Q3 2012 Earnings Call

Company Participants

- Leonardo Guimaraes Correa, CFO
- Rubens Menin de Souza, CEO
- Unidentified Speaker, Company Representative

Other Participants

- David Lawant, Analyst
- Eduardo Silveira, Analyst
- Felipe Rodrigues, Analyst
- Gustavo Cambauva, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcello Marca, Analyst
- Rafael Pinho, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Welcome everyone to the Third Quarter for MRV results this morning. We'll be talking about the results of Third Quarter 2012.

Today with us we have Mr. Rubens Menin Teixeira de Souza, CEO, Mr. Leonardo Guimaraes Correa, CFO, Mrs. Monica Simao, Chief IR Officer. And Mr. Gerson Mazer, IR Executive Manager.

We'd like to inform you that this event will be recorded and that during the exposition, participants will be connected in a listen-only mode. Afterwards, we will begin the Q&A session, just for analysts and investors. And then further information will be given, just after the Q&A session for analysts, we'll open the Q&A session for journalists.

(Operator Instructions)

The audio is also being presented simultaneously on the internet, on our IR website.

Before proceeding, we'd like to mention that forward-looking statements made during this teleconference concerning the business outlook of the Company, other forecasts and targets are based on beliefs and assumptions of the Company's management. And also on information available to the Company. They involve risks, uncertainties and assumptions and they refer to future-looking statements and therefore depend on circumstances that may or may not materialize.

Investors should understand that industry conditions and other overall conditions might affect the performance of the Company and therefore lead to results which may differ considerably from those expressed in these such forward-looking statements.

I now turn the conference over to Mr. Rubens Menin de Souza, CEO, who will begin the presentation. Mr. de Souza, you have the floor.

Rubens Menin de Souza

Good evening, or good morning. Good morning, to you all, it is a pleasure to be with us today, talking to our analysts and investors. I am very pleased, I have seen some of the analysis where -- that the MRV has more of the same. And that's good. No surprises. And that's the story of MRV and we are very pleased to operate this way.

I'd like to basically touch three important points. The first of which has to do with guidance. MRV has two guidances, first, the guidance for contracted companies and the second one concerning EBITDA margin. We've been doing this every year and we are having a lot of consistency in complying with the guidances. And that's good. Our track record shows that our guidances were capped. We've been yielded[ph] throughout the year, we don't change it, it's very consistent.

Concerning the sales guidance, we have starting 4.5% to 5.5%. I include that we still have room to reach 4.5%, moderately. We might be a little below back, the possibility exists but we do think, we've got be very close when analyzing margins[ph], 4.5%, 4.4% or 4.3%, it's a very slight difference. The Fourth Quarter is usually better than the previous quarters. We've been having this historically, a stronger Fourth Quarter and I think that's important to emphasize.

Maybe we won't get that clear. But we're going to be very, very close. And I'm confident that with the performance we've had this past quarter, we have a good chance to get there. Just like at the cap at last year, when we had our best quarter. In terms of the EBITDA margin, it's another important that I would like to emphasize.

We, our expectation was and still is of having operations which were announced as a material fact before four months ago. That operation is under way and the operation, when it really materializes, it will represent a few more of the points for our margin EBITDA and we will in fact reach our guidance target. We are now November by now. But we are not sure about the operation, whether it would be completed this year or next year. It might happen this year. But it might happen next year. So concerning this guidance, if the large[ph] operation comes through, that guidance will probably be matched. If it doesn't materialize, this will be left for next year. And we will have a good EBITDA margin I think.

Considering the situation of the market, a good level of EBITDA, within the overall context. So this is the situation. We're not going to change the guidance. But the performance of MRV 2012 was very good both in terms of EBITDA and in terms of investments. We are different from the rest of the market, we didn't have to reduce margins enough to make any cuts, other competitors have had difficulties. So the performance of the Company this year has been very good.

So when I talk about EBITDA margins, is -- are important to emphasize that. We can talk a bit more about it at the end, we can resume that topic later on, during the presentation. And the second point, which is perhaps more important than the first point, I'd like to talk about cash flow and about margins.

How does MRV see the situation for this year and next year? We have two main targets which are very important. The first target, positive cash flow, we have been having a neutral cash flow for two quarters. And it's important to emphasize that neutral cash flow without stepping on the brakes. It's one thing to stop doing the activities produce steel-like[ph] units and so on but we're not doing this. We have -- we're going to have positive cash flow without stepping on the brakes. That's what we do. So I want to reinforce two different points of view about that.

So the margins of the Company are growing and are consistent. We still have a scenery for the final quarter and for 2013, we see margins growing consistently, we see space to grow and we don't see any chance of the margin decreasing actually. And this has been like this for some time. We have no more loopholes in our balance sheet, in our budget. MRV didn't and we will not have that kind of problem.

So whoever said MRV might have a loophole in the balance sheet does not know the way we work. Our margins are very consistent as it has been throughout the year.

And the final quarter is an example of that, in terms of cash flow. It was a particularly respect[ph] quarter, unfortunately we had a strike on the bank workers in September. And it was in the last month of the quarter. And it was very negative for us, we believe we have lost a few million because of that strike. But we'll try to recover that. But because of that strike, we had a negative result in that reserve, in terms of cash flow.

But we're talking about a nice good project. We've had significant growth, stable growth. But with very important numbers. We have transferred thousand of units every month, building and launching thousands of units every month and also all the time with solid, consistent margins and positive cash flow. This is our target. This is what we work for and this is the best that we'll seek towards advancing to 2013.

Just to close, I'd like to mention one final point. Three markings which are important. Our low-income segment is a bit different from the other markets that we operate in. So different approach, it's a project that demands a great participation from the banks, especially Banco do Brasil and Caixa. And we have to see how that system works. But today, we are in a very comfortable position, very different from our competitors. We'll break that number down for you later. But today we have over 90,000 contracted units with the financial system.

So it's not a big number, if you consider, 90,000 units with Banco do Brasil and Caixa so we have a lot of work to do in our pipeline, a lot of construction to do in the pipeline, I'd say about two years of construction work, which is significant with contracts which have already been signed. And that number -- it does not include numbers from November and December. So that number might even go up in this last few months of the year. We might reach 100,000 units with contracted signs. We have never seen that number in Brazil. I'm talking about again 100,000 units contracted with Caixa and Banco do Brasil.

So again, I think we are talking about a very nice project. We are going to get again to 100,000 units with Banco do Brasil and Caixa.

Two other things I'd like to mentioned. I must talk about what happened in October and November, My House, My Life program. That correction, that update took a little longer to take place. It should have happened before but we had inflation, we have high INCC. And whenever you do not make the adjustment, the correction, there is a disconnect. But we expected this to have come out in July and August. But it never did, of course this was not positive for us, this delay, especially in small, mid-sized cities. Of course, this sort of hindered our commercial performance.

I had already communicated for the market before as you know. I've mentioned difficulties we were having in some smaller cities in terms of My House, My Life program. But the interesting result is that especially for a medium-sized, mid-sized city, we had at the end a good result in our project. In most cities which are mid-sized cities are already back in the market and are under the umbrella of the My House, My Life program. So we have a good volume of project concerning that program. And in those mid-sized cities, might be interesting for you to look at it, with more details with our IR team.

And just to close, one final point. My House, My Life was launched in 2008, at first it involved 4 million launches in 2008. We announced in 2010, there was a deficit of 10 million units of Groups II and III. And what's happening now? Both, can we even launch is for 2010? They went into the market in the next two years, 2011 and 2012. But in 2012 there was a cut in terms of launches for My Life, My House program. But not for MRV. We're not going to drop that number.

We will be actually -- a slightly higher level and MRV is the biggest player in this industry. So most players are now out of that market for the My Life, My House program. So in 2010 we had 10 million launches and MRV was responsible for 40% of that. And for 2012, we'll have practically the whole of the program, fourth bracket two or Groups II or III. And we are present in 118 cities. And in 100 of those 118, we practically have no competition. Only small players participating in that market. So we feel very comfortable as I said, in terms of competition.

Never before in the history of the Company we were so comfortable concerning competition. Actually, there is no competition in Groups II and III which are the brackets where we have a our traditional track record. Again, no competition. And again I'd like to emphasize we never had such a comfortable situation, such a low level in terms of number of competitors.

And that includes as I said over 100 cities. I don't know why that happened. It might have been a decision that those companies made, they stepped on the brakes and it will take them some time to go back. So those are important points for you to analyze. So we're going to get to 100,000 as I said, contracted units with Banco do Brasil and Caixa.

MRV was helped significantly by the correction of the My Life, My House program so the market is looking good for us. We are expecting more moderate growth in 2013. But we going to focus on cash generation. I'm very pleased with all of that.

This is our Third Quarter, we're moving towards the end of the year, the results are consistent. I think we couldn't be in better shape than we are today. And we can see the same thing happen in 2013. So that's the message I had. Leonardo will now take over and present other numbers. Thank you for listening.

Leonardo Guimaraes Correa {BIO 15387486 <GO>}

Good morning, to you all. You can follow my comments following the presentations on our website. Start from slide four, I'm just sorry of repeating some of the things that Rubin has already mentioned. And emphasizing a few of the numbers for you to have in mind. And I'm talking about the drop in launches in the MCMV market, in trying to show how competition is also dropping and a lowered level of launches, it will of course mean a lower presence of the competition. So in the end, we'll have a positive impact.

I'd like also to emphasize that for MCMV market, the changes of levels have brought some more units, new units now are part of the MCMV program which we're being sold outside the program. And that happened because the limits were changed and that extends or increases the purchasing power of Brazilian households who are interested in buying those units. And this will impact, of course, our Fourth Quarter results.

On slide number five, we have an evolution of gross margin, SG&A concerning -- over net income. As I said before in our previous call, the Company has focused on operational quality, seeking for the best prices for our products and we have higher productivity and higher satisfaction from the clients as a result.

As we focus on improving our operational margins, our SG&A started to increase proportionately because of the continuous improvement that we've made in advertising and construction, that level should be kept stable in terms of reais or even drop a little, since much of that investment will be well controlled. In terms of G&A, in this quarter specifically, it is lower than Second Quarter especially because there was a non-recurring rent amounting to BRL4 million.

We identified some expenses concerning some construction managers as cost of sold products. We thought that's better ranked, as figures classified as great[ph] so the objective is to maintain those expenses, G&A stable. No growth forecast for that, except of course for the impact of inflation.

On slide number six, an overview of the cash flow of the Land Bank, built units. And impacts on the cash flow. Caixa and Banco do Brasil have evolved very positively and that allowed us for a 35 growth in the level of transfers in the nine months of 2012, when compared to the nine months of 2011. And in September, that strike of the bank workers, as it was mentioned, impacted our expectations and reduced the numbers of signs of contracts. And also reduced the number -- the level of payments. And we lost tens of millions of reais.

Or we didn't receive resources that we were counting on because of the bank strike, as it was mentioned before. And of course, this has an impact on the cash flow. But despite the bank strike, we had a neutral cash burn, our Land Bank is consolidated. We are now going to try to replace or make up for the launch project. And also the swaps will tend to remain at a high level because we have a very low level of competition in the cities where we operate, as it was said before, again.

That evolution shows the capacity as Rubens said, the capacity we have to operate, we intend to grow gradually. But steady. And focusing on margin and on cash generation.

Then on slide number seven, I'll have brief comments on LOG, our portfolio and the construction volume are speeding up. In the Third Quarter the portfolio grew approximately 16%, reaching 1.4 million square meters. In the year to date, we delivered 132,000 square meters which amounted to 223,000 square meters of GBL[ph] in operation.

This is a growth of 145% when compared to the end of 2011. In the cut of 17.7% of projects already delivered and added. And also you can contemplate an aggressive growth plan for the next years. And then they results from LOG -- coming from LOG tend to be more representative in terms of value creation for shareholders. As said before, we are now negotiating with investors interested in participating in this growth. We have a chance to close this year. But it's a small chance, as it was said before but what is left undone this year will be completed next year.

I'd like you now to invite you all to the Q&A session and we are now ready to receive your comments and questions. Thank you.

Questions And Answers

Operator

We will now start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Mr. David Lawant from Itau BBA. Mr. David, you have the floor.

Q - David Lawant {BIO 16370172 <GO>}

Good morning, to you all. Thanks for the presentation. Two questions, the first one. I know you've mentioned this before a little. But I'd like you talk a little bit more about impact of the bank strike on the transfer indicator. The transfer indicator we've advanced to that level of 10,000 units in the Second Quarter, is that a reasonable estimate? And also what would be your cash generation if we did not have that negative impact?

And the second question is about returns. 2012, the industry had more sales than the average of the industry. So when you compare companies of the same size with MRV, the difference is high. But they dropped from that 20% level that we had. So I'd like to ask, what -- how do you see that? How do you expect that return level to behave, if you will, from here on? Thank you.

A - Rubens Menin de Souza

David this Rubens. The strike by the Caixa workers, you probably saw our transfers which were dropping in the Third Quarter, we expected to transfer 10,000 units, transfer only 8,000. We lost around 2,000 transfers. In terms of money, hundreds of millions concerning the cash flow. That's an approximate number. But in -- now concerns your other question.

We have all conditions to break the record of contract signing in the Fourth Quarter for transfers. At the end of the year, Caixa stops working earlier in the year. But we are working with them, Caixa and Banco do Brasil, to try to overcome that problem. So that we do not lose calendar days. And we do not have a bottleneck.

So if everything goes according to expectations, we'll have a record breaking number of transfers. Never before in this country, a company has managed to transfer more than 10,000 units and I'm very optimistic about that and I think we're going to make it. In terms of return, Leonardo will probably have something to say about that.

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

It's true we had a drop in margin, net margin as compared to previous years. And what we see now is that between keeping and increasing that net margin that we have. And throughout time we expect to have an improvement in what concerns returns. I don't think we will have or I would like rather -- I wouldn't like to indicate that we will have higher margins, higher than 20%. But certainly above the level we are today.

Q - David Lawant {BIO 16370172 <GO>}

Thank you.

Operator

Our next question comes from Mr. Felipe Rodrigues from HSBC. Mr. Felipe you have the floor.

Q - Felipe Rodrigues {BIO 16350661 <GO>}

Good morning. Well, I didn't really understand the commercial expenses, do you expect commercial expenses to remain stable in nominal terms? What can we expect in terms of a percentage of net income, thinking ahead, looking forward? And also a question about the maintenance provisions, are we stable at that 3% level? Is that something you check quarterly, monthly, or should we expect that same level of 3%?

A - Rubens Menin de Souza

Felipe, this is Rubens again. Speaking about maintenance provisions, that's a topic I follow closely and I know very well. We are very conservative in that respect, as you can see, the amount which was produced is a lot above the average of the industry. And I follow the scores, Felipe, because maintenance provision has a very close relation with customer satisfaction. And this has to be done very efficiently.

On Saturday evening the pipeline that breaks[ph] up north -- northeastern region of the country, it is a big challenge, I know that. And we have 200,000 units, it's a lot of units. So we need to be ready to service those customers and that's why we're conservative in terms of maintenance provision. We believe that it's at an adequate level, we are doing a good job in that respect. And our experience shows us that the provision is enough for us to meet the great challenges presented by this relationship that we try to keep with our customers.

I think, once again, I think MRV might be the only company in Brazil with that capacity of service. And everybody is happy about it. So the provision has to be made, has to be conservative. But it is enough and it is adequate. And it's something we look at with a lot of care.

In relation to the commercial question, I have to give the floor to Leonardo. He'll be able to give you a better answer.

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

Just to add something about the provision, I think that we did develop a very nice work in terms of construction quality and service quality. If we were to contemplate reductions and maintain the quality level, it would be something to be looked into. We expect to leave as it is.

When I talk about commercial performance, I mean to have the same level in reais or lower in terms of up commercial operation.

Q - Felipe Rodrigues {BIO 16350661 <GO>}

And in reals, just to make it clear, the provision, is it decreasing? Is it linear? Does it vary between projects, does it go down throughout five years period?

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

What we do is that we provision as we build and that -- it is broken down per project. And the following five years will absorb that provision, consume that provision. So it is a higher level of conception at the beginning and then that conception tends to drop.

And that as we come close to end of the five years, the buildings always try to seek some kind of improvement, since they know that those five years of maintenance will mature. In the larger construction sites, we see a higher level of maintenance, of course. So this might mean a competitive advantage for us looking forward.

Q - Felipe Rodrigues {BIO 16350661 <GO>}

Okay, thank you.

Operator

Our next question comes from Mr. Gustavo Cambauva from BTG Pactual. Mr. Gustavo, you have the floor.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning, to you all. I have two questions. You've talked about margins. I'd like to see why, understand why the margin did not go up a little more? Since we had an important fact coming into play this quarter. So we would expect margin to go up a little more. So I'd like you to give some color on why the margin didn't grow more than it did.

And second question has to do with sales for the Fourth Quarter. What do you expect sales for the Fourth Quarter concerning the MCMV? And what expectation do you have in terms of sales and margins for the MCMV program?

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

I'll talk about margins.

A - Rubens Menin de Souza

You talk about margins first, okay.

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

Concerning margins, the smaller G&A that we had of course, impacts and it was related to product costs. So this quarter had some impact because of that number. What we see now is a natural evolution and this quarter was more impacted but we try to make up for that through reviews and adjustments of the budget. So that we can have a linear result and a lower volatility level for the margins, quarter on quarter.

Of course we adjust prices, too, because of inflation. So we have to make adjustments to follow all those changes. So in the last quarter, we adjusted prices because of the My Life, My House program. Because of that, our pricing strategies were affected. But we tried throughout the year to have price adjustments that follow the INCC, the My House, My Life program, we tried to readjust in line with all those events.

So if you analyze the other quarter, we see that margin was -- but when you analyze the price, you have to take into account several things we monitor. But margins are growing and are stable and solid. So. But it's important also to understand that the last quarter is usually the best quarter of the year. It has been like this historically. And it will once again be like that.

A - Rubens Menin de Souza

It is better in the last quarter already. But we still have half the quarter. I cannot say for sure how better it will be. But I can tell you right now that it will be a very good quarter, much better than the previous quarter. We will probably, as I said, break some records there but we will be very close to guidance. If we don't make guidance, we will be very close, as I said in the beginning.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay, very good. Thank you.

Operator

The next question comes from Mr. Rafael Pinho from Morgan Stanley. Mr. Rafael, you have the floor.

Q - Rafael Pinho {BIO 15321539 <GO>}

Good morning. I'd like to have some color on the following, we've been following the issue of cancellings and we saw deductions, which was critical when you compare quarter to quarter in terms of cancellations. The number was not broken down but you did mention that the number of cancellations were increasing. I'd like to understand if that level that we're seeing around 10% is a comfortable level for you? If work that you've been doing internally has shown good results and what can we expect in terms of that figure, percentage of cancellations? Thank you.

A - Rubens Menin de Souza

Rafael, this is Rubens again. Two pieces of information which are very relevant for you analysts. First, the history of our business which is low-income construction, also always had a price differential of 10% when you talk about the unit, not looking to build unit. When we launched unit 400, it would cost BRL110[ph] when it was launched, really launched after construction.

Every time we do that, we had a very good margin. But the market has changed and maybe not when people realize how strongly it's changed, the difference now from a built unit. And a unit still in the blueprint is now 50%, it was never that big. It's crazy. Another piece of information, we have a profile for a unit leases. It's now verging at BRL1,000. It used to be BRL400. So the price of rent also grew very significantly, higher than inflation. Why? Because there is no unit stock of built unit for the Groups II and III. That's a fact. We have no stock. You can go up and down the country. And you won't see stock for those units, to the Groups of II and III.

It is very good for us and not for Brazil because we have a lack of homes. But it is good for the Company. This move result in good profit for the Company and that 50% profit is very significant. But we want to take this -- to explore this situation fast as we can. And these are very complex dynamics. And we have been giving clients the chance to get credit lines. But it takes more time in some cases. Sometimes the customer loses their job or has bankrupt or divorce issues, all kinds of complicated issues come into play. So we try not to discard.

If you think coldly about it, of course, discarding would be best. But once again --.

So the dissolution of contracts is also something we have to look at with care and prudence. But the results are not as big as some people expect. The numbers are dropping because the clients do not want to use those units, because they can sell them with a 50% profit. So the numbers of dissolutions tend to drop. And that's what we've been trying to have in mind when we work with those clients in analyzing that context.

Q - Rafael Pinho {BIO 15321539 <GO>}

Okay, Rubens, thank you. Have a good day.

Operator

Our next question comes from Mrs. Paula Amella[ph]. Mrs. Paula, you have the floor.

Q - Unidentified Participant

Good morning. You talked extensively about the focus of the Company, on margins. If you could qualify a little more where those gains are coming from, if they have larger scale in certain projects. If you have that coming from a decrease in SG&A?

A - Rubens Menin de Souza

Okay, Paula, this is Rubens speaking again. We have been talking significantly about the good supplies that we have when we saw this market growth. The market is extremely demanding. We managed to increase the construction size faster than expected. And that was very good. It was good for our management, for the business management. And also good for cost improvement.

We have an internal study that shows that when we make a comparison of costs between different construction sites. And the expectation we have has been confirmed. Larger construction sites have a larger productivity gain than the smaller ones. And that's why I am optimistic about this. We can expect -- and I'd like to insist on this, our budget does not contemplate that. So there's a good chance to have a good surprise in those larger construction sites.

Of course in terms of SG&A, that does not of course include the gross margin. But we can see that as Leonardo said, we did not see a jump in SG&A. So when the revenue grows. And it is growing when we compare year-on-year and so when you see that, we see of course that we have room to reduce SG&A which will of course improve the margin. And that's the whole of the context we are analyzing, which is consistent with the scenario that we mentioned before, growing margin, stable margins, that's one of the factors that allows us to say firmly that margins tend to grow.

Q - Unidentified Participant

Thank you.

Operator

Our next questions comes from Mr. Luiz Mauricio Garcia from Bradesco. Mr. Luiz, you have the floor.

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

Good morning. Just three questions. The first has to do with the capitalization operation of LOG, which once it happens, it would imply in a smaller participation from MRV, or not, I don't know. Is this being analyzed. And how do you see that? When LOG goes well, it could perhaps make sense for MRV to have a share in that capitalization operation.

My second question, I saw that there was a strong evolution of 30% in advancement of BRL120 million. And this will have been doubled had we had BRL60 million in the delay for transfers. So I'd expect a benefit of -- coming from this increase of BRL60 million to BRL120 million in the cash for the Company. But that is not present. I'd like to know how you see, how you understand that variation. And also why we have not seen that benefit in the cash flow of the Company? So, how would you give us some color on that difference?

And the third question is we see that there is a very distinct dynamic in the growth of results of operations for the Company, operationally speaking. So I'd like to understand the dynamic a little bit. What do you have after all negatively, impacting the numbers? How does that happen?

A - Unidentified Speaker

First, okay, capitalization. I'll be a little brief here. I cannot give that much detail. We are still discussing the subject. We are trying to adjust the capital structure of LOG, it's an important growth. There is cash burn. But I'd like to emphasize three things.

The operation is in line with what happened last year in that we have capitalization for the partners. Our objective, which has been manifested, with that LOG should walk on its own, it has a different operational dynamic than MRV and so on. So the companies mutually have some level of synergy in terms of material purchase, negotiations, different scale of operation. But because of the business model they will have to walk on their own, as a stand-alone company and we will have a participation.

If we look at what happened last year, there might, it was a good proxy for what is going to happen to LOG. So when this going to happen, it's difficult to say, this month, next month, there is a series of players and partners looking at it. Some will be faster in making decisions, others are slower in making decisions, in terms of implementing decisions. So we have to manage those things as we are doing right now.

In what concerns the client advancement, those are swaps basically. There is a strong effect coming from the swaps and that's linked to the evolution of the units. In terms of SBF[ph]. And hard to look specifically at that situation. You have some SBFs which have a negative result. And then very nice number of SPEs[ph] which should be looked in more closely. And I suggest that we talk about it later, in terms of a great level of detail that we have to go and then I'd have to go and talk on a case-by-case basis.

I have something important to say about this, about the margin.

Let's pay attention to LOG. LOG will be a very pleasant surprise, I used to say. And also for analysts and investors. I am very pleased with what they are doing a wonderful job, becoming an important player, very quickly. But what's important about them is not that, it is the quality of their operation. LOG has had a cap rate very high, which is very high. So when interests are dropping, that rate will give LOG a very good result. So they're going through a very good moment. It's going to be the type of business that would be very attractive. And that's actually what we expected when we started.

So the LOG project is going forward, very, very nicely. And as I said, it will be a very good surprise. So keep your eyes on LOG that's my suggestion.

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

And that's the point, I think that it is on the business that we can see that's doing very well. But that's why I asked that question. Would you consider the possibility of financing part of that capitalization? As I understand that that's a topic which cannot be discussed openly as of now. I understand.

A - Rubens Menin de Souza

Unfortunately, we cannot disclose that right now, as you said. We are discussing many of those topics. But we hope to be able to do it as soon as possible.

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

Okay, thank you.

Operator

Our next question comes from Mr. Eduardo Silveira from Banco Espirito Santo. Mr. Eduardo, please you have the floor.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Good morning. I have two questions. The first one was a follow up, if Leonardo could talk a little bit more about that reclassification, the amounts. And also break down that other expenses, which were a little higher than expected, if there was a reclassification of the accounts, that's the first question.

And the second has to do with accounts receivable. When you look at your release, we see that we are reaching BRL5 billion, if you could mention what percentage of that is connected to MCMV, also the transfer of profits with Caixa. And so on. Thank you.

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

I'll start with G&A. The G&A was reclassified, about BRL4 million, concerning the first two quarters of the year. And on a recurring basis can act something close to BRL2 million per quarter. Construction managers, who were included in SG&A. But who are actually -- whose work is 100% connected to construction. So they are better classified as for product costs. And not as G&A.

In what concerns other expenses and other revenues. And non-operational expenses, we had a few events, one-off events which impacted in about BRL2 million, which has to do with write-offs of three projects, some of dissolutions -- no, not dissolutions but land that ended up not purchasing, because we incurred some expenses in the end, did not purchase or buy the land for some reason or other.

And there's another amount there of about BRL2 million. And another BRL4 million concerning the previous quarter, has to do with labor contingencies, civil contingencies. And it's a whole set of expenses and approximately 50% of which has to do with labor contingencies. And 50% civil contingencies. Eduardo, this improvement, just one important piece of information, from the point of view of land.

And we are going a little slower, on purpose, in this -- in land. Because the competition drops, we want to improve the quality of our Land Bank. Not only the quality but also the way we purchase. So we are increasing swaps, decreasing values. And increasing quality at the same time. We have invested significantly in the land research. We never buy land without doing research. We don't want any surprises. And I mean geological, documentation, or any other type of surprise.

So that cost -- that research costs some money. And you'll see when you analyze our evolution in terms of Land Bank, that it was little slower this quarter.

Well, in the first half of the year, we evolve very quickly. But we slowed down in the Third Quarter and that cost us some money. And that's all in a day's work. That's part of the business and that has been factored in as expenses -- not to sweep it under the rug, if you will.

And now concerns accounts receivable, it should grow as a function of the progress of construction units and sales so approximately, I'd say 85%, 90% is for the MCMV market. That's a natural evolution as we have a larger volume of transfers and this will be accumulating and we will be receiving along to our time, it should growing in percentage terms when we have cash generation. That's the result we have right there.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Thank you, thank you for the answers.

Operator

(Operator Instructions) Our next question comes from Mrs. Marcello Marca from JP Morgan. Marcello, you have the floor.

Q - Marcello Marca

Good morning. My question is a more strategic one concerning geographic identification. Rubens said that there is less competition today, we've seen competitors concentrating the work in other areas, not low-income segment. How does MRV see that? How do you see the issue of geographical diversification, if that's a necessity, how does management see that?

A - Rubens Menin de Souza

Marcello, that's an important we have to think about carefully. I've been calling the attention towards that for some time. We have business all over Brazil. And we have to follow that very closely. And it scares me, the speed at which some companies are just dropping certain markets. And it's funny. Those are consistent markets. We have been making launches in those markets which are very consistent and have good results. I confess to you that I cannot understand those companies' strategies. They're different from us, for sure.

And what we do is working, that's what I can say. But what's an important thing to emphasize is that we should see the other side of the coin. Nothing happens that fast by chance. MRV stock was doing that geographical diversification 18 years ago. And when you analyze this similar today, the only company in Brazil who did this 18 years ago was MRV. So it's not an easy work. We did it with a lot of care, a lot of hard work, we sowed the seeds back in 1994, 18 years. We cannot do this in two or three years. It's not, just not feasible to do something consistent in such a short period of time.

So what we have to understand is that the work to implement that kind of geographical diversification was a well done, long term job. And so I think the MRV made a successful choice and now it's reaping the benefits. But that again, did not happen overnight. You cannot make geographical diversification in two or three years. And that's also a relief for us, because some companies try to do it and just give up. So it takes time and it takes prudence.

So because of that we were left with practically no competition in those markets. Now, Martin[ph] would like to emphasize is that we are doing so well in our geographical diversification, that we are going to reach 100% of our constructions with no delay, which is a very unique indicator in the industry. There's no construction delay in our radar, because our geographical diversification met our expectations.

I may be wrong but strategically speaking, as you ask, I think MRV was very successful and very happy when the work when they made that decision way back in the day, 1994, 18 years ago. It was a well thought out plan. We had a team working dedicatedly to that area. So there's a culture in the Company devoted to concerning our concentrating efforts on geographical diversification.

Operator

This will be the final announcement. (Operator Instructions) Thank you. The Q&A session is now closed. I will turn the floor over to Mr. Rubens Menin de Souza for his final remarks.

A - Rubens Menin de Souza

Thank you, once again. It was a very good call. We always learn a lot from the questions, from the discussions. I'd like to carry on with the same standards we've been presenting and present more of the same, as I said in the beginning. If we keep presenting more of the same, it would be great. That's what we want. Thank you, again and see you next call.

Operator

Thank you. This concludes the conference call for the Third Quarter results for MRV. You may now disconnect your lines and have a nice day.