

Q1 2022 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazza, Chief Financial Officer and IR Officer
- Pedro Lourenco, Director of Investor Relations

Presentation

Pedro Lourenco {BIO 21824082 <GO>}

Good morning, all. And welcome to EZTEC's Presentation for the 1Q of 2022. Please note that this call is being recorded and that all participants are in listen-only mode. By the end of this presentation, we will begin a Q&A session when further instructions will be given. (Operator Instructions). You may find that -- as well as the slides for this presentation at our website, ir.eztec.com.br.

Before we start, we'd like to mention that any statements during this call pertains to EZTEC's future projections, operational and financial targets are based on management's beliefs and premises as well as on currently available information. Future considerations do not constitute an assurance of performance. They involve risks, uncertainties, and premises. Investors may take into account the general economic conditions, industry and operational circumstances may ultimately affect EZTEC's future performance. They cause the company's results to differ materially from those expressing those forward-looking statements.

I would like to introduce myself. I am Pedro Lourenco, Investor Relations coordinator; and here with me, I have Emilio Fugazza, our CFO and IR Officer of EZTEC.

Let's start going through the Slide Number 3, where we talk about the launches of the first quarter of '22. The total amount of PSV that we launched was -- is exposed into the screen is close to BRL500 million and that's because we launched two main -- two big projects that is Exalt and Expression both of them located (inaudible) and they are very well sold.

The first one, Exalt that you can see in the left of the screen is already 43% sold and the other hand Expression is 51% sold, almost both of them they were (inaudible). A lot of those launches were acquired stake to participate acquisition of Vila Nova Fazendinha that is a low end kind of project that we are bounded attached (inaudible) casual order from EZTEC that we have all the previous launches that have made together.

Moving to the Slide Number 4, then we are able to see operational performance, but in the last -- our launches and sales and how those launches are being performed. As you can see, we were able to launch to sell BRL186 million from our launches of 2022 and in result of our main progress, super senses here are attached to those launches that we

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have nearly (inaudible) that you can see are only for BRL442 million sold. That's why you have been able to see in our release from 2021 an improvement in our inventory and we are going to talk then further in this presentation.

Gross sales for this quarter ended at BRL351 million and I would like to highlight the performance of our unit sales of units that are performing, because they increased significantly when compared to the amount that we had said -- we have stated on the fourth quarter 2021. It's still in the right part of the slide, you will be able to show the cancellation and it's easy to see that our cancellations are now at BRL480 million and it sounds that's implemented significantly when we compared to the BRL33 million that is in average presenting our previous year.

But despite this increment, I would like to highlight that the majority of these cancellations are indeed downgrades our preparation of units for larger units or smaller units or other projects inside the company. So, that's why you don't see FX directly on our financial results attached for these BRL48 million in that cancellation. So, there is a result of net sales that we reached BRL303 million.

Moving to the next slide, I would like to present you our next and future launches. Those three launches that you can see in the screen are those launches that we are indeed able to see a feasibility to launch in the next months of this year. So, to begin, we will start with Unique Green and Tourmaline place. This is the second part of the first phase that we launched in the last quarter of 2021.

Then moving through (inaudible) you can see that they are in the same landbank, let's call it (inaudible). So, they will be at the same ASP and the same -- they are in the same launch -- the same effect that you can see in our house in Expression launches that you have made in the first quarter of this year. Those are followers of the small, medium, and standard units and high-end units that are 100% EZTEC and which you can see with our next launches, we are aiming to achieve something close to BRL800 million in terms of future PSV.

Going forward to the Slide Number 6, I would like to show you the position of the landbank of the company. We don't make any huge -- we did not acquire any huge plant floor during this for the variation that you can see coming from BRL11 billion to almost BRL11 billion in this first quarter is mainly attributable by the launches that we have made any changes in projects in our landbank. With this almost BRL1 billion, we had some projects that are already with deals and contracts signed with conservation clauses and we put all these together with almost BRL13.5 billion in landbank for the company.

These landbank in the bottom of the last, you would be able to see how it's being distributed across the standards inside the company, BRL7.2 billion is added for projects in standards that we are bounded with EZTEC label, BRL2.7 billion -- our low end economic end brands and BRL3.6 billion attached to -- our commercial vehicle for a company. This land is well located and spread across some policy, but it is mainly focused on the south zone of Sao Paulo.

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Moving to the Slide Number 7, then you'd be able to see the composition and variation inside of inventory map. You're going to see that now we are carrying BRL2.4 million, but at the beginning, I would like to drive your attention to the charges fees and the corner at your right inventory evolution, then you'll be able to see that we reported BRL2.8 billion in the fourth quarter of 2021 and now with the launches that implement this amount and the sales that we have done, the constellation and here is the thing that I would like to point to you that this suspension of the sales from our previous project is EZ Infinity.

The EZ Infinity is at high-end tower that we launched in the last year in price neighbor and now we are suspended those units from our inventory and then further maybe EO, the next year will be relaunching or repositioning those sales again to be able to be pushed for our clients.

They'll be able to see this changing our BRL2.8 billion now arrived at BRL2.4 billion in the third quarter. This BRL2.4 billion you can see in the inventory revenue version and this is why it's well distributed and the majority of it is in the south zone of Sao Paulo this is a very huge and attractive part of Sao Paulo labor and only 15% of this -- of this inventory is attached to residential ready unit. You can see in this chart above and below it is that the relation unit is only 579 of it is -- in terms of residential units that we carry in our inventory.

Now, I would like to pass to Emilio Fugazza, then he'll be able to talk more about the financial performance of the company.

Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Thank you very much, Pedro.

Financial performance is Slide Number 8, net revenues; let's start with the information that we've got BRL287 million in 1st Q, 2022, an increment of 63% over for 4Q, 2021 mainly because much more completion of construction this quarter. Something around 25% more compared to the previous quarters. Apart from this facts, useful information of the launches and a very good performance of Exalt and Expression -- Sao Paulo. We have already recognized this project in our results in these 1st Q that's important.

Apart from this fact let me just remind you that all the facts mentioned by Pedro, regarding the suspension of sales of -- is indeed are fully impacted this first Q results. So, talking about -- the costs of the incremental net revenues was BRL130 million compared to gross margin of 39.3%. There was an oscillation about the gross margin dropping from 44% in the last 4Q, mainly because we've got in this result the cancellation of the four units sold of EZ, Infinity. And much more than that, the incremental costs above the INCC, regularly in the last six scores is important to bear in mind that if I am talking about an average increment over INCC, it would be something around 50% in the last six quarters or 18 months. And so, apart from the fact that the company is trying to protect itself, buying materials, buying equipment in advance upon the use of those in our construction in order to keep the budgets under control, but regularly increase above INCC is a kind of thing that is a huge effort to manage and to keep the margins in a very healthy and steady level.

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Talking about selling and G&A expenses as you can see more net revenues means that the dilution of those over net revenues are very good this quarter. So, 4% over the gross sales in terms of selling expenses being that the volume of expenses are pretty much the same compared to the average four quarters of the last year and also expenses BRL29 million is pretty much the same we have been carrying in those orders. All need to bear in mind that you go delivering our -- release, you're going to see all the expenses related to -- you're going to see an incremental ad spend, the IPCA -- to provide incremental salaries here in Brazil.

Talking about again financial performance and financial results on Slide Number 9, I'd would like to start talking about those BRL41 million of financial results, which means that two thirds of these amount is regarding the provided by our receivables that we are financing to our clients.

So, is it BRL0.5 million -- the idea for providing financing to our clients over 20 years, charging something around 10% to 12%, plus IGP, plus IPCA, which are regular indexes for inflation period. In the last two months, we started a campaign, a huge campaign in order to try to attract new clients to be or to hold in our portfolio and we have attracted so far. 50 clients offering something about 8% to 10% plus IGP and plus IPCA.

One-third of these financial results for what is provided by the increment of debates interest rate. Brazil asks is it -- that is carrying something around BRL800 million of cash. This is majority currently compensated by 100% of this basic interest rate meaning that with an increment of 12.75% yearly as we have been even now. In fact, a lot providing more than 111 guides in the full year of financial results regarding our cash position.

Equity income on top right, you can see the projects that we are providing. We are doing the construction, we are launching the projects in partnerships. One very interesting example is the project example -- project under construction in the -- in the region of Sao Paulo is a branch of over BRL700 million of our units and the project is growing further in the right schedule, in the right budget and the right quality and this is one example. Another example is -- is a low ranked project, over 1,400 units to be delivered by the end of this year for its phase by the end of this year, on the right schedule, on the right budget, that's important to mention and the third project is -- 500, a high-end project in the south of Sao Paulo -- all in all, providing BRL21 million of results, coming from equity income from this projects.

Finally, net income; net income it is about 105% -- BRL105 million, an increment of more than 30% for our net margin of 36%. Let me remind you that regarding financial result in -- we can offset the SG&A expenses for the company, providing a net margin very close to the gross margin for this company. And let me mention after all the results to be recognized BRL328 million for our backlog margin of 40%, which is -- of the backlog for EZTEC.

Let me remind you that this drop of 2% from the fourth quarter or 5% from the first Q 2021 is mainly the impact of these adjustments in cost or these adjustments -- this regularly adjustments are costs coming over the INCC -- quarterly-over-quarterly.

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Page Number 10, portfolio of the receivables provided by -- which is -- provided the financing -- we ended the first quarter pretty much the same response to order above BRL282 million. Let me make sure that this means that we are provided by unsecured a little bit more than 1,000 people for this quarter, the origination was something about 20 new products and foreclosure was something about 11 units. The whole year of 2021 was 40 units over foreclosure -- that we are pretty much in the same path there last year. Despite that, the IGP increases much more than 50% -- 15% last year, meaning that the whole amount of the receivables only in the report -- in the full year of 2021 increased by something around 25%. And only in the first quarter 2022 something around 5%.

So, going to Slide Number 11, Slide Number 11 is the big picture of the shareholders equity of this company, which means that the total amount we've got up to 2021 was BRL4.3 billion and in the results of the first quarter was another BRL100 million all-in-all very close to BRL4.5 billion. The breakdown is, you can see on the right side, the right side here means that the assets are -- mainly cash -- cash means that the cash equivalent and the finish the unit's receivables. Only it's about BRL1.3 billion, pretty much one third of the total amount of shareholder's equity in this company.

Landbank, when Pedro mentioned that the landbank of this company is about \$11 billion, the costs booked in our shareholders equity is about BRL1.2 billion or BRL1.1 billion, meaning something around 26% of our equity. And let me remind you that this on average, the amount of landbank that we bought, we bought between 2015-2019 even 2020. So, taken in consideration, all the inflation we got here in Brazil in the last 24-months it's important to bear in mind that the costs, the value -- I'm sorry, the value of this landbank is following the inflation here in Brazil.

So, all the -- so which means that we can take from this landbank at both 50% of value over the cost; all of the costs we have already paid for it. Units ready -- units ready to live meaning BRL255 million, which means does the total amount of potential sales value, something around BRL500 million big gross margin provided by this slide is about 50%.

And finally inventory under construction means that -- even these dollars is within this number -- so something around BRL400 million to BRL500 million, we have expand for -- the project of over 88,000 square meters of leasable area is a project under construction and we are doing in order to rent (inaudible) and is a kind of asset that we are doing in full, whole costs are around BRL9,000 to BRL10,000 per square meter, expecting to be sold for over BRL20,000 per square meter, which means gross margin of pretty much 50%.

All in, let me remind you that the equity per share is about BRL20 per share, because we have a red box 6 million shares of this company. So, meaning that's a way to see the market capital of this company, which is about BRL16 million per share. We are discounted by 20% at least of the value of this company, 0.8% or 80% of the shareholders equity --

Finally, talking about -- subsequent events, all of those three events are very important to our company and very good decisions for our shareholders. First of all, including dividends, which means that all the dividends regarding the 2021 results, we have already

paid by the end of the March, by the end of first quarter 2021 and the Board of Directors took the decision this year are paying the dividends like using the same metrics, but they obliged dividends, every single quarter, we provide the results. This quarter, the first quarter of 2022, we've got something around the BRL105 million of net income -- that we are going to update pretty much 25% of this -- pretty much BRL25 million, BRL0.11 per share. The payment date is going to be 5th of May -- I'm sorry, by the end of May and the company shares will be traded XY to dividends including 18th of May.

Secondly, the share buyback program. So, far we bought six million of shares, and the Board of Directors yesterday has approved the cancellations of those 6 million shares. Mainly that's -- we are making room to buy another 9.5 million shares in this third program of this new phase, which means to expand something around in the economic price. Pretty much BRL150 million of the cash of EZTEC's cash in order to add value to our shareholders. We are going to start now.

Finally, debentures; we took the decision to raise money through debentures through these debts, before submission of this debts, which means BRL300 million in order to protect ourselves, protect the company from this, I would say, awkward environment we have been passing through. So, this administration has never passed through a moment that there is a pandemic with COVID, the effects after the pandemic, there is a war, the effects after the war. There is a huge inflation, an inflation, where the IPCA is about 10%. The INCC is over 10%. The IGP is over 15% and the base interest rate in Brazil is coming to very close to 13%.

So, we don't know for sure what is going to happen. We don't know for sure what is coming, and that's why we took the decision to, I'd say increase liquidity for our company. Given the fact that this company is a company that is paying only cash, paying all in advance. We are doing a share buyback program. We are paying interim dividends.

So, doing all of this, in order to bring back to our shareholders very good results means that we definitely have to put ourselves in a position that if something wrong happens or a good opportunity happens, we have cash enough to take this advantage or to avoid any kind of the struggle for this administration.

So, say this, say that I would like to open for further questions for our shareholders. Thanks very much guys.

Questions And Answers

A - Pedro Lourenco {BIO 21824082 <GO>}

(Question And Answer)

Thank you, Emilio. Now, we will open up the Q&A session. (Operator Instructions)

See there isn't any raising hands appearing for us, I would like to close this conference call, and thank you all for your time and appreciate to be here with us in this Company

results for the first quarter of 2022. Thank you all. Have a nice day. Have a nice weekend.

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