

## Q2 2013 Earnings Call

### Company Participants

- Elie Horn, Chairman, President and Chief Executive Officer
- Jose Florencio Rodrigues Neto, Vice President - Finance and Investor Relations
- Marcelo Motta, Analyst
- Raphael Horn, Chief Operating Officer

### Other Participants

- Eduardo Silveira, Analyst
- Unidentified Participant

### Presentation

#### Operator

Thank you for waiting and welcome to the Cyrela Brazil Realty Conference Call where the results of the second quarter 2013 will be presented. All participants are connected only as listeners and later on there will be a Q&A session for which instructions will be given. (Operator Instructions) This call is being recorded and the recording will be available on the company website at [www.cyrela.com.br/ri](http://www.cyrela.com.br/ri).

This call is being simultaneously translated into English and webcast. Questions can be asked normally by overseas participants. You can assess the earnings release disclosed yesterday, August 14 after close of trade on the BM&FBovespa Stock Exchange on the company website at [www.cyrela.com.br/ri](http://www.cyrela.com.br/ri).

Before we proceed, we would like to clarify that any statements made during this call regarding the company's business prospects as well as projections, operational and financial goals concerning its potential for growth are forecasts based on the expectations of the management for the future of Cyrela. These expectations are highly dependent on domestic market conditions on the general economic performance of Brazil and international markets and are therefore, subject to change.

Today we have with us, Mr. Elie Horn, CEO; Mr. Raphael Horn, COO; and Mr. Jose Florencio Rodrigues Neto, Vice President of Finance and Investor Relations Office.

Now, I will hand over to Mr. Elie Horn. Please proceed, Mr. Horn.

**Elie Horn** {BIO 1823000 <GO>}

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Good morning, everyone. First of all, I would like to start speaking about the real estate market and our expectations for the future. Although, there were some overall uncertainties and political and social turbulence or turmoil in the last months, the real estate market growth is still favorable with a low employment rate and the deficit in housing makes the perspective of the industry very positive. And being more specific in relation to Cyrela, after many learning curves, we have come back to our essence in taking larger and solid steps, very well measured. With profitability, we know the market and we are aware that we always want to do better.

Looking into the future, we're dedicating a lot of energy into three points. The first one is, buying quality landbank, which provides a good profitability for our business. Second is the company's management model. Today, we have committees that works in a structured manner, which guarantee a decision process and guides our priorities and respect our principles. The third is, investing in our team, developing leaders and making our culture long lasting, and we've advanced in those points.

In relation to people, I would like to take this opportunity to introduce Eric Alencar as CFO of the company. He was promoted in Cyrela, working before in corporate and regional. Congratulations, Eric. I wish you all the success. I would like to thank Jose Florencio, who has been working with us in the past years. Thank you very much and greetings to you.

Now, I'm going to pass the floor to Raphael Horn.

### **Raphael Horn** {BIO 19714328 <GO>}

Good morning. This is Raphael speaking. On slide five, we'll comment Cyrela's consolidated results. In 2Q '13, we launched R\$1.762 billion, of which R\$492 million or 28% of the total, our contracts signed within the Bracket 1 of MCMV programs through our joint venture with Cury. Cyrela's participation in the quarter lunches are 71%, lower than Q2, '12 results, which were 84%. Just regarding the MCMV Bracket 1 launches, Cyrela's share was 79%. In the year launches reached R\$2.717 million, 37% higher than launches year-over-year. We would like to highlight the Essenza Moema launch in Sao Paulo and Neo Life in Rio de Janeiro.

Now moving on to slide six, we will talk about our sales performance. In this quarter, pre-sales reached approximately R\$2.2 billion. This regarding contract signed with Bracket 1, sales totaled approximately R\$1.7 billion, 29% higher year-over-year. This regarding Bracket 1 units 4,300 units were sold this quarter compared to 4,000 in the previous quarter. This States of Sao Paulo and Rio de Janeiro together accounts for 71% of our quarter sales, not including Bracket 1.

Now moving on to slide seven, quarter's sales represent an annual sales based on supply of approximately 56% or 51% if we exclude Bracket 1 one, inventory sales represents 50% of sales for the quarter. In terms of performance per season, we have sold 62% of developments launch this quarter. 48%, if we disregard Bracket 1. The chart on the right shows the sales performance per launch season. These performances are in line with forecast of our feasibility plan.

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On slide eight, we're going to talk about the Cyrela's total inventory. At the end of the quarter, market value inventory totaled R\$6.2 billion, a 3% drop compared to the previous quarter. Our inventory movement can be seen on the chart on the right. In the quarter, we sold 1 billion in inventory, concluded inventory represent 14% of our total inventory, just to ratify that 14%.

On slide nine, we see the details of concluded inventory, finished real estate inventory representing R\$839 million and approximately 1% drop compared to the previous quarter. This quarter, the company sold 24% of its finished inventory from the beginning of the period, and added \$141 million mainly resulting from developments delivered in Salvador and Natal. In the chart on the right, we can see that 42% of finished inventory is mainly located in Northeast and Espirito Santo, places with reduced demand, which we expect a slower sales rate.

On slide 10, we will address delivered units. In the second, Cyrela delivered 18 developments, accounting for approximately 5,000 units. Delivered units in the quarter account for a PSV of R\$1.5 billion and R\$2.6 billion in the year.

Next, Jose Florencio will talk about the financial results and I'd like to thank Jose for the last three years and congratulate him and also give him a kiss on the cheek.

### **Jose Florencio Rodrigues Neto** {BIO 17498585 <GO>}

Well, I'm glad it's just on the cheek. Thank you, Raphael and Mr. Horne. Let's move on to the financial results. Good morning, everyone. Before we begin speaking about our quarterly figures, I would like to comment on two points about the reported results. First, (inaudible) reviewed our domestic rating outlook for positive results and that's because of the constant improvement in our balance sheet. We expect a one notch increment in our rating in the medium-term, that's great news.

Second is that, as a result of a better understanding of IFRS 10 and 11, we have adjusted the 1Q '13 results. These adjustments mainly to place -- to provide a better definition of company controls in certain partnerships. And IFRS 10 and 11 talk about how to consolidate it and in which circumstances we consolidate or not the company. Some of these partnerships were still being discussed with auditing, so we finished these discussions and the adjustments for the first quarter that would -- gave us better results on quarter. These adjustments do not change controllers' net income or equity.

We will offer more explanations in page 12. All comparisons will be based on numbers that the first quarter adjusted and the second quarter with the CPC, we didn't do it pro forma as the previous rule where we adjusted IFRS. And also after this quarter, we will also disclose with the new results from IFRS 10 and 11.

In slide 12, we will talk about our financial results. Gross revenues reached R\$1.4 billion in the quarter, 30% higher than last quarter, showing there higher sales volume for the quarter. This amount is 2% lower than revenues year-over-year. Gross profit for the quarter was 448 million, 30% higher than 1Q '13 and 9% higher year-over-year.

Company gross margin for the quarter was 32.6%, almost the same margin asserted in 1Q '13 and 2.9 PP higher year-over-year.

There are a gross margin variation in the quarter as a result of operating factors that impact revenues. Nothing out of ordinary, and this quarter we had a high volume of completed inventory sale 20% of finished inventory in the beginning of the period, which typically has a lower gross margin, since it is mainly some problem seasons in 2007, 2008 and 2009.

EBITDA for the quarter was \$274 million, 6% higher than the \$259 million in the 1Q '13 and \$2 million higher year-over-year. However, EBITDA margin was 20% in the quarter and 20.6 for the year, 3 PP higher year-over-year. In the quarter, net income was \$183 million, 2% higher than 1Q '13 and 28% higher than 2Q '12. In the year, net income was 362 million 39% growth compared to 261 million recorded in the same period last year.

Net margins for the quarter was 30.3%, lower than 14.7 margin last quarter and higher than the 10.3 margin second quarter 2012. In the year, we presented a 5 PP growth in net margin, which hiked from 9.1 in the first six months of 2012 to '14 in the first half of 2013.

On slide 13, we talk about return on equity. In 2Q '13, we achieved a mean return of equity measured as net income in the past 12 months over equity of about 15%. This indicator is 2.6 PP higher year-over-year and Europe 0.4 PP higher than 1Q '13.

Now on slide 14, let's talk about customer financial solutions. By solution, we mean about mortgages and transfers. In 2Q '13, \$934 million and 4,900 units were transferred, mortgaged and settled. This volume was 13% lower than in the first quarter as a result of volume of settlements above average in Sao Paulo and Salvador.

It is worth noting, the increase of 21% in the number of units transferred in 2Q '13 compared to the previous quarter. In Q2 '13, we achieved a record of transferred units, which shows the efficacy of our transfer operation. In this semester, we've transferred mortgage and settled 9,600 customers accounting for total of R\$2 billion, a 40% increase compared to 1Q '12 contributing to company cash generation during 2013.

On slide 15, we will talk about cash generation. In the quarter, we presented cash generation of 154 million compared to 216 million last quarter and cash burn of 0.1 million in 1Q '12. Operating cash generation for this quarter was driven by the continued strong volume of settlements and transfers resulting in the high delivery volume that took place in previous quarters. We are confident that cash generation for the year will be relevant.

Now, let's talk about indebtedness. Gross debt at the end of the quarter totaled 3.7 billion compared to 3.8 billion last quarter and 4 billion 4Q '12. Gross debt for the quarter presented a 0.6% drop compared to last quarter. Of that total, 43% are related to construction, financing with the SFH and 78% is long-term. Cash position at the end of the last quarter was 1.6 billion, stable compared to the previous quarter. Our net debt is still low at 2.2 billion this quarter. Our net indebtedness compared to PL has remained at comfortable levels. We have now achieved a leverage ratio of 35.6.

Now, we will start the Q&A session. Thank you.

## Questions And Answers

### Operator

Okay. Ladies and gentlemen, now we will start the Q&A session. (Operator Instructions)  
Now, our first question comes from Mr. Luis Garcia from (inaudible).

### Q - Unidentified Participant

Good morning. Thank you. I have two questions. One is regarding the cash generation and the company highlighted the opportunity of some landbanks. I would like to understand specifically what type of developments are these, if there is a change in focus to smaller developments or if we will still -- unlike larger developments, we've seen approval of larger development in Sao Paulo, so I want to know from you, we've seen some recent launchings in Moema, but it's not as big as Cyrela for example? So, and how was the swap happening, if there was any kind of landbank bought through swap? And if the swap fund can still benefit this type of development?

The second question is to understand expectations for launchings if the company could have interesting benefits in the first Bracket of MCMV, and also using the cash flow since in Bracket 1, the expectations are a bit delayed and what we can expect in Bracket 1 in this year -- later on this year and how we can benefit from Bracket 1 in Minha Casa, Minha Vida 2?

### A - Elie Horn {BIO 1823000 <GO>}

Good morning, Luis. With regards to cash generation. Yes, since we've talked a lot about the past, our priorities in relation to cash generation are in fact to invest in landbank that can generate more ROE for the company. So in fact, we have invested a lot for that.

In general, this year almost all the landbank that we bought, well, 100% of what we bought are in Sao Paulo and Rio de Janeiro and South, which is the main places where we focus on. We're not just focusing on large size land, but also smaller ones, so that we can consider launches in the shorter-term. And we're planning on expanding this purchase.

In regards to the swap fund, we haven't used that yet for buying landbanks. So there is still that benefits for the future in the upcoming quarters. I think that's basically it. In regards to cash use, I had already mentioned that the first idea that we have is to expand our own business, of course, we may consider additional distribution, but that still hasn't been approved by the Board. And to add to what Jose Florencio mentioned, we want more profitability than in the past. So we're being more selective more picky with our choices and looking for more profitability.

### A - Raphael Horn {BIO 19714328 <GO>}

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This is Raphael speaking. Just to answer your question about launches, I'm going to talk about land as well. There is a specific focus on land or different than the past. I mean, what we're doing is, what we like to do and we feel comfortable in doing. So when we see good land with the minimum size necessary within our comfort zone, which is to gee up, I don't know if you know that nomenclature. The other things that we do through partners -- we're doing this, so we can be comfortable in getting the return that we want.

In regards to launches, you mentioned Bracket 1. We like that a lot, but we don't work directly with that. We work with joint venture with Cury, so that's a window that's open. And the more we do in Bracket 1, we believe it's an affluent deal, it's a good deal, so we're going to still do that through Cury. It's an window open for that opportunity and Cury has a competitive edge, but few players in the market have. So we want to take advantage of that, while this window is still open.

In relation to the launches, except for Bracket 1, we believe we're within planned and expected for what we want to do for the year. And just to reiterate that we don't provide launches guidance, but the idea is that we follow our schedule.

### Q - Unidentified Participant

In regards to land, that you mentioned to land bank, this short cycle land is usually highly disputed among others and sometimes it doesn't have the best margin. But on the other hand, we see that many companies aren't trying to buy landbank because of liquidity. So, do you believe that the major differential is being able to work, at this moment operating at this moment is getting a more expensive part of land, so that you can -- that smaller that you can launch in the shorter-term and that you can get instead of other companies that don't have the liquidity? So it's more obvious, a lot of people are fighting over it. So, but since that's happening, it's going to be more expensive. What do you think about that?

### A - Raphael Horn {BIO 19714328 <GO>}

Well, it was never easy working with landbank. Mr. Horn says that it's always been tough for 6 -- 50 years. So, and there is no such thing as a land that people aren't fighting over. If they're -- nobody is fighting over, it means it's no good. So first of all, we have to have the best team possible in that area and that's what we're working on.

Two we need to focus, we need to focus, what we want. There is no such thing as an easy land, there is no such thing as something that's not far over. There are new players, there are people in the market, there are new players in the market there are funds, so it's not easy. But we have to have discipline in allocating our capital and doing what we know how to do best. So we like the midsize land and we like the large size and it's within -- if we're comfortable doing and it's within our price range, we're going to do it. It's not easy.

### Q - Unidentified Participant

Not for this. The middle size ones, or the large size ones?

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## **A - Elie Horn {BIO 1823000 <GO>}**

There are still a lot of people, we have good people working at that and we are really focused. And we're working every day to do a good job and get good land. There is no magic recipe for that and it's about the math as well. Less complex land costs less to approve, cost less to fix. And you launch a factor, there is a faster cycle, so that allow us to pay more and still expect the same return. So it's worth mentioning that we don't lower the ruler. Yeah, we that what they're saying. What we want is pay the lease, we can. That's the idea.

## **Operator**

Excuse me, ladies and gentlemen. (Operator Instructions) The next question is from Ms. Nicole Urokov [ph] from Credit Suisse. Ms. Nicole, you may speak.

## **Q - Unidentified Participant**

Good morning, everyone. I have a question about the sale of finished inventory. You saw the significant amount from Le Parc and at the end of the day there wasn't too much of an impact on gross margin. So the question is, what about the gross margin for the finished inventory? And in addition to that, do you expect to finish the year in terms of inventory, so inventory representative? Thank you.

## **A - Elie Horn {BIO 1823000 <GO>}**

Good morning, Nicole. Well, this finished inventory did impact, like the case of Le Parc for instance based on the sales volume that it had in the quarter. The impact was approximately 20 PPs to the gross margins. If we take the group of projects and finished inventory from the older season, this impact was from 80 to 100.

Said that, we believe, we expect that the margin will be within our guidance area that was provided operational variations like we had this half-year are possible based on what we sell each quarter. We do not expect the drop from the percentage of finished inventory. We know that what's there, most of it is a slower sale inventory, so we still have some deliveries that will be made in those places this year. And in the previous half-years we were mentioning or we don't see a variation of that number for the year. In regards to the total inventory, it's very much in line with what we believe is operational with this one year of sale. So you have to bear that in mind, because that is when in the 12 month sales over supply of 12%.

## **Q - Unidentified Participant**

If you allow, I have one more question. What do you see of cash generation trend throughout the year, do you imagine similar rates?

## **A - Elie Horn {BIO 1823000 <GO>}**

Can you repeat your question, I didn't understand the last part?

## **Q - Unidentified Participant**

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Does it make sense to imagine that the figures that we saw in the second quarter will remain for the rest of the year.

**A - Elie Horn {BIO 1823000 <GO>}**

Well, Nicole, we don't give cash generation guidance, we don't provide that. So really depends on what we disencumber some landbank and other things. So what I can say is that we expect strong cash generation based on what we are delivering and transferring, that's what I can say.

**Q - Unidentified Participant**

Okay, thank you.

**Operator**

Our next question is from the Eduardo Silveira from Banco Espirito Santo.

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

Good morning. I have two questions, the first one, if you can talk about the sales termination. How you can see this is in different markets, in Rio, Sao Paulo and maybe in the North East and Salvador where our company has a huge participation in the market? I know there is no formal guidance, but what calls on equity goals do you have for a company as a whole and what other goals are part of the compensation for the managers?

**A - Elie Horn {BIO 1823000 <GO>}**

Eduardo, good morning. Yes, the termination, the termination we used to indicators. One is a termination on that 12-month contract, which is always added to the company of 18%. This number varies greatly in regards to what you delivery in that period. You have to keep in mind that large product termination happens during deliveries, so this fluctuates a lot.

Another remember that we really like to analyze is the termination throughout their life cycle of the development and that number is around 15%. This is the average for the company and we have some developments under the 15% and other locations in which this and number is about 35%. So those other locations you've mentioned.

Policy is the following a customer who is not transferable or doesn't have credit, that's how you saw them in our portfolio, so we rule them out, because we put that units for sale, and you can never go wrong, it's usually fall for sale. So the index are as I told you and our ideas for them to improve in time.

In regards to the OE, the higher the better we said that '15 was our short-term goal by the end of 2013, and we could reach that number even before our target for ROE is 20%. When that's going to happen? It depends strictly on, how we are going to be able to launch in this next month. I don't know if Raphael wants to say anything else.



**A - Raphael Horn** {BIO 19714328 <GO>}

Just to add to what Florencio said, the termination that he mentioned, I think it's important to take out of our portfolio constantly. If we care for our portfolio constantly and that's what we do usually we tend not to have any trouble there. So the secret is not to accumulate to terminate many projects at the same time, we have to take care of those development cycle.

Florencio said, he wants to reach 20% of ROE, but what we do is look at profitability development by development, so obviously we have to look at D&A to see what's going to happen at the bottom line of the balance sheet. But our work is profitability by each development and we have to see if we can take that we can go to 20%, so we focus on projects and then we look at the consolidated.

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

Thank you very much. Good morning.

**Operator**

Our next question comes from Mr. Marcelo Motta from JP Morgan.

**A - Marcelo Motta** {BIO 16438725 <GO>}

Good morning. I have just a follow-up question on the Minha Casa, Minha Vida project. I want to understand better how these budgets and what will be the percentage an if you have the expectation of margin or if the consolidated margin can have any impact, due to the participation in means or not?

**A - Elie Horn** {BIO 1823000 <GO>}

Marcelo. Good morning. What's happening with Minha Casa, Minha Vida Bracket 1 specifically is related to the moment are experiencing. That doesn't mean that the speed tend to be the companies the role. Last year at first when the company lines very little and the opportunities for that Bracket happened a little bit stronger, so there was a mismatch there. We going to explore this the best we can. It's hard to give you a target, but obviously it's not our focus for Cyrela, it is the focus for Cury and as long as that window is open, we will take advantage of it. The interest on our growth margin is zero because it goes through equity of prevalence so the margin is the little bit below the and MAP project in general, but it will not carry our consolidated margins.

**A - Marcelo Motta** {BIO 16438725 <GO>}

Thank you very much.

**Operator**

(Operator Instructions) Our next question comes from (inaudible)

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## Q - Unidentified Participant

Good morning. I have a question for the team. Do you have any targets for leverage or ROE that you want to achieve you don't talk openly about opening the distribution for our shareholders with cash flow?

## A - Elie Horn {BIO 1823000 <GO>}

We look at the excellent performance of the company the ROE that's great for the sector, but we are not seeing a lot of returns from the buyback or dividend.

## Q - Unidentified Participant

Is there any target that you could sell the market? After which you will distribute the cash flow?

## A - Elie Horn {BIO 1823000 <GO>}

The estimate are been said in turn up 2 billion for a good time.

## Q - Unidentified Participant

How do you see this distribution for the investors?

## A - Raphael Horn {BIO 19714328 <GO>}

Motta, good morning. It's Florencio talking. You're right. We are generating cash and this discussion is always on going in the company. In 2012, our focus in additional of cash generation was to reduce debt and we our reaching the debt limit that is very comfortable. It will drop even more. We have that expectation of improving the company's rating and that's something that's clear for us.

And as I said, our number priority is to invest in the new opportunities though landbanks that will make us generate this additional cash. Of course, we do not rule out the additional distribution, dividend or even a buyback. That program is open, but we do not close the deal on that yet. We understand your concern is in our agenda, but that discussion is still ongoing at the board.

## A - Elie Horn {BIO 1823000 <GO>}

Good morning our company is a long play. We have a long time to assimilate and decide what to do, we can buy land we can buy stock, distribute dividends. However, we have to study wells since it's in a long term.

## Q - Unidentified Participant

Thank you.

## Operator

Our next question comes from (inaudible).

## Q - Unidentified Participant

Good morning. Congratulations for the results.

## A - Raphael Horn {BIO 19714328 <GO>}

Just a minute please, Motta, Raphael speaking again. I was talking to Mr. Elie, as he said, generating cash is a good problem, the most important aspect for us in the long-term is not doing any things massive with the money. We have to have discipline to spend the money properly. And check on the development that gave us return and those who don't, we are not taking on. We just can't rush things, so it's a good thing to do and having discipline and not doing anything wrong, we will see the most of it, that's our commitment. Hello. Can you hear me.

## Q - Unidentified Participant

Yes, hearing. Okay. (inaudible) I have two quick question. I couldn't listen the beginning of the call I don't know if it was mentioned, the first question. If you could talk about the delivery schedule and what's you expect for the second semester if you're expecting the increase in numbers until we reach a similar number of deliver in terms of the 24,000 units which was the same two years or if not? And the second question is about the chance for process in your presentation you give us several interesting indicated , but I want to know if you could talk about the process itself how long take in an average, between delivery and so customers actually receiving or the company actually receiving cash and if you have any expectation of improving that?

## A - Elie Horn {BIO 1823000 <GO>}

When we got to delivering, we believe that the schedule, delivery schedule is going to be very similar as the first half of the year, so we expect that volume for the rest of the year. In relation to transfers. So the transfer process, there is always room for improvement at in the company itself, which we've been working on, we started off the process to centralize part of the internal transfer process as there are improvements that can be made in the industry, which the companies are speaking about between themselves, the companies in the industries are talking about that. So there's also room for improvement there, so when you see cash. So it depends on which places you're working in.

So in some places, you can register in less than 30 days and in other cities. It could take 90 days or month depending on the situation of each development. On average, we like to say 60, 90 days to receive the money in that varies about what is being delivered and what is being transferred so which places, what type of development and which segment guidance. So that's a general guideline. And for the approach will undoubtedly the approval process in Sao Paulo, has improved a lot so as a consequence of that we will be able to approve more process this year than in the previous year.

## Q - Unidentified Participant

Okay. It's just like to me another question about delivery when we see the breakdown between middle and high-ends and -- exceed that in 2012, middle and high-end was 46% of units delivered. And in the first half of 2013. It was over 60% according to you said that

the delivery schedule would be similar to the first half of the year, but would that be the same makeup for middle and high-end.

**A - Raphael Horn** {BIO 19714328 <GO>}

I think that the makeup is pretty similar or a bit high year for middle and high-end, so it's to the deliveries it's mainly for middle and high-end.

**Q - Unidentified Participant**

Okay, thank you. Thank you very much.

**Operator**

(Operator Instructions) There are no further questions, I'll pass the floor to Mr. Elie Horn for his final remarks.

**A - Elie Horn** {BIO 1823000 <GO>}

Well, good morning again. Goodbye. We have nothing else to add, I think we've spoken a lot everything is very good. And I hope to talk to you next quarter with even better results. Thank you very much.

**A - Jose Florencio Rodrigues Neto** {BIO 17498585 <GO>}

This is Florencio speaking, I'd like to thank Cyrela. Especially, Mr. Horn and my entire team all my colleague for the opportunity to having worked with Cyrela and the privilege I had worked here, it was really learned or live and I hope I also contribution to Cyrela as well during that period. Thank you very much, Mr. Horn for this opportunity. Once again, and we'll see to that --.

Okay, thank you. Thank you, everyone. Here -- we always have a home here. Thank you.

**Operator**

Cyrela Brazil Realty conference call is closed, I would like to thank everybody for their participation. Good morning. Thank you.

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