

## Q2 2013 Earnings Call

### Company Participants

- Leonardo Guimaraes Correa, Chief Financial Officer
- Rubens Menin Teixeira de Souza, Chief Executive Officer

### Other Participants

- Eduardo Silveira, Analyst
- Enrico Trotta, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcello Milman, Analyst
- Rafael Pinho, Analyst
- Tina Barroso, Analyst

### Presentation

#### Operator

Good morning. Welcome to the conference call for analysts and investors of MRV Engenharia e Participacoes SA's (inaudible) earnings of the second quarter of 2013. Today with us are Mr. Rubens de Souza, CEO; Leonardo Correa, CFO; Monica Simao, Investor Relations Officer; and Gerson Mazer, Investor Relations Manager. We inform you that this event is being recorded and that during the company's presentation, all participants are going to be in listen-only mode.

Later on, we are going to start the Q&A session for analysts and investors only, when further instructions will be provided. (Operator Instructions) The audio is being simultaneously webcast on the company's Investors Relations website. Before going on, we would like to let you know that any forward-looking statements made during this conference call relative to MRV's business, outlook, projections, operating and financial goals are based on the company's management beliefs and assumptions and rely on information currently available.

Forward-looking statements involve risks, uncertainties and assumptions, since they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of MRV and lead to results that differ materially from those expressed in such forward-looking statements.

Now, we are going to turn the call over to Mr. Rubens Souza, the Company's CEO, who is going to start the presentation. Please, Mr. Souza, you may go on.

## Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Good morning, everyone. It is a great pleasure to have you here one more time in our earnings release for MRV Engenharia in the second quarter of 2013. Well, as we usually do, we are going to have a very brief presentation, Leonardo and myself, and then we are going to leave some time for questions and answers, because I think it is more productive to do things this way.

Anyway, I would like to highlight some points that I think that are very important for us to think the business. I think that in 2013, we have had the best year in the recent history of MRV. I can say with quite a lot of confidence that after a steep growth that we had as of 2005, we went through a period where the brand is very much consolidated. In the recent past, in the last eight years, we observed the company up some close, and we can say that our project is working very well. The brand is very well-known. It is selling well, we have never sold as well in such an organized systematic manner with such a little volatility, operating areas are responding very well. So, today, I would say that we are operating at a very high standard that with lots of compliance.

And when, we look into our numbers a bit more in depth, we are going to see that everything that in the company is operating very well. And before highlighting positive points, I am going to highlight two negative aspects that people are very much concerned about. First, with relation to cancellations. We have mentioned that in the first quarter, and we reiterated that. We knew that in 2013, we would have more cancellations than usual. And this is something that had an objective.

We want to decrease our liability of apartments, of units, of clients that cannot be transferred to banks, because they are not going to be granted mortgages. And of course, we do not like cancellations, but what is important to understand is that although cancellations are something that we do not want, they are very good for the company. First, because we can sell the cancellations very fast, and second because we can sell them at a better price and at better margin for MRV and this is important.

So, we are growing towards the whole of the year of 2013, a bit more heavily on that. And this is going to decrease in 2014, but that won't affect the company numbers, quite the opposite. The second point that I still think is negative is that margins recovered slightly, but not a lot. And we know that the recovery of margins is a long way to follow. We see, as I mentioned in the first quarter, we reached the bottom and we are not going to go anywhere below that. But we still have some work that has much lower margin than what we have today.

Notably, the ones that started in 2011, most of them are in the final project, and they were sold at lower prices with more compressed margins, as I already mentioned in previous quarters. And that affects our results a bit. But the good things are that we have four very positive highlights. The first one is the market. The market is strong, the sales are showing that, and I insist on that, we have less and less competition. It is even scary, although we do not have any competitor in Brazil, and that really enabled us to have very good margins. In our spreadsheet, you see that sales prices are going up -- our costs. So this is very important.

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The second point is cash generation. MRV went through a period that we consumed cash, we grew very fast, and as often we started to decrease cash, then we started to generate cash at a very interesting pace. And so, for the future, we are going to have even greater generation. MRV, from now on, is going to be a company, quarter-after-quarter, with very strong cash generation. This is important.

Now, I would like to highlight that we are generating cash without decreasing activities. It is not generating cash by breaking down, by slowing down. No, it is generating cash and growing, which is not very easy in this industry. And, the next point that I think is very important to highlight, that I think is really important, I think that the major doubt that we had among investors and analysts was if the companies would be able to dare accelerate growth in the credit market. So, quarter-after-quarter, we are just beating records in terms of transferring clients for the granting of mortgage for banks.

So, if you guess a number, it is 200 units a day, a very strong number. And we are growing consistently quarter-after-quarter, and -- extremely relevant, and shows the company balance and shows the strength that the company has today.

And finally, the fourth point that I think is important to highlight, and I think that you should pay attention to that, and I already mentioned that in earlier calls, first I would like to talk about LOG, LOG is a reality within the capitalization of LOG, and I announced that in the last quarter. It is performing very well, it is really going to bring lots of synergy to MRV, as I have been talking about in recent calls. It is really worth, it's paying attention to this company.

And together with LOG, we have our earlier child, which is Urbamais. It is already taking shape, it is becoming more consistent, it is growing fast. Urbamais is going to start generating revenues in the year of 2013. We are going to have the first launches in the last quarter of this year. So, there are lots of things in house. So, things that are done very consistently. We have a very good team. So, this binome Urbamais and LOG is going to be very important for MRV in terms of synergy in the future.

So, I think these four highlights are the highlights that I think people sometimes have difficulty to understand in depth, but in the (technical difficulty) talk a bit more about that. So, without further ado, I am going to turn it over to Leonardo, and then we go to the Q&A.

### **Leonardo Guimaraes Correa** {BIO 15387486 <GO>}

Well, I am going to run the risk of being a bit repetitiveness. The highlights were already approached by Rubens. But anyway before going to our Q&A session, I would like to highlight or maybe give a bit more color to some of the points that were raised here and that can be followed in the presentation that we have available on our website.

If you go to slide four, again, I talk here about the strength of the demand in the country. The Brazilian economic scenario is showing not such a large growth, but sales are very strong. The market is very strong. And I don't think that the second half of the year is

going to be different from the (technical difficulty). We sold 31% more in this first half of the year compared to last year, totaling 1.5 billion [ph] sales in this first half of the year, which is record sales for the company.

On slide five, again, we bring forth the good moment we are going through. Operation wise our business has a very long cycle, our accountability is based on the percentage of completion. And so as we complete constructions from previous times, we have -- going on and the projects that were launched after that are sticking to prices and costs. We are continuously improving our products, customer satisfaction, and we see a lesser standard depreciation in the unit production cost, and also we can see a higher perception of value from our clients.

We show you some pictures, and the delivery of units have been very valued by the clients together with market with low competition, we have been able to increase our selling prices.

On slide six, we show our cancellation and the pro soluto, which is a Brazilian term for sales without recourses. And I am going to talk a bit about that. Pro soluto, many investors and analysts ask questions about that, and so we decided to disclose the numbers, because some of the numbers that were estimated by the market were very far from the actual numbers.

So, pro soluto is mostly related to cancelled units, and also those units that we have to transfer to the banks for the mortgage granting. And we have to monitor the numbers, credit, default rates, and et cetera, so we have to be very much in line with our basis of work. And they amount to 253 million, in that 44 million are pro soluto after keys delivery. And I would like to mention that routinely in 100% of the cases, we have credit analysis before granting credit to customers.

So on slide seven, I draw your attention to our cash generation evolution. In the second quarter, we reached a new level, more than 4,000 units a month. The result of this model is generating cash to us. Cash generation is growing quarter-on-quarter. In the first quarter, we generated 62 million, in the second quarter 116 million.

With that, we can reduce company leverage. We are paying some debentures for the second quarter, but the cash volume is going to be much greater than the need to decrease liability. We are a company with a little leverage, and liabilities are distributed along time. What I mean is that the amount that is used to settle debt is relatively small compared to what we are going to be generating in the next quarters.

And then, allocation is probably going to be on dividends, but if the price of the share is lagging behind, part of it is going for the buyback program.

On slide eight, I am going to make some brief comments about LOG. We had our capital injection, after the capital injection LOG is self-sufficient for the development and construction of the assets it has in its portfolio. It has no need of capital for a long period,

for at least 18 months, so I am talking in the very long term. It is being completely autonomous in terms of teams, management, generation of business, revenues.

The post-money valuation was R\$1.3 billion for LOG, and if LOG accounting were marked to market, as other open public companies are, we would have a results of R\$317 million for the results of MRV, but we are going to continue as it is. But I am just drawing your attention to this amount that we have inside MRV's balance sheet.

Well, now I am going to open them for the Q&A session.

## Questions And Answers

### Operator

Well, thank you. We are now starting the Q&A session for Investors and analysts. (Operator Instructions). Enrico Trotta, Itau BBA would like to ask a question.

#### Q - Enrico Trotta {BIO 16742911 <GO>}

Good morning, Leo and Rubens. Thanks for your presentation. I have two fast questions. First, I would like to understand the line of other operational revenues and the expenses, because of LOG, perhaps, the line was a bit heavier. I would like to have a bit more color on this line, if it was because you transferred more clients to bank mortgage credit.

And in terms of gross margin, I would like you to comment on what do you think is going to be in terms of evolution and throughout the year, and at what level you intend to get in 2014. We know that the units from 2011 will continue impacting the margin slightly, but I would like to know your projections for the future?

#### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Hello. This is Ruben. I am going to answer the second question first, and then Leonardo is going to answer your first question. Well, at a certain point in time, we made a decision to sell faster, and in 2011 we decreased our prices for that, to reach the company guidance. In the last quarter of 2011 we sold a lot, but at a very low price. When we thought with that we would have a minimally acceptable mix, but it was 2 to 3 percentage point below what we expected, because of a higher construction price, and that pressured our margin.

So, one thing is to have a pressured margin, and the other thing is to have a complete lack of order. And people talk about lack of order, and that is not true. We are very much organized, our business is very judicious and very strict, but margin was a pressure. And so what we see, and I may make a mistake, but I do not think I will, that with -- is that we have passed the valley of margins. The margins that we have now are very high, and we have accounts to be paid.

So, when the mix of new constructions, new units have more weights than the older units, the margin are going to go up. I think that we are at a minimum level and they are going

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to grow for the future now. How much the margin is going to grow? I cannot tell. I really believe that quarter-on-quarter for the future we are going to see it's growing, but I am not going to say if it is going to be 3, 4 or 5, because we are not giving guidance on EBITDA, so I prefer not to give guidance on margins, but I think that the market should believe us a bit more.

You see sales, we knew it was a good year and we on purpose decided not have as many launches. We could have done that, we are working very well and we sold 2.5 billion, so we are not going to give guidance of sales, margins, or EBITDA. What I can tell you is that the operation is doing very well and I think it is only going up.

Leo is going to talk about other revenues and expenses.

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

Well, in the first line, we have the positive number of LOG, that is recognized in this line and it was a bit difference in this quarter, but not much. We have a little addition of a few million Reais in terms of expenses related to real estate credit, because of higher transfers of clients to bank mortgage. But we are going to talk about R\$2 million, is not much.

### **Operator**

Rafael Pinho from Morgan Stanley would like to ask a question.

### **Q - Rafael Pinho** {BIO 15321539 <GO>}

Good morning, everyone. There are some points of your release that I would like to understand a

bit better, in terms of recurring effects. The first effect that drew my attention was this line of

interest from receivables. It was about R\$3 million, R\$5 million per quarter and now you have R\$16 million. I just saw one quarter some years ago that was why that high. So, I would like to understand what happened here, what is the impact, because the volume of receivables did not change much quarter-on-quarter.

The other point that also drew my attention was on page 25 of the release, when you talk about

the sale of the property in Contagem by LOG. You say the amount of the sale, 58 million, but you do not disclose your profit for MRV. I understood that the SPE increased the result, and I believe that given the share of MRV it should be part of that in your revenue. So, I would like to understand the impact -- the effective impact on MRV of the sale.

And finally, there is a bit of a more qualitative question. We saw the reversal of tax in the quarter (Technical Difficulty) because most companies in the fourth quarter, when the Government announced the measure, did a one-time adjustment. And MRV, from what I understood, is having gradual adjustment. I would like to understand why you were doing that instead of a one-time

adjustment, because the numbers are a bit more polluted this way. Another point was the provision of guarantee. We see a decrease in the percentage of provision from the fourth to the first quarter, from 3% to 2% and now it is 1.85%. I would like to understand the impact of that. I believe that it has to do with gross margin and I believe that the number of units covered by guarantees will not stop growing as you deliver more units. So, If you could quantify, I think this is a positive impact in our quarter. These are the points I would like to have more color on.

### **A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}**

Rafael, this is Ruben. I am going to start with your last question, because this is something that we pay very close attention today. Our guarantees today have to solve the problem of our clients. And the client is always right. And this is (Technical Difficulty) of clients that we have, our clients are more and more satisfied, and this is what we want. You have to believe that our focus is the client and guarantee is a must. If you think of our provision compared to other companies, our provision is much higher. It has always been and it will continue to be so.

And in the last call I explained that but I am going to explain again. What we have now is that inside the budget of the construction is the guarantee that we give to the client at delivery of the unit. And the other is that delivery post -- the delivery of the unit, because sometimes the work is completed and it takes some time for you to deliver the unit to the client. Then, as older units with a budget that did not have that, are giving way to the new units, because this is all in the construction account. That is, you are decreasing the provision for you to be inside your construction budget.

And now we have a lot more consistency, we have 120 towns and if you have, I do not know, water pipe that is broken in Fortaleza, you have to have a team that is ready for that. And we are very much organized for that. So, we have the best guarantee in the market but we have a bit fast in the area. So, now we have a good provisioning, a sound provisioning at the time that we deliver the units, at the time we complete the units, and with that we were able to decrease the provision, and from now on it is going to be a little bit more stable. So, the provision is going to be there and the client is going to receive the right guarantee.

### **Q - Rafael Pinho {BIO 15321539 <GO>}**

Rubens, I am not questioning the provision or the volume. I think this is a decision of the Company, and as you said, you are taking care of the clients. I just wanted to quantify, because there was a change and I wanted to quantify. I am not discussing your decision, I think it is perfect; I just want to understand how much it is?

**A - Rubens Menin Teixeira de Souza** {BIO 15387481 <GO>}

Yes, I agree with you, we have to explain that what happened. I am explaining to you, for you to understand well. You have three more questions and Leo is going to close that.

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

Well, I have a large volume. We have more than 300 sites in construction simultaneously. When we started making our change, the RET to 4% was too high in terms of taxes. We started to make the change, but it takes time to process that. I have to go to the notary office, then to the IRS, and we do not have enough people to do everything in one quarter. And so we established as a priority everything that had cash to be generated in the shorter time, the first units that we worked with, and then we started to do the others.

The gain that we had in the second quarter was things that we started in January, February, but it takes some time for you to see the results because of the notary office, the IRS, and everything. From now on, we might have something, but very small volumes, we basically completed the operation of this issue.

In terms of taxes, what is going to happen is that is going to be 4%, this is the tax load of the company, because this is everything in RET without reversal.

Well, I have a large volume. We have more than 300 sites in construction simultaneously. When we started making our change, the RET to 4% was too high in terms of taxes. We started to make the change, but it takes time to process that. I have to go to the notary office, then to the IRS, and we do not have enough people to do everything in one quarter. So, we established as a priority everything that had cash to be generated in the shorter time, the first units that we worked with, and then we started to do the others.

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**Q - Rafael Pinho** {BIO 15321539 <GO>}

(Technical Difficulty) you have completed that?

**A - Rubens Menin Teixeira de Souza** {BIO 15387481 <GO>}

This is just to mention, we have too many sites, we are talking about 300 sites; it is a huge work. And it is not just entering your accounting, you have to go to the notary office, you have to register some process. I found it amazing that someone did that in one quarter. It is not possible. So now we have finished the process, the new units are going to be in this tax bracket, but it took us a long time to do that, but we did it right, the way we should have done.



**Q - Rafael Pinho** {BIO 15321539 <GO>}

Okay. So, Leo, now you closed everything, they are all done, and from now on you are going to have this number of 4?

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

Yes, as for LOG, the sales produced a result of 3.8 million in LOG, MRV share is about (Technical Difficulty). This is the size of the impact that we had with the sale of the shopping mall -- the sales that we had. So, part of the result is still to be accrued because this is a percentage of completion, the mall is still to be completed, but we have R\$2 million to receive in the next quarters, part of that in the third quarter about 1 million, and another 1 million in the fourth quarter.

**A - Rubens Menin Teixeira de Souza** {BIO 15387481 <GO>}

Leonardo was really drawing your attention to the LOG business. The LOG business is not just leasing; it is leasing, but sometimes they have a property, as this is the case of this mall, and we are going to have other. So, whenever we have a property and we cannot have profit on it, we are going to sell. It was interesting for this mall and we have other businesses that we are investigating this quarter. And this potential of business has another very important margin for MRV. Anyway, we brought it for you to understand the LOG's business.

**Q - Rafael Pinho** {BIO 15321539 <GO>}

Yes. That is perfect. I just would like to suggest in your disclosure, if you talk about the impact on MRV, that is even better to analyze the results?

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

Okay. And finally, your question about gains in correction of units. Well, first you know that the construction inflation index was a bit higher this quarter, and we have the Habite-se, the Brazilian permit for people to move in, and after the Habite-se, the revenues go to the bottom line. Because we had a larger number of units to be completed, we had growth because of the inflation index, and also because of the number of units completed.

**Q - Rafael Pinho** {BIO 15321539 <GO>}

So, this line is going to be better ex the construction inflation index, because that is seasonal, but from now on it is probably going to be higher?

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

Yes, ex-INCC, but it is not going to change compared to what it is today.

**Q - Rafael Pinho** {BIO 15321539 <GO>}

Okay. Thank you very much. I am going to leave room for other questions, but finally I would like to compliment you. I think that the fact that you disclosed your total number of cancelations was fantastic, and the suggestion is really these non-recurring events, you

disclosed many, but some can really pollute our analysis. And now later on, if you could quantify the change of provision, it would be very interesting. Okay, thank you very much.

## Operator

Luiz Mauricio Garcia from Bradesco, who would like to ask a question.

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

Good morning, everyone. In your presentation, we have the company's highlight for the gain of sales over the resale of cancelations. You sold almost 90% of the cancelations in the first quarter. I would like to understand, because if we have a cancelation with a gross margin of 25%, and you have 6% in gain of prices, the gross margin would go to 35%.

It is a very strong impact, because the gain of 6% would transfer directly to the growth income of the unit, that is receiving the benefit. But we do not see that. It was said that the units of 2011 were sold at a very lower price, but given this difference of price that should be bringing a very strong gain, and we do not see that. So, I would like to know why such good gain of prices, but without a total reversal of that to your margins.

And as per the RET, when the RET process started in the fourth quarter, the close of the third quarter had a deferred payment of taxes. We should expect that for about third after you completed all the projects that were benefited by H4, but the benefit was about (Technical Difficulty) when we think of the stability of the size of the company between execution and delivery. We should not expect the higher benefit, higher than itself, so I would like to know why the deferred balance is so much lower and it was even higher than the RET benefit itself.

(Technical Difficulty) understand the market dynamics. And many cities are doing very well, Sao Paulo, Rio, Minas, but, on the other hand, we see places that have more informal income and we see lower sales performance, some regions like Paraiba, Sao Luis do Maranhao, Alagoas. And so I would like to understand if it really makes sense to continue to be in these places, because when the Company goes to a region you have to have a team, you have to have transfer to the granting of mortgage, you have to have a structure in place. And if you are not going to have scale there, do you think it is justified having such a large structure? So, I would like to know your opinion on that, if it makes sense insisting in cities that are not going to offer the Company such large markets?

### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Mauricio, this is Rubens. Okay, markets. We are working in different cities and we are gaining margin, and if we work well, it is going to be good, if we do not work well, it is not going to be good. We have been very competent, for instance, in Alagoas and Sergipe that you mentioned, we have very good launches, with very good margins, and we sold a lot.

We have a launch in Alagoas that is sensational, and one in Aracaju as well, with a very high level of transfers to bank mortgage. So, I think that we are in a very good position.

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We are not there just for the sake of it. We are there because we are making money there. We are in (Technical Difficulty) Caruaru, Campina Grande, São Luís, we are very well, a second development. For the Northeast is a reality for us.

What is most important we have no competition, it is not 0.5, it is zero. Large construction companies are selling land, they are delaying their launches. The small companies are not competition, they have 20, 30 units. So, I think that never in the history of this country has such little competition as today. And I say more, take a look at our share of groups 2 and 3 are from Minha Casa, Minha Vida program, so I think that our strategy to migrate to this market that is good, is extremely healthy. And another thing that you asked about profit in cancellations, well things are not that simple. You are being based that you have a cancellation of (Technical Difficulty) This is not that. If you have ready units, okay, but it is not a ready unit, is not a completed unit.

The number of completed units are very low, so you are talking about cancellations of units being built. So, sometimes you have 20% of the units completed, 30%, so it is not 100%. And, of course, with that, you are going to have a healthier DRE, but you have to understand the market, what is going on with Brazil today. Rental prices are going up, very, very high prices. There is basically no supply and the prices are crazy.

They are more expensive than the installment that you pay to buy a new property. So, we know that the more advanced the unit is, the faster you are going to sell. So, we are talking about units at the economic level. So, we are selling very well, we cancel the contract and we sell very fast.

Leo is going to answer you the other question.

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

As far your tax-related question, I do not know if I did not understand it or I didn't follow the numbers, perhaps we can give you a bit more detail on that, but in my deferred tax, this is based on margin, there is an accounting norm that has to be followed and everything. As time goes by, I pay this as the cash comes in, and then we have the reversal base on the RET.

I do not know if I understood it, but there was no other change different from that. If you want to take a look at that and we get to the numbers, we can do that with you. But I suggest that we do that on the phone because then we have to go through a very large level of details.

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

Okay. Yes, we can have a follow-up later on. Thank you.

#### **A - Rubens Menin Teixeira de Souza** {BIO 15387481 <GO>}

You're welcome.

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## Operator

Marcello Milman from BTG Pactual would like to ask a question.

### Q - Marcello Milman {BIO 7252528 <GO>}

Good morning, everyone. My question is also about cancellation and resale. I would like to understand the dynamics. How does resale take place? I understand that the units are not completed, so these are units which time to delivery is probably lower than if you start from scratch. The Company showed prices going up, so you are reselling units that are more expensive with less time for the client to build equity in account, and without accumulating too much pro soluto, as you showed. So, what am I not seeing in this dynamics that enables you to resell so well? This is the first question.

And the second is more any information. If you could give us an idea of how many units you have in cancellation backlog, for us to know how cancellation is going to perform from now on. Thank you.

### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Marcello, this is very important. I think really that you have to understand the issue because it is key in our business. Well, MRV has a price during the construction. Today we have the price during the construction. And so what is the sale process? You sell a unit during the construction, you start the construction and, during construction, you take the clients to Caixa Economica or Banco do Brasil to sign the contracts. Some wait for some time. In the past, we were a bit lenient with clients. So, we tried the best.

So, if the client lost the job, but we are going to wait a little, because we know that you (Technical Difficulty) so, if you cancel a contract. But we thought that were -- we should be a bit stricter, and this has nothing to do with the size of your inventory. If you have 4,000 units, 12,000 units per quarter, you have to have an inventory of more than 30,000 units. So, it has nothing to do with inventory.

### Q - Marcello Milman {BIO 7252528 <GO>}

No, these are different questions. I am sorry if I was not clear.

### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

So, our inventory today are more than 30,000 units. Now we have an inventory to cancel, because the clients afford it. So, we had a major movements in the first quarter, in the second quarter, and still have movements for the third and fourth quarter of this year. Finally, we want to really resell everything very fast. And again, we sign much faster, because we already have a much better credit than before, so the client that has bad credit is replaced by a client with good credit. So, our pro-soluto is very low, it is 48 million, if I am not mistaken, 44 million. It is really insignificant for us. We do not have pro-soluto in MRV. And why not? Because of this because we are selling and signing during construction.

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We have a product that is called the Finishing Kit. We sell about 3 million a month of finishing kits. Finishing kits is a package that enables the client to customize the unit. It is 40 million a year, and this finishing kit gives us also a bit of a pro-soluto, but nothing outside reality. It is well charged, it is good. So, (Technical Difficulty) with pro-soluto. So, this is what I see. It is a dynamic that is good, it is professional, and I believe that this product is very intelligent. We can finance the unit to the client, and if the client cannot afford it, you just change clients. Because, again, not everyone has units available to move in, so that is the reality.

### **Q - Marcello Milman {BIO 7252528 <GO>}**

Just as a follow-up, we see that the parameters of cancellation in Caixa improved but not that good, a maximum loan that a client can take has not increased that much. So, you are increasing price and you are reselling units, and differently from the normal process, where you have 18 months to sell and then to transfer to bank mortgage, so you have some time for the client to do that. So, when the client accesses the mortgage, they already have time. When you have a cancellation, you do not have that much time, because the units have been going on for a year, perhaps, so there is much lesser time. So, that is what I am asking. What I would like to understand is what makes you able to sell with a premium, a unit that will have the same mortgage, and the client has less time to pay?

### **A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}**

Okay. Marcello. There are two important things here. First is that Caixa changed its in November last year. We are already in August and it has not changed it up. So, prices are frozen. But something important happened, which was the price stable, which brings lots of new players here. So, if it was needed a 3 now it is 2.5 according to the price table.

Now, the economic, or the low-end market, we are transferring to bank mortgages more than 4,000 a month, and we are selling more than 4,000 a month. So, you can see that this is almost self-explanatory. Why can we demand a higher price from our clients and better credit with lesser time? Well, this is just basically supply and demand. Brazil does not have much statistics, but the

Country does not make more than 500,000 units a year. Families grow faster than that, not to mention the deficit of units and the increase of income.

So, I will give you a number. Mauricio talked about other cities, so (Technical Difficulty) two cities in July, we had record sales. We sold 400 units in July in these two cities. It is a very good number. And why? Because they do not have anything there. So, everything you have in terms of construction is going to be sold at a premium.

There are people that have the equity to buy and they have the credit. So, it is good because you sell with a premium, with better credit, and with the support of the bank. So, we do not give discount, so cancellations are good, and I think they are going to continue to be good in the short term. I think that at least for the next two years we are (Technical

Difficulty) have a higher supply. So, low competition for at least two years and an exceptional demand.

**Q - Marcello Milman** {BIO 7252528 <GO>}

Okay. Thank you very much.

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

You asked for the number of units to sign. You have to do the math. We have a liability, so to speak of units to sign, which is what we sold more than we signed. We always disclose the numbers, I don't have them, but you have to see what we sold and what we signed. In the past years we signed much less than we sold, and this is the inventory, and at some point we are going to sign more (Technical Difficulty) than sell. It's the same thing of cash flow with accounting results. Now, it's time to generate the cash of those results that we already made in the past.

## Operator

(Operator Instructions) Eduardo Silveira from Espirito Santo would like to ask a question.

(Operator Instructions) Eduardo Silveira, Banco Espirito Santo, who would like to ask a questions.

**Q - Eduardo Silveira** {BIO 16201252 <GO>}

Good morning, everyone. I have just one question that is very direct. How much the company expects to have in terms of completed units for 2013 and 2014, first half 15,000, what is your expectation?

**A - Rubens Menin Teixeira de Souza** {BIO 15387481 <GO>}

Hi. This is Ruben. (Technical Difficulty) We are showing the following, that we are being able, and just adding to what Leonardo mentioned, we want (Technical Difficulty) all curves. When you are growing, you start to sell more than you build, and now we are going to a balance. We are talking about almost 4,000 units being built, sold a month, so the magic number (Technical Difficulty).

So, the last curve is completed units. We are getting there, because MRV grew, we had curves now converging. So, what we see is that in the second half of the year we are going to have more completed units and the curves are going to converge all of them at more or less 4,000 units a month. And we will only have higher number when we launch more and sell more. This is our business, and we are not far from that.

The next step, evidently, when everything is 100%, we may go a bit over that. So, we did so compared to last year. So, I think that we can go there.

**Q - Eduardo Silveira** {BIO 16201252 <GO>}

Okay. Thank you very much. Good morning.

## Operator

Tina Barroso from Santander Asset would like to ask a question.

### Q - Tina Barroso {BIO 3205422 <GO>}

I would just like to clarify some things that you said in the beginning of the call, about cash generation and cash burn. You do not have much leverage, and the excess would be used for the payout of dividends or a buyback program. Would you be restricted to the 25% of the profit reported or not?

### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Tina, this is Rubens. Let me say something important. Of course we are not giving guidance on that, but we see that cash generation is going to be very strong. So, what does the Company do? If it generates cash, it has two ways; either it goes through a buyback or it decreases debt. So, this is the way (Technical Difficulty) And the remainder of your question is going to be answered by Leonardo. Leonardo?

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

We are not going to go over the 25%. Now, we have accrued results in the year, and if I want to have an extraordinary movement at some point in time, I can.

### Q - Tina Barroso {BIO 3205422 <GO>}

Okay. Thank you.

### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

Well, unfortunately, I am being told that our time is gone, and we will have to close the call. So any pending questions are going to be taken later on with our IR personnel. So, back to the operator.

## Operator

Thank you. MRV's Q&A session is now closed. We are going to turn the call over to Rubens Souza for his final remarks.

### A - Rubens Menin Teixeira de Souza {BIO 15387481 <GO>}

See, we do not even have slot time for conference calls. This is a sign that Brazil is doing very well. So, we are going to continue to give you good news in the future. Thank you very much, and have a nice day.

## Operator

Thank you. MRV's conference call on the earnings of the second quarter is now closed. Please, disconnect your lines, and have a good afternoon.

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