

## Q2 2013 Earnings Call

### Company Participants

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

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's Second Quarter 2013 results conference call. Note that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session when further instructions will be given. (Operator Instructions)

Today's event is available through a live webcast that may be accessed through the EZTEC Investor Relation's website at [www.eztec.com.br/ir](http://www.eztec.com.br/ir), by clicking on the banner 2Q13 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 as applicable to the real estate developers in Brazil, except where stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call recording the business outlook, forecasts and financial and operating targets, is based on the beliefs and assumptions of EZTEC's management and the information currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Emilio Fugazza, Chief Financial and Investor Relations Officer, who will begin the presentation. Please, Mr. Emilio, you may begin the conference.

#### **Emilio Fugazza** {BIO 16474296 <GO>}

Thanks so much. Good morning, everyone in the United States. Good afternoon, everyone in Europe. I'm looking forward to talking about our second quarter 2013 presentation of our results. My name is Emilio Fugazza, I am EZTEC's Chief Financial and Investor Relations Officer, and with me today is Mr. Pedro Henrique, EZTEC's IR Coordinator, and we both are going to disclose EZTEC's operating and financial highlights.

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Please, I ask you to observe the slide number three. I will start on it talking about the extraordinary highlights of the second quarter 2013, one quarter in which the company has clearly demonstrated the profitability of its current operating levels, which allow us to generate a record results on a recurring basis with financial health.

To achieve our announced guidance for 2013 from BRL1.2 billion to BRL1.4 billion, the following has been done. The company launched three new projects in the second quarter 2013, totaling BRL432 million, highlighting the commercial project EZ Mark with 55% of its units already sold. Considering the projects launched in the fourth quarter 2013, we have BRL724 million potential sales value, 56% of the midpoint of the guidance. Adding to it the sale of EZ Towers' Tower A last January, we have launched BRL1.3 billion in the first half 2013.

Sales totaled BRL570 million in the period, 55% (Technical Difficulty) launched prior to the first quarter 2013. With Tower A of EZ Towers project, we have already sold BRL1.13 billion in the first half 2013, record high sales in just one half. The land bank ended the quarter with a potential sales value of BRL4 billion, representing three years of launches, more than enough, but we want more.

In relation to financial highlights, the first half 2013 exceeded by 11 percentage points, the minimum guidance of 40% of projected gross margin, reaching 51% in the second Q 2013 and gross profit reaching BRL304 million, increasing 84% compared to the same period of the last year.

EZTEC reached 81% net income to a record high BRL287 million, resulting in a return on equity of 38%, one of the largest among Brazilian companies traded. The company closed, for the 25th consecutive quarter, with a net cash position of BRL70 million. In addition, the receivables of BRL311 million bearing interest at 12% per year plus IGP-M ineligible for securitization.

Now, I would like to hand over the presentation to Pedro Henrique, who will speak on more operational highlights, and then I come back to talk about the financial results. Pedro, it's all yours. Go ahead.

**Pedro Henrique** {BIO 21207444 <GO>}

Thanks, Emilio. Good morning or good afternoon, everyone. I would like you to, please, turn to slide number four, while I talk about our land bank. As Emilio said, we ended the quarter with a potential land bank of BRL4 billion in own PSV, approximately three years of launches. These were acquired at an average cost of 12% of the PSV, and that includes the cost increase of the potential construction.

Looking at this chart in the top right, we highlight the age of the company's land bank, in which 60% was acquired from 2011 and on. It's important to say that we keep the focus on getting at least gross margin of 40%.

Looking at the chart in the bottom left, you can see the distribution of (Technical Difficulty) in which 70% is allocated to the segment for middle to middle-high end, and 19% for the commercial segment, historically with higher margins.

Finally, looking at the chart in the bottom right, you can see that 84% of the land bank is located in Sao Paulo metropolitan area, including City of Sao Paulo, one of the most profitable regions in Brazil, which clearly demonstrates the focus of operation, which -- the focus of operations will be maintained in the coming years.

Now, please turn to slide number five, where we talk about EZ Towers. In this slide, we see the updated photo of the construction site of the project. The structure of the Tower A is already on the 26th floor and Tower B has reached the 8th floor already. Until June 2013, the total cost incurred for the project, considering land, CEPACs and construction, was 171 million. That represents 33% of the total cost of the project, as shown in the chart on the bottom right, which also shows the evolution of the site schedule.

The current schedule considers the beginning of the facade in the fourth quarter 2013 and delivery of Tower A in December 2014, and Tower B is expected to be delivered in December 2015. In the third quarter of 2013, we estimate that as a fact we hope 9% in terms of execution with more 42 million of financing taken.

Now, please turn to slide number six, where we talk about the projects delivered in 2013. Looking at this slide, you can see photos of the delivered projects in this year. Three of them was delivered in the second quarter of 2013. You can also see the effective gross margin and the original PSV of the projects.

EZTEC has already delivered 1,100 units in Q2 and we program to deliver over 1,000 more units until the end of 2013. This represents the strength of the company's engineering team, which currently shows the capacity to meet deadlines without overruns and with quality assurance.

For the coming year, we have a challenge, hereby increasing the number of construction sites from 28 to 35 in the end of the year, and then considering also the scale and size of these sites, bringing more responsibilities. Therefore, I feel confident that the operating level of the company by the end of 2013 with over 35 simultaneous construction sites ready is not only sustainable but also allows EZTEC run as one of the most profitable companies in the sector.

Now, I will ask you to turn to slide number seven, where we talk about launches. EZTEC launched three new projects in the second quarter. In the City of Sao Paulo, in the beginning of May, the project launched was EZ Mark, a commercial premium office project, with own PSV of BRL334 million. The project now in August is 59% sold. In the last weekend of June, EZTEC launched two more phases of the project Jardins Do Brasil in the City of Osasco, in Sao Paulo metropolitan area. One phase in the middle-high area residential Mantiqueira, with own PSV of BRL64 million, and now is 34% sold.

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The other one is the Torre Sao Paulo Centro Empresarial Jardins do Brasil with own PSV of 34 million and 79% sold until August. Therefore, we have 432 million in new projects launched in the second quarter of the year. Considering the launches and stakes acquisitions in the first quarter of the year, EZTEC has already launched 724 million in the first half. Therefore, we have already reached 56% of the middle point of the guidance of our launches. Further, I will comment on the upcoming launches for the third quarter.

Now I will talk about sales in the slide number eight. During the second quarter, EZTEC showed 363 million, 55% of these related to units launched until 2012. EZTEC has collected 57 million in sales throughout the semester, which is 570 million in sales throughout the semester. In terms of inventory, EZTEC closed with 1 billion units in inventory. It's important to point out that the sales of the project Mantiqueira and Centro Empresarial Jardins do Brasil were not considered in the second quarter of 2013, contributing slightly for a higher inventory position.

In the chart in the bottom line, you can see our inventory by year of delivery, noting that most of the company's inventory is to be delivered from 2014 and on. Also I would like to highlight the Tec Vendas, which was responsible for 64% of the sales in the first half of the year, and responsible for nearly all of the sales of delivered units.

This year the strength of both TEC Vendas and Abyara were visible in the last broker convention held in August 16th, with over 1,500 brokers present. There we renewed our sales target and we are confident that a positive results will be seen in the next coming quarters.

The next slide I will comment about the projects launched or to be launched in the first quarter of the year. Considering our material fact released on March 19, 2013, our guidance, the company's projects launches between 1.2 billion and 1.4 billion for the year, considering 56% [ph] of the guidance accomplished, I will talk about the upcoming launches.

We launched the second tower of the Centro Empresarial Jardins do Brasil, Tower Osasco in the month of July, with own PSV of 34 million. Now, the tower is 30% sold. We will launch, for the next launches, we will launch our first projects in Santos, a city in the shore of the city of Sao Paulo. The project is the middle-end residential Quality House Ana Costa, with own PSV of BRL99 million.

In the city of Guarulhos, in the Sao Paulo metropolitan area, we will launch our full project, considering that the first two are now more than 90% sold. In the first fiscal, Cidade Maia project, is a residential project for the middle income segment, with an own PSV of 299 million.

In the south zone of Sao Paulo, the middle high-end residential projects called Maximo Vila Mascote, with own PSV of R107 million. In the same region, we have already launched four projects and delivered three projects. That makes us full confident about the liquidity of the projects.

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

## **Emilio Fugazza** {BIO 16474296 <GO>}

Please, moving on to slide number 10, first of all, I have to mention again that since January 2013 we had to adopt IFRS 10 and IFRS 11 which changed the accounting method for joint ventures and partnerships. These developments will no longer be consolidated proportionally, and will now be booked by the equity method. Therefore, revenues, costs and expenses, assets and liabilities in the company's consolidated financial statements represent only the projects which the controls belongs to EZTEC. It is important to point out that this new method had no impact on the company's equity or the company's net income.

Having said that, quickly start with net revenues, the chart on top left. We know that for second quarter 2013, there was an increase of 75% due to the higher number of construction process as well as a very good figure of sales. The total amount of revenues of BRL276 million still launched exclusively through projects which are 100% EZTEC. It is important to point out that EZ Towers' revenue was only BRL28 million in the period, almost 10% of the total amount of revenues recognized in this quarter.

Looking above and to the right, the company's gross income shows us continually the resilience in prices charged by EZTEC, maintaining the best average margin, above 50%, and with an increment of 62% in the gross profit side. On the chart, to the right and below, you can see the selling expenses, which remain reasonable 4.8% of net revenues. I should mention that the increase in the volume margin expenses is not only due to the expenditure on commercialization of EZ Towers, but we have launched twice as much we launched last year.

In the chart on the left and below, we can see the administrative expenses, which are at a reasonable 7.2% of net revenues. I want to mention that the administrative expenses for operating 100% EZTEC developments are joint ventures at the holding company, not taking advantage from the equity method.

Now, moving on to the next slide number 11, we can see more of the financial results. In the chart on the left and above, we can see the financial results, which was positive, as a result of the company's net cash position, and as a result of the financing of BRL311 million to our clients which has (inaudible) paying an interest rate of 12% per year, plus IGP-M.

It is reasonable to note that the results in the second quarter 2013 amounted to 6.9% of net revenues and today with the increase of revenues, the same indicator contributes only 4.1%, which will be a trend for the coming quarters, less financial results and more are operating income.

On the other side, looking at the top right corner, we can see the results of the equity which represents the net result of the company's joint ventures and represented in the second quarter 2012, 9.9% of net revenues. In the second quarter 2013, it was

representing 8.8% of total amount of net revenues, showing that joint ventures 12 months has been less important quarter than developments 100% controlled by EZTEC. This won't be a trend for 2013 and 2014 due to a number of sites that we will have the work orders.

Just below on the right, we can see the backlog margin, which is 40, now it's maintaining and getting better above 50%, close through 55%.

Finally, a record net income of BRL287 million with net margin of around 48% in the first half 2013. Here I have to remember that, this trend of the second quarter 2013 results with the stake of EZ towers were less than 10% of the total amount of this result. Reaching this point, I have to mention that on regular basis, our operation is growing completely healthy. This is synthesis of how we came up with in this presentation.

In the next slide number 12, we can scroll the results by segment. As you have seen in EZTEC's earnings release, we made the disclosure of our residential and commercial segment. In the first half 2013, residential sites reached 49% of the total amount of net revenues, with a gross margin of 46.5%. On the other hand, commercial site has reached 51% of the total amount of net revenues, with 55% of gross margin. Both residential and commercial segment 100% EZTEC have reached at least 6.5 percentage points above the minimum guidance of the company, which is 40%. This data can show us the backlog margins precise, and that will be the trend for the next couple of quarters.

Finally, on slide number 13, I would like to emphasize the value of this company, as I have been doing it every conference call. The company's net asset value result achieved one more step forward in the second quarter 2013, from BRL22 per share in the second quarter 2012 to BRL27.49 per share, representing a goodwill of this annual growth of 35% since 2010.

I emphasize here the importance of the land bank with potential of BRL4 billion that should generating minimum gross margin of 40%, and an additional BRL1.6 billion in net assets in the upcoming quarters. In other words, potentially BRL10 per share. We are preparing to generate without struggling the financial and operational structure of the company.

If you remember, on the right side of the this slide, we had been using market ratios. However, it come up to our mind that the most important indicator of how cheap this company has been traded is the track record of return on equity. A company which develops an average return on equity of 24% yearly and, now, can reach to 38%, has to trade with a very good prize over the others.

First of all, recovery is not very stable. We have been achieving results surpassing expectations every single year. Second of all, we are not promising trying to deliver good results, we have been doing it. Finally, investing in real estate in Brazil, there is only one company being able to manage all the stress in this industry, and this company is EZTEC.

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I have no doubt of a challenging economic environment can be spectacular, so EZTEC differentiated itself even more, and earning money with the return on equity we did this quarter we will keep further.

Now we put ourselves available to answer any questions from our listeners. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator instructions). This concludes the question-and-answer section. At this time, I would like to turn the floor back to Mr. Emilio Fugazza for any closing remarks.

### A - Emilio Fugazza {BIO 16474296 <GO>}

I would like to thank you all today, my phone and e-mail, apart from myself, the whole EZTEC IR team is available to get closer to you. Thank you all.

### A - Pedro Henrique {BIO 21207444 <GO>}

Thank you all. Have a good day.

### A - Emilio Fugazza {BIO 16474296 <GO>}

Have a good day.

### Operator

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

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