory in the Sao Paulo City and it's dropping rates processed by banks. In a long-term perspective, real estate financing now also much to gain from the new change made by the Central Bank. The change has asked increased liquidity of resources to the sector that especially the finance -- the financing of units up to 500,000 was involve because this unit usually overlooked by bank, because they are involved in Minha Casa Minha Vida ceiling and much below this SFH limits, but mainly because it is the segment we concentrate more than 40% of our inventory and grow a lot part of our landbank. The company is ready to push on its operational growth seeking to deliver the best possible return to Ez Tec shareholders.

## Operator

(Operator Instructions) And at this time, I am showing no questions. I'd like to turn the floor back over to Mr. Hugo for any closing remarks.

## Antonio Emilio Clemente Fugazzar

Many thanks for you audience today apart from myself, Mr. Hugo, Mr. Paolo [ph]. We are all available to address any further questions. Thank you very much for your audience today. Bye-bye.

## Operator

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

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