

Q3 2009 Earnings Call

Company Participants

- Elie Horn, CEO
- Luis Largman, CFO
- Saulo Lara, Planning & Financial Control Officer

Other Participants

- Gordon Lee, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Cyrela Brazil Realty's conference call to discuss Third Quarter 2009 results. At this time, all participants are in a listen-only mode. Later, we'll conduct a question and answer session. Instructions will be given at the time. (Operator Instructions)

As a reminder, this conference is being recorded. The file will be available at the Company's website at www.cyrela.com.br at the Investor Relations section.

If you still do not have a copy of Cyrela's earnings report released yesterday, November 12, after the closing of the (investors' business) trading session, you may download it from the Company's website at www.cyrela.com.br/ir.

This conference call and this live presentation are being transmitted via Internet as well. You can access the webcast by logging on to the Company's website. Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of microeconomic conditions, market risks. And other factors.

With us today in Sao Paulo are Mr. Elie Horn, Chief Executive Officer; Mr. Luis Largman, Investor Relations Officer; and Mr. Saulo Lara, Planning and Financial Control Officer. First, Mr. Horn will present the presentation. And after that we will open for question and answers.

It is now my pleasure to turn the call over to Mr. Horn. Sir, you may now begin.

Elie Horn {BIO 1823000 <GO>}

Good morning. And thank you for joining us today. We resumed our activities at full speed. The crisis apparently is history and Brazil now is in fashion again.

The Third Quarter was excellent for Cyrela. Launches recorded BRL2 billion in the Third Quarter, which is 1.5 times the launches of the first semester. And sales achieved BRL1.6 billion, which is 1.2 times what we saw in the first semester.

In September, we achieved a peak of record sales, BRL733 million. The previous record was achieved in August 2008, BRL500 million and something.

Sales speed is a growing trend; net profit up BRL264 million, possibly again from the sale of Cyrela's stake in Agra.

Living continues to grow. And the housing program is looking very well. There is cooperation never seen before between (Casa), the Government and the developers. Living has already launched 6,000 units in the first nine months of 2009.

And up to today, Living has launched 9,500 units, 600 from which are from the Minha Casa, Minha Vida program; over 16,000 already approved to be launched soon. We are widening Living sales channels.

In September, Living opened additional two new stores in Sao Paulo in two shopping malls, Penha and Aricanduva.

Rio de Janeiro was chosen to hold the Olympic Games. That's good news for Rio. And very good for Brazil; and very good for Cyrela too. We are ready to capture this opportunity. We will talk about this later during this presentation.

We have raised BRL1.2 billion, with the primary share of offering we did recently. We would like to thank our investors for trusting us in our plans, in our capacity to implement what we are promising. And we guarantee that we will work very hard to create as much value as possible for you.

I'm going to pass the message now to Mr. Luis Largman, our CFO. Thank you.

Luis Largman {BIO 2243185 <GO>}

Good morning; good afternoon, everyone. In slide number four, shows Cyrela's shareholder structure after the follow-on. We issued BRL1.2 billion in new shares considering half of the (inaudible) issue and the (inaudible) issue, which increased the free float from 57% to 63%. The pricing of the offer took place on October 27. And the price share was BRL22, with a discount of nearly 2% of the closing price on that day.

63% of the offer was placed with international investors, most of them American. The proceeds of the offer will be used for an acquisition to meet the needs of the Company,

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according to the growth we projected for the next three years.

In slide number five, we can see that (the fact) that the market recover of sales speed that we have been that we have been (inaudible). And because we have a huge market potential, we ratify our guidance, launches and sales for 2009 and 2010 that we announced in the last quarter. And we announce now the guidance for 2011 and 2012. We plan to reach BRL11 billion in launches. And BRL10.5 billion in sales on 2012, or we will double the Company if you compare it with 2009 in three years.

Living's participation in the portfolio grow year-over-year. And should reach 50% in 2012. We announce as well the margin guidance in consolidated terms considering the growth of Living's participation in our portfolio.

On slide number six, we'll talk about Rio being chosen to be the host city of the 2016 Olympic Games. Cyrela is the best positioned company of this sector for the upcoming Olympic Games. Our landbank represents potential sales of BRL14 billion in Barra da Tijuca only, where the Olympic Village and the Olympic Training Center will be built.

Tens of billions of reais will be invested, both by the public and the private sectors for the preparation of the facilities for the event. And around BRL11 billion will be invested in transport infrastructure for the access of Barra region. These investments will last for after the Games. And they will bring a lot of value to the region.

Now let's talk about Living. In slide number eight, we show that we have 13 launches, being four in Sao Paulo, two in Rio, one in Espirito Santo, two in Para, four in Sao Paulo countryside. Living launched 6,000 units in the nine months of 2009, propelling BRL800 million in potential sales value. 50% of the units launched were under Minha Casa, Minha Vida program, with average price of BRL94,117. Sales speed is fantastic; 78% until now.

The sales speed of the projects in the program is even better. Some projects that were launched before the launch of the program. But that (need) the great area of Minha Casa, Minha Vida program, will be benefit from that. Three projects were successfully (migrated). (inaudible) will be put in in Sao Paulo, (inaudible in Sao Paulo also. And (Liber Vila) (inaudible) in Rio de Janeiro.

But Minha Casa, Minha Vida does not account for all these things. We (inaudible) financing availability, the profits with units priced between BRL130,000 until BRL200,000 are an important niche with great demand, in fact, the projects covered by the program. Living will continue to serve (these sales).

On page nine, in slide number nine, we can see some highlights of the launches that we made. So in the first column is the launches higher than BRL130,000. And the second is Living launches below BRL130,000 in the program Minha Casa, Minha Vida.

As you can see, all Living launches were very well accepted by the market. But we would like to point out some highlights; Alcance Niteroi, Ecoparque phases one and two in

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Belem. And Fatto Mansoes in Campinas. These projects, two of them were 100% sold. And the other 92% sold in a very fast pace. And in the housing program Minha Casa, Minha Vida, you have two of the launches 100% sold; that's Dez Curuca, Parque dos Sonhos; and the other 97% sold. So it's a fantastic sales speed.

On slide number 10, we present Living projects scheduled to be launched in the next quarter of 2009. More than 9,000 units will be launched in 28 projects totaling BRL941 million in potential sales value all over the country.

3,000 units nearly were already launched in the current quarter, totaling BRL264 million in potential sales value. And 75% of which are in the housing program Minha Casa, Minha Vida.

We have 48 projects already approved by Casa for launching, totaling 18,000 units, or BRL2.2 billion of PSV for the next months.

On slide number 11, we show that the launches in Living on the Third Quarter of 2009 total BRL451 million. And sales totaled BRL440 million. In nine months in 2009, launches totaled nearly BRL800 million. And sales also the same, BRL800 million. The average sales speed of launches of the quarter was 51%. But these launches are 78% sold on average, with several projects 100% sold.

The sales speed of launches in this quarter is much higher than that of any other previous quarters. Besides the recovery of the market, we noticed a high speed of sales of projects in the housing program Minha Casa, Minha Vida, mainly from this quarter on.

On slide number 12, we show that Living today -- in Living, we have a potential sales value of nearly BRL7 billion. We have 29,000 units in the criteria of the housing program. In the last quarter, we reviewed the land plots in our inventory in order to fit them into the Minha Casa, Minha Vida program. Most of the land is located in the South Eastern region. But the stake of other regions has been growing. 69% of the value of the landbank was bought with little cash disbursement that is through sub-contracts. Despite the fact that the housing program favors land acquisition with cash disbursement, we do not let down our sub-contracts when it comes to increase our landbank.

On page 14, we begin to show our mid and high segments. Let's talk on slide number 14 about the launch that was a landmark in Sao Paulo in 2009, NovAmerica.

The project comprised five condominiums (totally indefinite) implemented in a 70,000 square meters land plot, with exclusive leisure items for each of them; a park donated to the city. And another private park of 6,000 square meters. The original plan was to launch the whole project in three phases, starting on the first semester of 2009. And ending in 2012. With the sales success of the phase launched in March, we decided to launch the other phases. And in seven months, we launched the whole project. And 8% of the units are sold.

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Nearly 1,800 units were launched in total, with potential sales of nearly BRL700 million. And up to now, nearly 1,400 units were sold, totaling a potential sales value of BRL492 million.

On slide number 15, we have other gauges of success that we have done in overview. We would like to highlight the following launches. Varandas da Serra launched in July in Belo Horizonte, 100% sold; Ile Saint Louis launched in August in Sao Luis Maranhao, 67% sold; Menara launched in August in Sao Paulo capital city, 100% sold; CEO Corporate Executive Offices launched in August in Rio de Janeiro, 71% sold; Quinta dos Moinhos launched in August in Porto Alegre, 93% sold; Stillo launched in September in Natal, 88% sold; so all the Brazilian deals.

On page 16, this page brings more information about all the launches in the quarter. We had 27 projects were launched in the quarter, 13 from Living and 14 from traditional segments, medium, mid-high and luxury.

49 projects were launched in the nine months of 2009 totaling BRL3.1 billion. BRL2 billion of potential sales that launched in the quarter, 71% more than in the Third Quarter of 2008. And 1.6% more than the first half of 2009.

53% of the launches of the quarter were in the state of Sao Paulo. And with the recovery of the luxury projects market, the average price per square meter launched in this quarter increased 25% when compared to the launches of Third Quarter of 2008.

Cyrela's stake increased from 71% in the Third Quarter of 2008 to 76.4% in the Third Quarter of 2009.

On slide number 17, we would like to highlight that in September, our sales peaked at new record. September accounted for 45% of the sales of the quarter. VSO of the Third Quarter was 32%, much above than the 21% of the last quarter; sales of BRL1.6 billion in the Third Quarter of 2009. And BRL3 billion accumulated in the nine months of 2009. A good level of sales inventory from launches of previous years, representing 35% of accumulated sales of the year.

In terms of geographical segmentation, Sao Paulo represented 52% of the sales, North and North East 17%, Rio de Janeiro 16%. And South region 15%.

Living represented 27% of the potential sales value sold in the quarter. Seller and Selling, our brokerage companies, accounted for 35% of the potential sales value sold in the quarter. In the nine months, they accounted for 40% of the sales. Seller and Selling together have more than 1,100 brokers.

Sales continued very well in the last quarter. We have many projects -- we launched many projects with very successful sales performance, such as (inaudible) in Sao Paulo that was launched 15 days ago. And it's already 80% sold.

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On slide number 18, we show that we sold 52% of all the launches of the quarter. That's a fantastic sales speed record. High sales speed can be measured by the sales of launches of the previous two quarters. Second quarter launches were 79% sold. And First Quarter of 2009 launches were 75% sold by the end of the Third Quarter of the year. Inventories market value reached BRL2.5 billion, only considering Cyrela's stake.

On page 19, we show that the units delivered will reach more than 11,000 this year, from which we delivered around 4,000 units until the end of the quarter. 96% of the units delivered in the nine months of 2009 were already sold. We have today 161 work sites. And this year probably, we'll build more than 1.7 million square meters.

On slide number 20, we talk about landbank. With the proceeds of recent follow-on offering, landbank is going to be incremented in the next years. The most important in this slide is that our BRL37 billion in sales value from our total landbank, 86% of the units are priced (until) BRL500,000. And therefore this goes to the housing financial system, SFH. All projects to be launched in 2009 and those that are going to be launched in 2010 are already in the landbank.

Now Lara will talk about the financial results.

Saulo Lara {BIO 15335501 <GO>}

Well the (proposal from that) is they're quite great results I present in the pro forma. (You ought) to take into account the accounting adjustments stemming from the change to Brazilian corporate legislation.

Net revenue increased 80% compared to the Third Quarter '08 due to the increase of launches and sales in previous years since these products have been built and delivered.

Over the past 12 months, the Company began to recognize revenues related to 54 projects launched during this period, highlight being CEO, Prime Family Clube, Varanda Nova America, Menara and Buritis Condominio Clube. The revenues from the economic and super economic segments represented 16% of the total revenues.

The gross margin in the Third Quarter '09 was 34%, representing 6.7percentage points decrease compared to the Third Quarter '08, which is mainly explained by the following factors.

One, 1.2percentage points due to the increase in the number of products built by the third-parties; two, an effective increase in the average cost of manpower and the construction materials, not yet reflected in the cost readjustment index, INCC; three, an increase in the share of the economic and super economic segments in the portfolio which, in the Third Quarter '09, represent 16% of the total gross revenues compared to 13% in the Third Quarter '08.

Four, since the change of the accounting principles, we have started to recognize physical swaps done with the units to be built as payment for land acquisition in their fair value, sales values of the units.

Five, 0.8percentage points due to the amortization of the capitalized interest, SFH plus debentures. During the previous year, these amortizations were partially recorded as financial expenses.

The gross margin of the economic and super economic segments, Living products, in the Third Quarter '09 was 31.1%, 0.4% lower than the 31.5% in the Third Quarter '08.

In the slide 23, the EBITDA recorded BRL293 million. It increased 100% compared to the Third Quarter '08. The EBITDA margin is 21.7%, 2.1percentage points higher than in the Third Quarter '08.

The net profit achieved a peak record, BRL264 million, an increase of 239% compared to the Third Quarter '08.

The commercial expenses totaled BRL96 million, an increase of 4.9% compared to the Third Quarter '08 due to the higher volume of the loans, (27) compared with (21). As a percentage of the contracted sales, the change was negative in 2%. And as a percentage of the net revenue, the decrease was 5%.

General and administrative expenses totaled BRL67 million, an increase of 5% compared to the Third Quarter '08. And as a percentage of the net revenues, decreased 3.5percentage points as a result of the pre-sales, a reduction expense that was initiated in the Third Quarter of 2008. The decrease in this percentage was expected due to the recovery of the market activities.

Slide 24 shows our account receivables. Considering the total contracts already signed, accounts receivables amounts to BRL8.3 billion. 9% of the total account receivables portfolio relates to delivered units. And they remunerated at IGP-M plus 12%. The remaining 91% are related to units under construction. And they are remunerated at the INCC.

The average duration of the account receivables is 3.1 years. The construction costs (we) incur of the units under construction are to be viewed. It is BRL2.9 billion, or 38% of the receivables related to such units.

Slide 25 contains information in debt and the liquidity. The gross debt at the end of September of 2009 was BRL2.8 billion. And a cash balance totaling BRL865 million, which increased due to the sale of Cyrela's stake in Agra. And the liquidity debt is BRL1.9 billion.

The net debt over EBITDA ratio is 3 times. If we consider the mortgage with the (inaudible) as debt, then it is just 1.3 times if we consider only the corporate debt, which

shows a very comfortable position. The great majority of the debt matures in the long term.

Slide 26 provides two important indicators; (the third) one day delay in the payment index and the contract cancellation index. The delay index records 3% in September. 95% of all our delayed days are usually successfully renegotiated. The average contract cancellation index in our chief client portfolio was 1% in September 2009.

Now we are open for the questions and answers.

Questions And Answers

Operator

Excuse me. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Please restrict your questions to two at a time. Our first question comes from Mr. Gordon Lee with UBS.

Q - Gordon Lee {BIO 1551117 <GO>}

Hi. Good morning; just a couple of questions. The first is just a general question on Casa economics and Minha Casa, Minha Vida program. I was wondering now that the program has been around for a little over six months, how you're feeling the performance indicators from Casa? Do you still feel comfortable that they will be able to hit the targets and to continue making payments on time? That's the first question.

And the second question is with the balance sheet strengthened following the capitalization and with the new guidance, could you give us a sense of what you think the average quarterly cash burn rate will be for the next three/four quarters?

That would be great, thank you.

A - Elie Horn {BIO 1823000 <GO>}

Hi, Gordon. Well first, your part of your question about Casa, Casa is working very well. They are decreasing total time to make approvals. Before, it was 60 days; today, it's 30 days. We have a strong alliance between developers, Casa and the Government. We have our people working who have monthly follow-up with Casa Board, with the ministers. So everything is working very, very well. So by the side of Casa, we didn't have any constraint.

Related to your second question about after the follow-on capitalization, what we have, if we grow around 10% to 15%, the Company will be positive cash flow around RL400 (million). Now from our -- what you need to consider is how much money we invest in land. And I give you -- and consequently how we build the growth of the Company.

So in general terms, this will depend on each quarter how much money will be spent on land. What I can tell you that in our normal course, growing around 10%/15%, we'll be cash generating around BRL400 million.

Q - Gordon Lee {BIO 1551117 <GO>}

That's very clear. And do you have a sense, an estimate of what you expect for the next couple of quarters in terms of land investment then?

A - Elie Horn {BIO 1823000 <GO>}

This will depend on market conditions. So it depends on the opportunities; depends on the price. It too depends on the -- it's much more negotiation issues.

Q - Gordon Lee {BIO 1551117 <GO>}

Perfect. Thanks very much.

Operator

(Operator Instructions) This concludes today's question and answer session. Mr. Horn, at this time, you may proceed with your closing statement.

A - Elie Horn {BIO 1823000 <GO>}

So thank you again for your presence. We hope to beat the numbers of 2009, '10, '11 and '12. So maybe next talk will be about 2013.

Thank you very much for today. And let's hope everybody will have good results from now on.

Thank you. Bye bye.

Operator

That does conclude our Cyrela Third Quarter 2009 earnings conference call for today. Thank you very much for your participation. And have a good day.

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