

Q3 2013 Earnings Call

Company Participants

- A. Emilio C. Fugazza, Chief Financial Officer and Investors Relations Officer
- Pedro Henrique Nocetti, IR Coordinator

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's third 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 Relations website at www.eztec.com.br/ir, by clicking on the banner 3Q13 Webcast. Following presentation is also available for download on the webcast platform. Following information is stated in Brazilian reais and in BR GAAP and then IFRS applicable to 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, regarding the business outlook, forecasts, and financial and operating targets, is based on the beliefs and assumptions of EZTEC's management and on 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 also result -- 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.

A. Emilio C. Fugazza

Thank you very much. Good morning, everyone, and welcome to our third quarter 2013 presentation of our results. My name is Emilio Fugazza, I am EZTEC's CFO and IFO, and

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with me today, Mr. Pedro Henrique, EZTEC's IR Coordinator, and we both are going to disclose EZTEC's operating and financial highlights.

Please, I ask you to observe the slide number three. I will start on talking about the extraordinary highlights of the third quarter 2013. One quarter, in which the company once again demonstrated the profitability of its current operating level, resulting from a strategy applied on a regular basis.

In the slide number three, to achieve our launch guidance for 2013 from BRL1.2 billion to BRL1.4 billion, the following has been done. The company have launched three new projects in this third quarter 2013, totaling BRL275 million, two of them were launched by the end of the quarter. Considering the projects launched in the first half 2013, we have BRL1 billion in potential sales value, 77% of the midpoint of the guidance, a highlights of that. We are fully confidence in meeting the protections for 2013. Further ahead, we will talk about that the coming launches.

Sales totaled BRL771 million in the period. It is important to point out that from the volume sold in the third quarter 2013, 82% came from units launched until second quarter 2013. The Land Bank ended the quarter with a potential sales value of BRL3.9 billion, representing almost three years of launches.

In relation to financial highlights, the nine months 2013 exceeded by 12 percentage points, the minimum guidance up 40% of projected gross margin with a gross profit reaching BRL445 million. We can also highlight the 56% of gross margin in the third quarter 2013, a record high for the company. It is decorated that 69% net income to a record high BRL426 million resulting in a return on equity of 36% one of the largest amount Brazilian companies rated.

The company closed for the 26th consecutive quarter with a net cash position of BRL82 million in addition to performed receivables of BRL204 million, bearing interest at 12% per year plus IGP-M and eligible for securitization.

Now I would like to hand over the presentation to Pedro Henrique, who will speak on more operational highlights. Pedro, it's all yours.

Pedro Henrique Nocetti {BIO 20904123 <GO>}

Thanks, Emilio. Good morning, everyone. Please I would ask you to turn to slide number four, where we'll talk about our Land Bank. As Emilio told us, we ended the quarter with a potential Land Bank of 3.9 billion in own PSV, close to three years of launches, acquired at an average cost of 11% of the PSV. Including that cost has increased potential for construction.

In the chart in the top right, we highlight the age of the company's Land Bank, in which 60% was acquired from 2011 and on. We keep the focus on obtaining minimally gross margin of 40%. In the chart in bottom left, you can see the distribution of Land Bank by

standard, in which 71% is located to the segment from middle to high-end and 27% for the segment of commercial, historically with higher margins.

Finally, looking at the chart in the bottom right, it's observed that 86% of our Land Bank is located in the Sao Paulo metropolitan area, including the city of Sao Paulo. EZTEC has as one of its differentials great knowledge of its operating area, always seeking to maximize the profitability of the operation from these expertise. Thus we have full confidence to continue working in these area in the coming years.

Now please turn to slide number five, where we'll 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 finished in the early point and Tower B is with the 20th floor running. Until September 2013, the evolution of the project considering land, CEPACs and construction reached 40%. The execution of the projects has been going in line with the plan.

Now, the current schedule considered delivery of the Tower A in December 2014 and Tower B in 2015. It's also important to point out that due to some current notice to the market, some -- the Tower A of the project, EZ Towers is 25% pre-leased.

Now please turn to slide number six, where I will talk about the next deliveries. You can see the photos of the project delivered recently or to be delivered soon, including the effective gross margin in the region of PSV. EZTEC has delivered until June 1,100 units and now we are programmed to deliver over 1,001 units until the end of 2013. This volume shows the company's capacity of growing focused in these -- in its operations.

In addition, it should be noted the importance of having an engineer in the team that delivers project all time with quality and on budget. This allows the company having full confidence in obtaining excellent results, when tracking a project, working on sales campaigns or investing in new lines.

Now, I will ask you to please turn to slide number seven, where we will talk about launches. As Emilio told before, EZTEC launched three new projects in the first quarter of this year. The Torre Osasco of these small office commercial project, Centro Empresarial Jardins do Brasil with own PSV of 34 million and now 53% sold.

In the last week of September, the company launched two new projects, the middle-high end residential project Quality House Ana Costa with own PSV of 109 million and now with 43% of its unit sold. And in the city of Sao Paulo, there also middle-high end residential project Massimo Vila Mascote with PSV of 132 million and 45% sold. Therefore, we have 275 million in new projects in the third quarter of the year.

Considering the launches and stakes acquired in the first half of 2013, EZTEC cumulated almost 1 billion in launches in the first nine months of the year. Therefore, we have already reached 77% of the midpoint of the guidance for 2013. And we'll comment further on the coming launches. First, we will talk about sales on slide number eight.

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During this third quarter of the year, EZTEC sold 201 million, 82% of this related to units launches into the second quarter of the year. EZTEC has cumulated 771 million in sales through these nine months of the year. Analyzing those sales contracted, we must highlight the effective result of these for the company, where we have been achieving gross margin above 50%.

In terms of inventory, EZTEC closed the third quarter of the year with 1.1 billion in units in inventory. While we're pointing out that sales per project Quality House Ana Costa and Massimo Vila Mascote are actually with superior percentage sold compared to what was reported in the end of the quarter. In the second bottom right, you can see our inventory by year of delivery. Note in that, most of the company's inventory should be delivered from 2014 and on.

Also we can highlight TEC Vendas, which was responsible for 67% of the sales in the first nine months of the year and also it's responsible for almost 100% of sales of delivered units.

Now in the next slide nine, I'll comment about the projects to be launched in the following projects. Please turn to slide number nine. As disclosed in material fact released on March, the company project launches between 1.2 billion and 1.4 billion for 2013. Considering that 76% -- 77% of that guidance is a commercial. I will talk about the coming launches. Jundiai residential Cidade Maia in the city of Guarulhos, Sao Paulo metropolitan area with PSV as effective share of 321 million, it will be our third project in the city, of which the first two were already more than 90% sold. This project is (technical difficulty) in pre-sales process and we have been receiving on average 800 people per weekend at the sales stand.

Also we have a small office commercial project Cotovia in the city of Sao Paulo with smaller PSV of 56 million. Therefore, EZTEC is fully confident about not only achieving, but surpassing the midpoint of the guidance for 2013 with profitable projects that allows the company maintaining its operational strategy.

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

A. Emilio C. Fugazza

Thank you, Pedro. Please moving on to slide number 10. First of all, I have to mention once again that since January 2013, we had to adopt IFRS 10 and IFRS 11, which changes the accounting method for joint ventures and partnerships.

These developments will no longer be consolidated proportionally and we 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 control 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.

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Having said that, quickly starting with net revenues, the chart on the top left. We know that for third quarter 2013, there was an increase of 41%, due to the higher number of construction process as well as a very good figure of sales of the units and inventories. The total amount of revenues of BRL252 million belongs exclusively to projects which are 100% EZTEC.

Looking now into 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 69% in the gross profit side.

In the chart to the right hand below, we can see the selling expenses, which remained reasonable 4.5% of net revenue, including sales expense of EZ Towers.

In the chart on the left hand below, we can see the administrative expenses, which are at a reasonable 6.9% of net revenues. I want to mention that the administrative expenses for operating a 100% EZTEC developments or joint ventures at the holding company, not taking advantage from the equity methods.

Now, moving on to the slide number 11, we can see, 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 BRL204 million to our clients, which has delivered sustained interest rate of 12% per year, plus IGP-M. It is reasonable to note that the result in nine months 2012 amounted to 6.8% of net revenues, and today with an increase of revenues, the same indicator contributes only to 3.7%, which will be a trend for the coming quarters. Less financial results and more operating income.

On the other side, looking at the top right corner, we can see the results of the equity method which represents the net result of the company's joint ventures. It is important to point out that gross margin in this project in line with what the company seeks reaching 46%, 6 percentage points above the minimum gross margin guidance for 2013, and reaching 46% in the nine months 2013. And the stake of the projects are coming from -- belong to EZTEC are coming from 47% to 55%.

Just below on the right, we see the backlog margin, which is pointing out the maintenance and getting better above 50%, close to 55% due to the effect of that. Finally, a record high net income of BRL426 million with net margin of around 50% in the nine months 2013. Here, I have to remember that a great part of this result comes from the regular operation of the company.

I would like to come back to the backlog margin, only to remind that backlog margin close to 55% can represent specifically the current gross margin of the company and that's important because when you see -- when you can see the upcoming gross margin in the next couple of quarters, you can believe that we are -- we can have close to 55% of gross margin.

In the next slide, slide number 12, we can disclose the results by segment. As you have seen in the -- in EZTEC's earnings release, we make a disclosure of our residential and

commercial segments, both of them.

In nine months 2013, residential side reached 54% of the total amount of net revenues with a gross margin of 50%. On the other hand, commercial side has reached 46% of the total amount of net revenues with 55% of the gross margin. Both residential and commercial segment, 100% EZTEC have reached at least 9.7 percentage points above the minimum guidance of the company. This data can assure us that backlog margins is precise and that we will beat the trend for the next couple of quarters.

Finally, on slide number 13, I would like to re-emphasize the value of this company, as I have been doing that every conference call. The company's net asset value result achieved one more step forward in the third quarter 2013 from BRL23 [ph] per share in the third quarter 2012 to BRL28.40 per share, representing a cumulative growth annual growth of 32% since 2010.

I have to emphasize here the importance of the Land Bank with potential of BRL3.9 billion. That should generate minimum gross margin of 40%, and an additional BRL1.6 billion minimum -- additional BRL1.6 billion in net assets in the upcoming quarters. In other words, potentially BRL10 [ph] 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 this slide, we have been using market ratios. However, it came 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 on an average return on equity of 24% yearly and now can reach to 36% has to be traded with a very good price of the others. First of all, because it's not after retail, we have been achieving the 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 on real estate in Brazil, there is only one company being able to manage all the threats in this industry is EZTEC.

I have no doubt of a challenging economic environment can be spectacular to differentiate itself even more and earning money. The return on equity we did this quarter will (inaudible) quarter.

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

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the questions and answer session. (Operator Instructions)

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Emilio Fugazza for any closing remarks.

A - A. Emilio C. Fugazza

Thank you very much. Thank you all. I would like to thank you all today by phone and e-mail, and -- I'm sorry, by phone and e-mail. Apart from myself, the whole EZTEC team is available to get closer to you. Thank you all. Bye-bye.

A - Pedro Henrique Nocetti {BIO 20904123 <GO>}

Bye. Have a good day.

Operator

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

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