Q3 2012 Earnings Call

Company Participants

- Antonio Guedes, Living General Director
- Elie Horn, CEO
- Jose Florencio Rodrigues Neto, Financial VP and IR Officer
- Rafael Novellino, Operations Director
- Unidentified Speaker, Unknown

Other Participants

- Ana Fernandes, Media
- Luiz Garcia, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

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 at the Company website at www.cyrela.com.br/ri. This call is being simultaneously translated into English and transmitted through the web. Questions can be asked normally by overseas participants and through the web through the webcast platform. You can access the results release disclosed yesterday, November 12, after close of trade on the BM&FBOVESPA stock exchange on the company website at 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 generally economic performance of Brazil and international markets and are therefore subject to change.

Today we have with us Mr. Elie Horn, CEO; Mr. Rafael Horn (sic) Operations Director; Mr. Antonio Guedes, Living's General Director; and Mr. Jose Florencio Rodrigues Neto, Financial Vice President and Investor Relations Officer. Now I will hand over to Mr. Elie Horn. Mr. Horn, please proceed.

Elie Horn {BIO 1823000 <GO>}

Good morning, everyone. No news means good news. For this quarter we have a few novelty -- operational novelties and I'm going to talk about the investments that have to do with the Company's pillars, governance, people and culture.

In the past months we've continued to report Company's governance. We created committees at the Company so we can deliberate about pertinent matters as well as capturing and ensuring the Company's business growth. We've bought land bank and audits which contribute to the Company's management process.

In addition to that, we have dedicated all our efforts to develop our team, with innovative being added to, such as the MBA Cyrela that -- and we're building the team that will show that this company will maintain it as a perennial company. And we want people to act as the owners of the business. In that sense, we have taken a lot of care in the way to encourage people. An example of that is changing the compensation package for our executives, which links it to the results of delivering the development and not the beginning.

We've seen a mature market that prioritized the quality of the launches and development and within that environment we believe that our ability to innovate and create product will become important differentials.

This year we have suffered with the approval of major projects. And therefore, developments that had been postponed to next year and they will change our sales expectations for the year. In the past years were of intense learning experience. And now this is part of our DNA. Our DNA has our values, enchanting [ph] the clients, quality, financial solidity and the capacity to remain.

We will not have developments that are not within the minimum margins that the Company expected, because we do not want distortions. We want to grow with quality and that requires operating discipline and the competence that we've had in the past years. So with the support of our employees, banks and shareholders we'll continue on this journey and always become better forever.

Now we'll pass on to Rafael who will talk about the operating results for the quarter.

Rafael Novellino {BIO 2133187 <GO>}

On slide number five we're going to talk about the consolidated results for Cyrela, which includes Living. For the Third Quarter of the year the launches amounted to a PSV of BRL1.5 million approximately. Living's launches represented 40% of the total Company launches for the quarter.

We've launched developments with an average of BRL4,400 [ph] per square meter (inaudible) and that was 16% up compared to the Q2 12. The average price of launched units was approximately BRL340,000 for the Third Quarter. And that was very similar to the past quarter.

The launches reached 60% compared to 84% in the previous quarter, since the weight of the developments launched by the Company's total portfolio was higher. It represented 43% of the launches for the quarter and that was a specific fact. Geographically speaking, Sao Paulo represents 41% of the total launched in the quarter and just 28% for year to date. With the lower approval process throughout 2012 in Sao Paulo impacted our launches and therefore some of our main tier projects were postponed to next year.

Now, moving on to slide number six, we're going to talk about our sales performance. And for this quarter, pre-sales achieved approximately BRL1.8 billion including our partners, a 34% growth compared to last quarter. Living's sales represented 35% of Company's total sales.

Cyrela's participation was approximately BRL1.3b. For the total of the year we've reached BRL4.3 billion which represents 71% of the low end guidance -- reviewed low end guidance. In terms of sales, we sold 5,500 units for that quarter compared to 4,200 in the previous quarter. And this translated into an SOS of 74% [ph], which we believe is healthy compared to previous quarters.

The results of Sao Paulo and Rio de Janeiro are responsible for 73% of our sales in total. We'd like to highlight Vita Sao Miguel in Sao Paulo and Titanium in Rio de Janeiro, launched in September with excellent results, not only for its price but also for the PSV.

Now, moving on to slide number seven. For total sales, 78% were -- referred to inventory sales, where 22% were products launched in the quarter. In terms of performance we sold 26% of the projects that were sold during that quarter. Many were launched and we didn't have the time to sell them. But the ones that were launched in the last quarter, 71% were sold. And the ones that were launched now we already have 77% of commercialization.

Now Guedes will talk about inventory and delivery.

Antonio Guedes {BIO 17964221 <GO>}

Slide number eight has to do with the total inventory of Cyrela which includes Living. At the end of the quarter, total inventory was BRL6.2b, a BRL52 million reduction compared to the previous quarter. This volume represents 11 months of sale.

The movement of our inventory can be seen in the chart to the right, where we sold BRL1.4 billion of inventory in this quarter. And we've incorporated BRL1.1 billion of projects launched in the period. For our total inventory, 15% have to do with concluded units. And the concluded inventory slightly increased compared to the previous quarter, especially because El Parc Salvador's last phase was completely delivered. Total inventory of Le Parc represents 20% of the total inventory that's ready from Cyrela. And 80% of the total inventory that's ready is concentrated on 10 projects.

On slide number nine we're going to talk about the delivery of units. For the Third Quarter, Cyrela and Living delivered together 33 projects, which represents 9,200 units.

Living delivered 5,000 of that total. This year we expect to deliver the same level that we reached in the previous year. These units represent a PSV of BRL2b.

Now Jose Florencio will talk about the financial highlights.

Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

Good morning. Now let's move on to slide number 11. Net revenues reached BRL1.8 billion in the quarter which is in line with the previous quarter. For year to date we've reached BRL4.4 billion in revenues. The main reason for lower revenues for the Company was the high volume of projects that were at the end of their finalization and deliveries that weren't completely finished, based on the entry of new projects. So we've delivered 33 developments in this project with a PSV of BRL3 billion and three of them with BRL1.5b. And the high volume of delivery created a cash flow generation for the levels that are presented.

Gross profit reached BRL44 billion for the quarter and very stable compared to the previous one. And the gross margin for the seventh consecutive quarter advanced 30.9%. Accumulated or year-to-date margin for the year, 30.8%, within the guidance of 30% to 34%.

EBITDA for the quarter was BRL231m, which is similar to the Third Quarter this year. EBITDA margin was 16.2% for this quarter, a 0.4percentage point increase compared to the previous quarter. Full year to date we have an EBITDA of BRL0.653 million and the adjusted margin was 20% for the year and 19.2% for the year. The net profit was 5.4% higher than the Second Quarter and 2.5% compared to the same quarter in the previous year and 10.5% for the quarter. .008percentage points compared to the other quarter.

Okay, now let's move on to slide two (sic) that talks about transfers and settlement, this quarter BRL739m, 10% higher than the Second Quarter this year. Out of this, BRL517 million were transfers and about BRL107 million were settlements. In terms of the (inaudible) the transfers and settlements reached 4,600 units, a 7% increase over the previous period.

In slide number 13 we have information about indebtedness. The gross debt at the end of September amounted to BRL4.3 billion against BRL4.5 billion at the end of the previous year. Out of this total, 52% refer to finance construction at SFH and 75% long-term. The cash position at the end of the last quarter was BRL1.7b. So as regards the previous quarter our net debt continues to decline, going from BRL2.8 billion in the previous quarter to BRL2.7 billion in this quarter.

If we -- when we don't consider the debt of SFH that amounts to BRL2.2m, the Company has a net debt corporate of BRL412m. Our net indebtedness as regards the stockholders' equity once again went down. We reached a leverage lower than 50%, 49.5% considering the total indebtedness. And 7.7 if we consider only the corporate debt.

Now, the duration of the total debt is 2.4 years. And the corporate debt excluding asset age is 2.3 years. The average rate of corporate debt is about 109% of CDI. In the quarter we had fundraising of BRL400 million amortization for five years. And we used BRL300 million for the prepayment of debt at asset age of finished units being amortized. Then we're lengthening the profile of the debt and reducing the average rate.

In slide number 14 we have information about cash generation. In the quarter we present an operation cash generate of BRL147 million compared to the generation of BRL42 million in the previous quarter. And BRL60 million in the Third Quarter of the previous year. This cash generation was caused by the strong volume of delivery by the Company this year and as a result there was a huge volume of income coming in of transfer and settlement and that generated over BRL200 million finances over the year. Year to date 2012 we generated BRL104 million against a cash burn of BRL136 million in the same period of last year. We have not done any securitization in this quarter.

Now let's move on to the Q&A session. Thank you.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. Now we are going to begin the Q&A session. (Operator Instructions). Our first question comes from Mr. (inaudible) from Itau BBA.

Q - Unidentified Participant

Good morning, everyone. Thank you very much for the presentation. I have two quick questions. The first one concerns the revenue. You have recognized net revenue of BRL1.4 billion for the quarter since the First Quarter of the year. So when do you think that the revenue of the new projects will begin being a burden and the company will present a stronger revenue? We understand that the strong delivery of the project makes the company to have a revenue gap that is going to be replaced by the new projects. I would like to understand when this gap starts being filled.

The second question I would like you to talk more about the inventory of finished units. Although you are focusing on the sale of inventory, the inventory of finished units also increased due to the (inaudible). I would like to know if you have any specific project, you have 10 projects that account for half of the finished units. Is there any specific project that's harder to sell or to have any sales activities to decrease this inventory more quickly? So those are the two topics I would like to hear from you.

A - Unidentified Speaker

Good morning, as regards the revenue, it's quite simple. We have already conveyed some information. We delivered 33 projects with a PSV of BRL2 billion and we launched 21 with a lower PSV; it's a very simple math. Just to give an idea what was not calculated as a revenue because it was delivered, only 40% were replaced with new projects in this period and this generated a decline in the revenue.

Answering your question concerning when we intend to pick up the revenue, the answer is very quick. As the new launches are resumed we already expect that in the beginning of next year we are going to have resumption of the new projects.

As regards the second question, concerning the finished inventory, obviously we had in other quarters and we've been talking about this since the First Quarter that the delivery of Le Parc would cause an increase in the inventory of finished units. We then see that there is a major concentration of finished units 10% or 20% of these units on Le Parc, 50% are concentrated in 10 projects. Then we have about -- a good deal of that is from the finished units, almost half are in marketplace, they are doing very well. So it's a matter of time. Then we are going to see that these inventories will go down.

As regards other projects that will increase the inventory in a more sharp way, this is not happening but the inventory of finished units will decline in the next quarters.

Q - Unidentified Participant

Okay. Do you intend to do any sales campaigns to speed up this process or you think the process is doing well?

A - Unidentified Speaker

Well we are already working on this area. Our policy is not to burn the inventory but even the finished units, we want to maximize the highest possible value, provided it gives the necessary liquidity to the company. We have several sales campaigns and we think that over time the finished unit inventory will go down. As you know, Le Parc was a project where we had several problems and we have other projects that are almost ready or are ready and with time we're going to sell the finished units. Thank you very much.

Operator

(Operator Instructions). Our next question comes from Mr. Garcia from Bradesco.

Q - Luiz Garcia {BIO 17432519 <GO>}

Good morning, everyone. I have basically two questions. The first one is concerning the prospects of the size of the margin. In a scenario of slow growth that we think that next year we are going to little by little pick up the growth. But being more selective, we can see as a result of that an improvement of the growth margin in a more pronounced manner than it has happened. That is, we already see (inaudible) expectation of the margin to move to the high end of the guidance in the future.

The second question is as regards the cash position. Your position is BRL1.6 million in debt in the short term ex-SFA you have BRL200,000 million). That is you have a very high cash level. And to carry the cash is even less favorable. And you should optimize that. To what extent do you expect to reduce the net debt over stockholders' equity? Once you've reached this level what can be done to maintain an optimal capital structure?

A - Unidentified Speaker

Well. Good morning, Luiz. Two questions, very good questions. So size versus margin. A quick answer would be if we had to decide which -- choose one of the two, we'd always choose margin. And the expectation of the margin is that you can expect a gross margin for 2013 getting close to the high end guidance level that was given for this year. The (inaudible) margin is already pointing to that and there's no reason why we shouldn't expect that level or very close to that level for next year.

In relation to size what we can say is that we will most likely grow in 2013 but our base for comparison is not 2011 but instead 2012. We have operating constraints -- or restraints and we want more quality instead of volume. So you can expect growth for 2013. But compared to 2012 with margins that are similar or getting close to the guidance for this year.

In terms of the cash flow, BRL1.7b. So why are we carrying so much? If I break that cash flow, not everything is available in the short term. A lot is stuck to the STE [ph]. Even with our tax framework, it makes us keep that cash flow. So the cash flow that we believe that has to be in the company is what we believe -- we call it free cash and our policy is to have two to three months of cost in our free cash and that number is very close to that level.

The debt position, well, as we generate cash we want to deleverage and that's what we have been doing. We've reached a level that's lower than 50% and we want to go -- we're working towards 40% in the next quarter. And when are we going to get there? Well that depends on our generation levels and our expenditures especially with land bank. Okay?

Q - Luiz Garcia {BIO 17432519 <GO>}

Okay thank you.

Operator

(Operator Instructions). Our next question is from Ms. Ana Fernandes from Valor Economico.

Q - Ana Fernandes {BIO 15338441 <GO>}

Hello. Good morning, everyone. Well in the beginning of the presentation you mentioned the difficulties for the launches this year because of approvals. So I'd like to know which developments were impacted by that the most. How do you see this in the upcoming quarters and when will they be launched or released?

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

Well Ana, this is Florencio speaking. We're calling (inaudible) in. He is our leader for the Sao Paolo Regional office. So he can talk about these expectations in more detail for you.

A - Unidentified Speaker

Good morning, Ana. We expect to make these launches more regular in the upcoming quarter. They become slower but they're already in the approval process. So we expect to have that normalized in the upcoming quarters and throughout 2013 we expect to have a normal sequence of launches. Okay, Ana?

Q - Ana Fernandes {BIO 15338441 <GO>}

Yes. But I would like to know if there are any specific launches, any larger launches that you can mention or comment on that have any unexpected issues.

A - Unidentified Speaker

Ana, we prefer not to go into detail as this time.

Q - Ana Fernandes {BIO 15338441 <GO>}

Thank you, then.

Operator

(Operator Instructions). Excuse me. Since there are no further questions I would like to pass the floor to Mr. Elie Horn for his final remarks.

A - Elie Horn {BIO 1823000 <GO>}

Well our business has a long cycle. Until you buy the land and then you research, get the approvals, launch, build, charge, have the adjustments during the work that involves a lot of sacrifices. So our balance sheets aren't linear, they follow the work. So our quarter was good. As I mentioned there were no issues and we didn't have too many headaches about that.

Thank you very much and I will see you next time.

Operator

The Cyrela conference call is closed. We thank everyone for your participation and have a good morning. Thank you.