Y 2018 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazzar, Chief Financial Officer
- Hugo G. B. Soares, Investor Relation Coordinator

Other Participants

- Renan Manda, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And at this time, we would like to welcome everyone to EZTEC's Fourth Quarter 2018 Results Conference Call. Note that this event is being recorded and that all participants will be in at listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be in 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 Webcast. The following presentation is also available for download on the webcast platform. The following information is stated in Brazilian Real and in BR GAAP and IFRS applicable to real estate developers in Brazil, except or 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 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 it 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 ask that affect the future results of the Company, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to Mr. Hugo Soares, IR Coordinator, who will begin the presentation. Mr. Hugo, you may begin the conference.

Hugo G. B. Soares {BIO 19772261 <GO>}

Good morning one and all, and welcome to our results presentation for the fourth quarter of 2018. With me, we have Emilio Fugazza, our Investor Relations Officer and Chief Financial Officer. So that we can discuss the highlights -- the financial and operational highlights of EZTEC's year. In the synthesis of the operational performance, the year of 2018 sets the beginning of a new operational cycle marked by an uptake, a relevant uptake in launches. After we have accumulated BRL235 million in PSV, launched over the course of the first nine months of the year, we have vigorously accelerated the pace of launches in the fourth quarter of 2018, with another BRL518 million PSV launch. This new piece extends itself into 2019, as we have already launched three additional projects, which have some BRL396 million launched up to the moment.

This operational uptick is replenished by a robust Landbank that accounts with BRL6 billion in PSV, already accounting with 13 plots acquired between 2017 and 2018, which have added approximately BRL2 billion into EZTEC's Landbank. From these plots, we were able to develop a pipeline that consists of over BRL1.1 billion in projects that are already approved by the Sao Paulo City Hall. If we add that BRL1.1 billion, the launches that have already occurred in the first part of 2019, what we have is BRL1.5 billion in this pipeline. In other words it is a pipeline of projects that are already approved their launch, there are as large as the higher limit, the higher extreme of the guidance that we have made in 2019.

On the back of the launches -- of the uptake in launches, net sales in 2019 have reached BRL605 million as a result of the increase in gross sales and increase in cancellations. To put that in perspective, the volume of net sales is greater than what we managed to reach in 2017, in 2016 or even in 2015. Ultimately, it is the best net sales result we have managed to hit ever since 2014. In regards to the deliveries, we had three projects delivered whose construction work concluded in 2018. The last example, which is the Atlantica phase of the Jardins do Brasil project, where we also managed the recognize some economies in the construction process. It is also worth mentioning that there should be a valley of deliveries over the course of the past -- the next quarters in the sense that the next project that we will deliver should happen in the third quarter of 2019.

The operational update that I have described starts to get reflected in accounting terms in EZTEC's results P&L. The financial performance was bolstered by the recognition of new launches that had good profitability. It is case of Diogo Ibirapuera, which was launched still in the fourth quarter and has really accounted for BRL36 million in net revenues with a gross margin above of 40%. The portfolio direct receivables has also been quite relevant in providing for a strong net financial result, which also contributed to the net margin. In this portfolio receivables we have BRL514 million, which referred to clients that EZTEC's finances itself. New contracts under the statutory lien agreements are rewarded at a 10% interest rate plus inflation.

Now, we can highlight the net profit that we manage to recognizing in the fourth quarter, which have reached BRL44 million in the quarter. If we take -- if we just consider non-reoccurring effects, this is essentially the best result -- the best net result that the company managed to strike ever since 2016. As a result that indicates an increasing base of net revenues, which should fall with the operational uptake that we have already started in 2018. These base gains volume over the course of the process in which we accumulate construction sites with ongoing constructions, which will allow for an increased base of revenue recognition.

Now, I ask you to move to Slide number 4, where we'll discuss EZTEC's Landbank. From the volume down that we managed to launch in the fourth quarter of 2018, it is clear that we have already started the new operational cycle. And in order to give ammunition to this operational cycle EZTEC counsels Landbank as large as RBL6 billion in PSV -- in potential PSV. The Company has managed realize a series of new acquisitions over the course of the last three years, which essentially represent eight new plots acquired in 2017 and another five acquired in 2018. We have been promoting this movement in order to make use of the movement in which the stress market concedes several new opportunities. In this way, we have been adding projects, they are very much adequate to the credit conjuncture [ph].

They are -- of course, they are very well positioned within -- large portion of it, within the South Zone of Sao Paulo and their projects that are already suited into the new legislative [ph] master plan for real estate development with a perspective of having a foot return. Putting that numbers, we have 50 plus -- as of 2018 we have 50 plus and from those, 26 of them are to be incorporated within the next two years. Those 26 plus alone correspond to the BRL6 billion EPS fee that we have just mentioned. It is worth mentioning that the window of opportunities that we managed to seize over the course of 2017 and 2018 for new acquisitions also extends itself into 2019. Thus as a subsequent event, we have acquired three new plots, which will also give ammunition to this new operational cycle.

Now I ask you to move to Slide number 5, where I will discuss the Company's operational performance in 2018. The operational highlights for the year falls upon the launches that we carried out, they totaled BRL753 million of PSV launched in the year. This value reflects -- this figure reflects an acceleration in that pace of launches that is very significant. especially in the fourth quarter of 2018, where we have concentrated BRL518 million in PSV launch. The launching performance of the year is fundamentally the same that we managed to accumulate over the course of the past three years combined. With that we managed to comfortably fulfill the guidance that we had committed to ourselves in 2018, basically reaching the mid point for the guidance.

Working hard in 2019, we have also formalized intention to launch something within BRL1 billion and BRL1.5 billion in PSV, basically in getting continuation of the operational acceleration that we already started. If we manage to hit the upper limit of the guidance, practically that will mean that we would have doubled the volume launched in 2018. We have started the year strong having launched three new projects and apart from that, we have also acquired 30% new shares and additional shares in the project Jardins do Brasil, where we does reached 76.25% participation. With -- that contributes with an increase in inventories and receivables. Basically the net volume that we hit is BRL396 million of PSV launched, which is basically more than 30% of the midpoint of the guidance that we have committed up to 2019.

In regards to sales, we have already mentioned the contribution that the launches that we carried out have had in the -- in this commercial performance. Moreover, it is worth pointing out the successes from the sale of ready inventory -- ready inventory sold [ph]. In 2018 we have managed to hit a new record, breaking the mark of 1,000 ready inventory units sold within the year, that's something that has never occurred before. From the sales, we have a very significant acceleration in the sales performance in the metropolitan region Sao Paulo, where this inventory currently is more concentrated. In the case of Osasco and Guarulhos, which are the focal points for the inventory, which in 2018 managed to accelerate sales in 62% relative to 2017.

From the side of cancellations, we have consistently been reducing cancellations quarter by quarter. It is basically an uninterrupted streak of decreasing cancellations ever since 2016. In the fourth quarter that managed BRL24 million in cancellations. There is -- it's worth mentioning that there is not much space for the cancellation to be able to return to the scale that we used to have, considering that the next delivery that will take place you have in third quarter of 2019. In regards of the cancellations coming from future operations cycles, the cancellations law that was sanctioned by the end of 2019 already sets in. So basically the new contracts for sales that have taken place in 2019 already contemplate the tax of the new law. In sum, given the decrease in cancellations and the increase in gross sales, we have reached net sales of BRL606 million and it is worth repeating, it is the highest performance that we managed to strike ever than since 2014.

Now, I ask you move to Slides 6, 7, 8, where I will talk about the projects we have launched more specifically. In the sequence of slides you can observe all the products that composed 2018 pipeline, beginning with the Z.Cotovia project and Vertiz Tatuape launched with lot of space between them in the first nine months of the year. Both had really strong sales velocity from the moment they were launched.

Now, ultimately in the fourth quarter, we had a more concentrated volume of launches. In the month of October specifically was very emblematic as it carried three -- a grand possession of three launches. The Diogo Ibirapuera, Fit Casa Bras and Sky House products. Despite the fact that Diogo Ibirapuera was very nicely sold, the Fit Casa Bras and Sky House projects had slow -- slower sales and we understand that, that may have taken place because of dispersion of real estate brokers, which had concentrated in the launch of Diogo Ibirapuera.

It is worth remembering that many of the real estate brokers that have been with us over the course of booming cycle of 2013 and 2014 have left the market over the course of the crisis, and to the extent that we regained launches, that real estate brokers should be coming back. In that sense, we have actually managed to already re-incorporate over 100 new real estate brokers into techy [ph] vendors. Thus we will be able to mature each project, each launch allowing the real estate broker to concentrate exclusively in them. Having that in mind, we have already started the 2019 pipeline with three projects launched in three months, trying to maintain the pace of launches preserving the one launch a month. The last launch was Fit Casa Rio Bonito project, which was launched yesterday. That follows the Fit Casa Bras project being the second Minha Casa Minha Vida project that we launched in the cycle.

With that said, I ask you to move to Slide number 9, where I'll explain -- we will try to use Fit Casa Bras to illustrate the possible returns that we expect in Minha Casa Minha Vida program. It is important to remember that the project that -- the projects that we launched in Minha Casa Minha Vida are derived from parts that were originally acquired thinking of the mid-income segment. We have chosen some of those plots, where the calculations would work out and we had adequate them into Minha Casa Minha Vida program. So they're fundamentally projects that are very approximate to what we used to work in the Minha Casa Minha Vida program in the mid-income segment.

The main attribute for the Minha Casa Minha Vida program is the quick returns that they allow us to get, which imply a much -- a great rate of internal returns, and that is due to the fact that the transfer to the bank takes at the moment of the launch of the sale and not at the time of delivery that is traditionally the case. So that means that you receive the cash from the sale over of the course of the entire construction period as opposed to receiving most of it by the end of the delivery.

Now I ask you to move to Slide number 10, were I'll conclude the theme of launches. Thinking of 2019, we have committed to ourselves to a guidance -- a launching guidance of BRL1 billion to BRL1.5 billion loss in PSV. Now considering all of that I have already launched in the first part of 2019, and all that they already have approved, we already have enough material to be able to provide for this guidance. We already have that BRL1.5 billion in projects approved, already launched despite of the guidance. With that, we'll be able to put up our pipeline focusing the commercial aspect as opposed to -- just as opposed of the logistical aspect of trying to put up those approvals. We can focus on the commercial strategy.

We'd like to transmit the message that we have that we have BRL01.5 billion in projects already approved and in March, it is obvious that we will manage to get further approvals for new projects going on into the year. And in that we are able to device a strategy not pressured by any logistical concerns and basically have our products out there to push for greater launches. Upto the moment we have launched in the first quarter of 2019, BRL396 million in PSV, which are basically the Le Jardin ibirapuera project, we've been added BRL71 million in PSV and currently 23% sold. The Vertiz Vila Mascote project with a BRL98 million in PSV and we've a very strong initial sales mark having reached 68% at the moment. In the Fit Casa Rio Bonito project, we have BRL144 million in PSV, our second project in the Minha Casa Minha Vida projects, just recently launched yesterday.

Now I'd like to pass the word to the Emilio Fugazzar who will speak of the financial returns. Emilio please.

Antonio Emilio Clemente Fugazzar

Thank you very much Hugo. Let's start talking about financial performance on Slide -- Page number 11, talking about net revenues -- net revenues on the chart on the top left from this slides. Clearly, the highlights for the quarter was the net revenue. Net revenue came in BRL144 million, an increment of 65% compared to the third quarter 2018. Clearly, this increment is coming from the launching of some sort of projects.

Let me remind you as Hugo told you before that we have launched a lot of projects with a lot of sales in the year of 2018 such as Z.Cotovia, Vertiz Tatuape and Diogo Ibirapuera. Apart from those projects we have more -- three projects to come up with some new revenues for the first and the second quarter 2019 to increase the performance. And let me remind you that the launch in Vertiz Vila Mascote was a kind of project that we have a lot of sales, 68% of sales in just one quarter coming in a result that we are going to see revenues coming up at the first quarter 2019. On the other hand, the gross profit and gross margin, gross margin on the chart, in the top right from this slide, came in at 38% -- 38% gain from 34% in the last quarter. Let me remind that is -- it's good, because you're talking about results coming from launches, coming from new sales. So we have no savings in some construction ongoing to report in this quarter. So that's why I'm so excited about the gross margin coming from 34% to 38% in the fourth quarter 2018.

In terms of the expenses, I'd like to start with G&A expenses. It's very important to bear in mind that in 2018, we saw expenses coming -- administrative expenses coming at RBL22 million per quarter. RBL22 million nominally the same compared to 2016 and 2017. That is the theory -- a very kind of -- it's a very good thing to report, especially the cost we saw in the past three years. Many off -- many people from our engineering team decreasing and many from -- many lawyers increasing because of the contingencies and provisions we had to report. Apart from that -- apart from the facts, we spent the last three years trying to invest in very good piece of land, in newer investments -- new investments for the years coming in this Company. And that means that we have much more money to be spend on taxes from the new piece of land and people to take care of those piece of land.

Nowadays we have as Hugo told you before something around the piece of land to take care the whole city of Sao Paulo. So my personal forecast is to increasingly limit the administrative expenses, but not in a way to hurt the ratio. We can see up to 15% administrative expenses over net revenues. In terms of selling expenses. We saw selling expenses adding at a pace of 5% of the ratio, a 5% over gross sales, trying to show you that the volume of launches we saw in the fourth quarter of 2018 was not enough to hurt the decrement in this ratio. Let me remind you that even launching more than BRL500 million, we saw the expenses at a level of BRL11 million plus BRL5 million to carry the inventory on.

So moving on to Slide number 12, let me talk a little bit about the financial result, one of the highlights of this Company in the last few years. Financial result mainly coming from the mortgages we have been providing to our clients. We have been doing this since 2015, as a way to provide mortgages because we had a lack of activity from the commercial banks in the middle of the crisis and it was a very good way to see sales in our inventory ready to leave. Nowadays, we are going to mention a little bit after this slide -- we have also seen around BRL500 million of mortgages yielding something around IGP-DI plus 10 or 12% yearly.

So clearly in the year of 2018, the total amount of financial results was great than the operational side for this Company, but in the fourth quarter 2018, it was a very first quarter since the full quarter 2017 to see operational result gaining route and surpassing the volume of financial results from this company. The equity income as you can see in charts on the top right from this slide is losing ground in our P&L, specifically because we have been buying the stakes from our partners and we have all the constructions, all the sites already delivered so far.

In the next -- in the quarter coming, we are going to see equity income gaining ground, but again it's specifically because we are going to launch a lot of projects is partnership. So nowadays it's only BRL3 million to contribute over the net income we saw in the fourth quarter of BRL44 million. BRL44 million can -- end of this year to add a total of BRL97 million of net income to EZTEC. On average, the net margin for this company was 25%, reaching 30% in the fourth quarter of 2018. As I told you before, the main highlight is to see operational results gaining ground and surpassing the financial result for this company in the last quarter. And finally, the results to be recognized in the backlog margin -- the backlog margin is about 38%, showing that we can -- we can be assured that gross margin released at the fourth quarter is completely reachable for the next coming quarters.

Results to be recognized is gaining ground again from BRL74 million in the third quarter in 2018 to BRL99 million in the next quarter. And after recognizing the launch, because one kind of thing that is important to mention is from the four projects launched in the last quarter, just one we have passing through our P&L in the appropriate quarter. So remaining three projects like Sky Chcara St. Antonio, Fit Casa Bras and Z.Pinheiros are projects that we're going to see being recognized by our accountancy only in the first and the second quarter 2019, helping the results to be recognized to be greater than we saw in the fourth quarter 2018.

Moving on to Slide number 13, the portfolio of receivables -- direct receivables, we're going to -- we saw gaining a lot of new receivables since the fourth quarter 2016. So reaching now BRL514 million, which means almost 2,000 units being financed by our own shareholders' equity. Let me remind you that if you see in the first chart, the origination in the year -- in 2018, it was BRL183 million, but the payments we saw was BRL106 million. So the net income -- the bottom line is positive, but gaining ground the number of mortgages being 100% paid by the clients, specifically because the interest rates coming from the commercial banks now is the increasing a little bit.

So on average, our clients are taking mortgages at a rate of 8.5% to 9% plus, surcharge is almost zero, so compared to the IGP plus 10 EZTEC is offering right now, which means something around 15% yearly. So it's less expensive to the clients, taking mortgages for the banks and that's why they are pre-paying those mortgages, generating BRL106 million in 2018. So the good signs from those receivables are the foreclosure. So you can see the total amount of foreclosures in 2018 was just BRL11 million compared to the total amount of BRL500 million, so, something around 2%. In terms of units, where only 22 units are a total of 2,000 units, so less than 1%.

So moving on to Slide number 14, I would like to talk a little bit about potential cash generation was a kind of quarter that the cash generation was BRL67 million. So the greatest part of the cash generation, if you see in my chart over there, is about BRL67 million. BRL67 million means that we have nowadays BRL494 million in cash and BRL91 million in debt, that only of project finance. That means now I have BRL403 million net cash position and we are going to pay given the net income from the whole year 2018, we're going to pay -- we are going to propose in the next general meeting of shareholders to take place on 26th of April, we are going to propose something around to BRL23 million, which is the minimum obliged by the law.

Apart from the net cash position, we have almost BRL900 million of performed and unperformed receivables. Let me remind you that the unperformed receivable means, the receivables are units under construction, the units I haven't delivered the piece of plot. Apart from that, all the construction we've recognized so far, the obligation is something around BRL236 million. So all in all, the balance of cash -- we can understand so far is something around the BRL1.1 billion will now taking place any new kind of launch. Let me remind you that apart from this amount of cash, we have BRL1.1 billion in inventory at market value, which means that a little bit more that BRL800 million is inventory ready to leave. So selling those inventories, we can reach BRL2.2 billion in cash for the next coming years, so a kind of company that -- we are not going to see the company struggling to generate cash in order to support all its operations, all its movement to increase the volume of launches.

The last slide for this Company, Slide number 15, the potential value for this Company, the balance sheet for this company is, as always, as usual, easy to understand. The book value for this Company is about BRL2.6 billion, which means BRL2.9 billion of assets and 300 -- just BRL300 million for liabilities. When I talk about BRL2.9 billion in assets means that I have -- I own BRL500 million in cash, almost BRL600 million in performed receivables and BRL900 million in inventory on land. Let me remind you that inventory of land means exactly that. BRL900 million is whole cost. It is the 100% of the cost of land I have booked in our balance sheet.

Mr. Hugo told you before that the Company owns 50 pieces of land, where 26 of those are representing BRL6 billion in potential sales value. So the remaining 24 piece of land are booked on these amount of cost over BRL900 million is a kind of hidden value to come up in the next coming years as we develop the projects as we finish the formation of this land to transform, to change in a kind of lendable [ph] piece of land in terms of new projects. So launching only the BRL6 billion of piece of land that we have, which means 26 pieces of land, we can achieve BRL2.4 billion in gross results, adding to our current book value to transform, to change, to reach the almost BRL5.7 billion in potential book value for this company. And that's why we are so confident in the potential for this Company.

We are so confident in the ability of this Company to take an advantage of these new moments. This is a very encouraging moment to launch new projects, as we saw before as Mr. Hugo told you before. The projects we have been launching, we are achieving a very good piece of -- pace of sales. In some of those projects, we are gaining ground in terms of prices, in terms of market value, which means that we are in a path to recover margins, recover margins you saw this quarter recovering something around 2 to 4 percentage points of gross margin and obviously with the generation of cash, we are forecasting for 2019, obviously if there are opportunities to take advantages -- if there are opportunities to take advantage in terms of investing our money apart from the fact that we have our portfolio of direct receivables, yielding something around 15%.

We are going to see the money of this Company (inaudible) to come back, a return on equity that is absolutely mandatory to this Company to compensate our shareholders in historic standards we saw before. That's the main idea for this Company. We have all the cash we need. We have all the all the potential in terms of land, we need. We have all the enforcement like the license of the projects and people to work on this growth moments, we are trying to improve, we are trying to deliver in the year of 2019.

That's it. Thank you very much. Thank you very much for coming. Thank you very much watching this specifically earnings results for the fourth quarter and we are completely able to answer or available to answer any further questions. Thank you very much guys.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions) The first question today comes from (inaudible) with Santander. Please go ahead.

Q - Renan Manda {BIO 20347216 <GO>}

Hi, good morning Emilio. Thanks for the question. I have a couple of questions actually. The first one is regarding inventory sales. We've seen a pickup in sales in the fourth quarter, a lot of it was attributable to the recent launches. But I wanted to get a bit more color on how this inventory sale is reacting in this first few months of the year? And the second question is about the corporate towers. We've seen in the past few months, increasing M&A activity for AAA towers in Sao Paulo, and recently one asset near the Star Towers project was acquired. So is the Company already seeing demand for purchase of this project? Or is it too early for negotiations since it will take another roughly four years to be delivered? Thank you.

A - Antonio Emilio Clemente Fugazzar

Thank you very much Renan, and good morning. Thank you for your question. So, first of all, about the inventory sales. So Renan, BRL440 million of inventory ready to leave in 2018. So, it's kind of record for this Company. We have been selling those inventory. Obviously, the majority of them in the City of Osasco and Guarulhos is the majority of the inventory we have and we need to sell it. We are trying to keep the prices. We are trying to enforce those sales with providing mortgages to our clients. It is simply because -- so we see that the banks -- the commercial banks think that there are a lot of inventory ready to leave on the same regions. However, we see -- obviously, we see inventory ready to leave from other companies, but we don't see the same quality, the same kind of project, the same kind of product we can offer to our clients. And that's why we can understand that many of the companies sell it in the same regions for BRL3,000 per square meter or BRL4,000 per square meter and EXTEC can sell in the same area for BRL5,000 per square meter to BRL6,000 per square meter. So, they can sell it -- specifically because the client can understand the project has another kind of standard, another kind of quality in the same region, but obviously the pace of sales is not that strong we'd like to see.

In my personal opinion, we are going to see the same pace of sales for the next few years. So as I mentioned before, is something around the BRL800 million of inventory ready to leave. So we're going to see the inventory diminishing a lot only by the end of 2020. Obviously, we hope that some reforms, some economic moments could speed up a little bit of our sales, but so far we are happy enough with the outcome. In terms of the corporate towers, the corporate towers you mean the step towers beside the project of (inaudible) tower, the situation is like that. First of all it's important to remind that some kind of movement on that piece of land, we are doing something. We are at the final moments to get the whole license to restart the project. It's a very complicated project to achieve 70,000 square meter of leasible area, but we have no doubt to restart the construction by the end of this first half.

So we are going to provide the same business model, we saw in EZ towers. So the main idea as Mr. Silvio our CEO, has been mentioning in all conference calls, the main idea is like that. So we are not going to sell the buildings. We are going to wait for someone to buy the buildings. It's a little bit different. So we are not trying to find out someone to pay the price. We'd like to have. So we saw one kind of operation -- one kind of call option in the competition nearby, but we don't understand that is the same quality, the same kind of project to make such difference in the prices to sell EZ Towers.

Let me remind you, that the Tower B of EZ Towers, we sold in the third quarter 2017 for more than BRL14,000 per square meter and obviously we are not going to see EZ Towers being sold for less then BRL17,000 per square meter to BRL18,000 per square meter. So that the company -- there was no need of generating cash so fast in terms of selling or doing some sort of call option like we saw in this operation. So the main idea is to sell for someone or some company, who intends to buy effectively. To see a kind of cooperation like we have done along with (inaudible) management group. That's the main idea, Mr. Renan.

Q - Renan Manda {BIO 20347216 <GO>}

Thank you Emilia. So basically the idea is that since you have such high liquidity, you don't have the pressure on prices either on inventory or the corporate towers. So you prefer to work on that through time, but keeping the prices?

A - Antonio Emilio Clemente Fugazzar

That's it's, completely right, Renan. There was a pressure for this liquidity. It's funny because in the last three years, obviously, we could see our inventory ready to leave being sold for BRL3,000 per square meter to BRL4,000 per square meter. But obviously, we are going to see margins -- we could see margins -- our gross margins close to zero, close to 10%. That's not the main idea. It's not a leverage company to waste opportunity, to make money in the right way. I think that's the fourth quarter 2018 has proved that our strategy is online, is the correct one, Renan.

Q - Renan Manda {BIO 20347216 <GO>}

All right. Thank you. Perfect.

A - Antonio Emilio Clemente Fugazzar

Thank you very much and have a wonderful day.

Operator

(Operator Instructions) There appears to be no further questions. I would like to turn the conference back over to Emilio Fugazza, IRO and CFO for any closing remarks.

A - Antonio Emilio Clemente Fugazzar

Thank you very much guys. Thank you very much for this audience today. Apart from myself, Mr. Hugo, (inaudible) we are completely available to attend further questions in the Company. Thank you very much. Have a wonderful day guys.

Operator

Thank you. This conference has concluded. You may now disconnect your line at this time and have a nice day.