

Q1 2013 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazza, Chief Financial Officer and Investor Relations Officer
- Pedro Henrique, IR Coordinator

Other Participants

- Ariel Amar, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's First 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 1Q13 Webcast. The following presentation is also available for download on the webcast platform. The following information is stated in Brazilian Real and in BR GAAP and 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 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 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.

Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Thank you very much. Good morning, everyone and welcome to our first quarter 2013 presentation of results. My name is Emilio Fugazza, I'm EZTEC's CFO and IRO and with me today Mr. Pedro Henrique, EZTEC's IR Coordinator and we both are going to disclose the operating and financial highlights of EZTEC. We are pleased to announce this very first quarter. Highlighting records from an operation and the Company's ability to get consistent financial performance better than ever.

Please, I ask you to observe the slide number 3. In it, I will start talking about the highlights of the first quarter 2013. On January 15th, 2013, the Company announced the largest operation of its history, the sale of Tower A of EZ Towers project to Sao Carlos, a quoted company in the Brazilian stock market for R\$564 million. The result of these sales will be recognized as the construction progresses to the completion of the project is scheduled for 2015. To achieve our launch guidance before 2013, between R\$1.2 billion to R\$1.4 billion the following has been done.

The company have launched three new projects in the first quarter 2013, totaling R\$202 million. These projects have an average of 62% of their units already sold. The Company added through state acquisitions in projects that were launched in previous years, R\$90 million in potential sales value. We started the year with R\$292 million in potential sales value, almost 22% of the mid-point of the guidance. Sales totaled R\$207 million in the period, 49% of the units launched prior 2012. The land bank ended in the quarter with a potential sales value of R\$4.1 billion.

In relation to the financial highlights, I have to say, in the first quarter 2013, exceeded by 11 percentage points, the minimum guidance of 40% of projected gross margin, reaching 51% in the 1Q. And gross profit reaching R\$164 million. Net income reached a record R\$151 million, resulting in a return on equity of 42%, one of the largest among Brazilian companies traded. The Company ended the year with a net cash position of R\$75 million. In addition to performed receivables of R\$365 million, bearing interest at 12% per year, plus IGP-M and eligible for securitization.

Addressing subsequent events, the Annual General Meeting held on April 26th, we have approved the limit of payments to directors of that R\$12 million for 2013, the same amount approved in 2012. The payment of the amount of almost R\$80 million in dividends, which will be paid until November 3rd, 2013. The election of eight members of the Board of Directors for a term of two years, six of them being reelected and the election of two new members as effective members, Flavio Ernesto Zarzur and Mr. Silvio Ernesto Zarzur.

Also, as a subsequent event, on May 6th, a Board of Directors meeting was held to decide on the New Executive Board. Mr. Marcelo Ernesto Zarzur, take seat as Chief Executive Officer of EZTEC, and takes the charge of Technical Director as exercised in the past six years. Marcelo is in the Company since 1989 and contributed to its formation and growth along with Ernesto Zarzur, Silvio Zarzur and Flavio Zarzur. Marcelo is coming to the presidency of EZTEC for the next two years focusing on delivering all the growth we have had in the last two years, with the same quality, punctuality, organization and cost control, trademarks of our management.

Besides him, Silvio Ernesto Zarzur, the former CEO, was appointed as Executive Vice President, keeping assignment as COO. Mr. Roberto Mounir Maalouli, who joined EZTEC in 2003, was appointed by the Board of Directors, in recognition of all the work done in the Company, as Chief Legal Officer to complete our Board of ten directors. The other directors were reelected to the same position they occupied until then, for a period of two more years.

I would also like to present slide number 4, that talks a little about the land bank. As I mentioned before, we ended the quarter with a land bank potential of R\$4.1 billion and own PSV, acquired at an average cost of 11% of PSV, including in this account the expending increase in construction potential. In the chart above and to the right, I highlight the age of the company's land bank, in which 62% were acquired since 2011, keeping the focus on getting a gross margin at least 4%.

In the chart below and to the left, there is a de-allocation of the land by segment, while 67% is allocated to the medium -- to medium-high income class, and 23% for the commercial segment. Finally, the chart below and to the right, it is observed that 85% of EZTEC loss are in the Metropolitan region of Sao Paulo, including the city of Sao Paulo, one of the most profitable regions of Brazil, which shows us clearly that the focus of activities shall be held in the coming years.

Now, let's move on to slide number five, where we will talk about the EZ Towers venture. In this slide, we can see the updated picture of the construction site of the venture. The foundation sets are already completed. And currently, the structure of the first tower is already on the 18th floor.

By March 2013, the total cost incurred for project is (inaudible) CEPACs and construction was R\$144 million. The current schedule sees the delivery of Tower A in December 2014 and the Tower B, in December 2015.

As disclosed in the material fact dated January 15th, 2013 EZTEC sold the Tower A of the EZ Towers to Sao Carlos, a Brazilian publicly traded company, for R\$564 million, adjusted by INCC since September 2012. At the same moment, EZTEC and Sao Carlos signed the financing agreement for construction of the projects with Banco Bradesco, one of the largest commercial banks in Brazil, for a total of R\$425 million. This debt will be assumed by Sao Carlos after the granting of the deed of Tower A, by December 2014.

The payment method considers three installment condition, all corrected by INCC. Being the first was stated in first quarter 2013, corresponding to 10% of the sales value. The second, the intermediate installment relates to 15% of the price and will be paid on the delivery of Tower A, which scheduled for December 2014 and the third finally, the final installments, to be paid by the assumptions of the debt by Sao Carlos, upon granting of the final deed of sale.

In addition to these three installments, there is also the payment of a variable amount, corresponding to the financing expenses of the construction that varies according to the

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funding released before the construction of the project. Already being paid since we raised approximately R\$20 million to accomplish the construction.

Finally, passing through the slide number six, which I will talk a little bit about the engineering results of the company. In this slide, we can see pictures of the projects that delivered in the past six months by EZTEC, including gross margins finished and the potential sales value of originals. Know that it is not a question of quantity versus quality, but establishment of an engineering and planning areas that are talking daily about the development of the project. If there is success in our operations, this is the result of the fact that the departments of the company can see themselves as complementary to develop the best deal for all parties involved.

For the years ahead, our challenge is intense. Since we are increasing the number of construction sites running simultaneously from 28 at the beginning of 2013 to 43 by the end of the year. Therefore, the scale and size of these challenges bring more responsibilities. For this reason, EZTEC has its planning, budgeting, projecting and supplying areas, which are capable of supporting the Company's growth, together with not only high quality professionals, but also with its well defined processes.

Finally, the new CEO will tell us that this challenge entrusted to us will be fulfilled in the same way he has managed the engineering team in recent years, with organization, safety and excellent results to our shareholders.

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

Pedro Henrique {BIO 2519265 <GO>}

Thanks, Emilio. Good morning everyone. Please turn to slide number 7, where we will talk about the launches in the first quarter 2013. As Emilio told, besides the Tower A of EZ Towers, EZTEC launched three projects in the first quarter of 2013. All of the projects are located in the city of Sao Paulo and in the south zone of the city. The first one was launched in the middle of February, the Premiatto Sacoma, a middle-end project, with R\$50 million of own PSV, which now, at this moment, at of date of March '13, it's 77% sold.

The second one is Splendor Vila Mariana, a high-end standard project with R\$66 million of own PSV, and 82% sold. And Le Premier Paraíso, also a high-end project with R\$85 million of own PSV and 70% sold. As Emilio told, EZTEC acquired the stakes of three projects that we launched before. The projects are in the city of Santo Andre, in the Sao Paulo Metropolitan area. The projects are called Royale Prestige, Royale Tresor and Royale Merit and those acquisitions represent R\$90 million of own PSV, additional in the launches of the year.

Now, please turn to slide number 8, where we will talk about the sales. And after, in the slide number 9, I will talk about that projects to be launched in the second quarter of the year.

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In the slide number 8, you can see that the sales totaled R\$207 million in the first quarter of 2013. 63% of that was sold by our own brokerage team. And 49% of the total sales were from -- came from units that were launched in Q, 2012. As a result, the inventory of the company ended the first quarter 2013 at 978 million. In the chart on the bottom right, we would see that 55, 56% of the units sold came from segments from middle to middle high-end focus of the Company, and 39% came from the high-end segment, as a result of the sales of project that were launched in the first quarter of 2013.

Please, turn to slide number 9, where we will talk about the following projects. EZTEC in May, 3rd day of May, launched the project EZ Mark, a premium office commercial project in the south zone of Sao Paulo with 334 million of own PSV and now it is 55% sold. Addition in this launch to the launches in first quarter 2013, launches in the first five months of the year, came to 626 million, almost 50% of the guidance.

Now, EZTEC is projecting to launch two projects in the city of Osasco, in the Sao Paulo Metropolitan area. One commercial project with 76 million of own PSV, and one middle-high end residential project with 73 million of own PSV.

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

Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Thanks a lot, Pedro. Please, moving on quickly to slide number 10. First of all, it should be noted that since January 2013, we had to adopt the IFRS 10 and IFRS 11, which changes the accounting method for joint ventures and partnerships. The developments will no longer be consolidated proportionally and will now be registered by the equity method.

Therefore, revenues cost and expenses, assets and liabilities in the Company consolidated financial statements represent only the projects which the control belongs to EZTEC. It is important to point out that this new method has no impact on the company's equity or the company's net income.

Having said that, quickly starting with net revenues, the chart on top-left, we know that for 1Q 2013, there was an increase of 114% due to the higher number of construction process as well as the sale of Tower A of EZ Towers. The total amount of revenues of R\$323 million belongs exclusively to projects which are 100% EZTEC.

Looking above and to the right, the company's growth income shows us first, the resilience in prices charged by EZTEC, maintaining the past average margin above 50% and with an increment of 108% in the gross profit side.

In the chart to the right and below, we can see the selling expenses, which remain reasonable 4.2% of net revenues. I should mention that the increase in the volume in expanses is used to the expenditure on commercialization of EZ Towers.

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In the chart on the left and below, we can see the administrative expenses, which are at 5.6% of net revenues. I want to mention the administrative expenses for operating 100% EZTEC development of the inventories are at the whole company, not getting benefit from the equity method.

Moving on to the next slide, 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 R\$365 million to all our clients which had their units delivered paying interest rate of 12% per year plus the IGP-M. It is reasonable to note that the results in the 1Q 2012 amounted to 7.3% of net revenues and today with increase of our revenues, the same indicator contributes only 2.7%, which will be a trend for the coming quarters, less financial results and more operating income.

On the other slide, looking at the top-right corner, we can see the result of the equity method, which represents the net results of Company's joint ventures and represented in 1Q 2012, 6.9% of the net revenues. In 1Q 2013, it representing 6.1% of net revenues, showing that joint ventures taking 12 months, has been less important than development 100% controlled by EZTEC. This will not be a trend for 2013, due to a number of sites that will have their works started.

Just below on the right, we see the backlog margin, which is pointing out the maintenance above 50% close to 53% when including EZ Towers. Finally, a record high net income of R\$151 million, with net margin of around 47%. Here, I have to remember that, in the earnings release that we disclosed top to bottom, the variation of net margin with the new equity income metric from fourth quarter 2012 to first quarter 2013. This is a synthesis of all data we came up with in this presentation.

On the next slide, slide number 12, we can disclose the results by segment. As you have seen in EZTEC's earnings release, we make a disclosure of our residential and commercial segments. In the 1Q 2013, residential side reached 43% of the total amount of net revenues with a gross margin of 46.3%.

On the other hand, commercial side has reached 53.9% of gross margin. Both, residential and commercial segments, 100% EZTEC, have reached at least 6 percentage points above the minimum guidance of the company. This data can assure us that backlog margin is precise and that this will be the trend for the next couple of quarters.

Finally, on the slide number 13, I would like to emphasize the value of this company as I have been doing at every conference call. The Company's net asset value results achieved one more step forward in the first quarter 2013. From R\$21 per share in first quarter 2012 to R\$25.35 per share, representing a cumulative growth of 35% since 2009. I emphasize here the importance of the land bank, with a potential R\$4.1 billion that should generate minimum gross margin of 40%, adding an additional R\$1.6 billion in net assets in the coming quarters.

I would like now to present the final message. This was an unforgettable first quarter 2013, with this spectacular sale of EZ Towers, either by the launches and sales we made,

which is all reflected in the result of R\$151 million.

Another great news is that we launched a project of R\$333 million in potential sales value and we have an excellent sales velocity. Demand remains strong for our products. We already delivered two projects more within the expected costs and quality. For the future, we have three projects more to deliver on the second quarter 2013. We bought again four very good pieces of land, adding R\$392 million [ph] of potential sales value, 100% stake of EZTEC, with the same criteria and desired margins. We have maintained our net cash position without the need of corporate debt increasing only the asset-backed financing, reflecting an increase in production. Thus, EZTEC continues with its solid operation, confident in the adopted strategy and aware of the challenges ahead, always focused on profitability.

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 question-and-answer session. (Operator Instructions) Our first question comes from Ariel Amar of Itau. Please go ahead.

Q - Ariel Amar {BIO 17136370 <GO>}

Hello. Good afternoon everyone, myself Amar and Emilio, thank you for the call. I have three questions. My first one, is I like to get a little bit color on the results excluding the effects. I know you guys, you separate the revenues and costs that are recognized in the quarter by segment, by the commercial and residential segments, but I would like to know if there are more projects being recognized in the commercial segment, I mean they have more revenues -- recognized in the commercial segment or the EZ Towers?

My second question is quite simple. I would like to know -- to get a better color regarding delivery. I like to know how much you guys deliver in the quarter and what is your expectation for this number going forward?

And, finally, my third question is regarding performed receivables. I like to know, have you I mean -- we have been observing a consistent increase in particular account over time. I wanted to know what exactly are you planning going forward regarding this particular account?

And during a very comfortable cash position, do you plan to transfer it and maybe pay higher dividend, or maybe holding for IGP-M plus 12% adjective yields. I do not know, I just like to get more color on the company strategy on this matter.

A - Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Please Ariel, could you repeat the second question one more time?

Q - Ariel Amar {BIO 17136370 <GO>}

Sure sir. No problem. My second question is about deliveries. I just like to get a better color. How much do you guys delivered this quarter, I did not find in the release, and what is your expectation for this number going forward, maybe for the year and maybe for next year?

A - Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Okay, Ariel. So, let's start with the first question. The question about regarding the commercial segment of the company. And we have five more projects under recognizement right now. So, we have all the projects we have there in the commercial segment in the city of Sao Paulo. Three of them, under construction and -- I'm sorry, three of them under construction without partnerships, one of them in partnership with Lindencorp under construction and two more projects to get the construction started in the next maybe four or five months. So, the total amount of net revenues from the commercial side will be something around 40% in the upcoming quarters. So, residential will represent something around 60% of the total amount of revenue of the company, and the commercial side, 40%.

About the deliveries, in this quarter we delivered something around R\$300 million, specifically because we delivered two projects; one commercial, of R\$235 million of PSV we launched in past April 2009, and Up Home, Up Home is our residential project in the south zone of Sao Paulo, R\$64 million in potential sales value, launched in April 2010. For the next three quarters, we have something around R\$600 million to be delivered, something around R\$600 million to be delivered.

For all the projects we have to be delivered this year, maybe 60% to 70% of them are 100% stake of EZTEC. Only 32% to 35% in partnership with other companies. All the deliveries we have are with the budget completely under control, and scheduled to be delivered on time, without any kind of problem, either cost overruns or delays; we have no these situations up front in the next quarter.

The third question, about performed receivables, so performed receivables is an interesting question for -- an interesting situation for EZTEC. Nowadays we have this kind of performed receivables coming from some kind of clients, around 10% to 15% of all our clients, trying to get a bridge loan. A bridge loan is like this; I deliver the units to my clients, and then you can expect for two years or three years to sell another property, to get a bonus, to earn a bonus from their jobs and then they pay back, they pay all the amount of debt they have in those units. So, because of this -- this is not a long-term financing to our clients, it is a short-term financing.

Our mindset for these performed receivables is about keeping them in our balance sheet, using IGP-M plus 12% yearly, only selling this amount of receivables if there is -- there will be some kind of projects or big piece of land to achieve better return on equity than we have with these amount of the receivables yielding IGP-M plus 12% a year.

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We have no plans to securitize them right now. Despite the fact that we can achieve great piece of lands to use this amount of money. Paying more dividends is not a kind of thing we have in our mindset for 2013 or maybe 2014, specifically because net income is not generation of cash. So, the total amount of cash will be generated by the projects only when I deliver the unit to our clients, bring the contract to the bank. Because of it, I feel safer, keeping the performed receivables in our balance sheet. So, is that Ariel?

Q - Ariel Amar {BIO 17136370 <GO>}

Thank you very much for the answers.

A - Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

Thank you. Bye-bye.

Operator

(Operator Instruction) This concludes the Q&A session. At this time, I would like to turn the floor back to Mr. Emilio Fugazza for any closing remarks.

A - Antonio Emilio Clemente Fugazza {BIO 16474296 <GO>}

So, we are completely available to answer any questions you may have, coming to our IR team in EZTEC. Thank you very much for our audience today and bye-bye.

Operator

Thank you. This concludes today's presentation. You may now disconnect your lines. Thank you.

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