

Y 2021 Earnings Call

Company Participants

- Emilio C. Fugazza, Chief Executive Officer
- Pedro Tadeu, Investor Relations Coordinator

Presentation

Pedro Tadeu

Good morning one and all, and welcome to EZTec's Results presentation for the 4Q of 2021. Please note that this call is being recorded and all the participants are in listening-only mode. By the end of the presentation, we will begin the Q&A session, when further instructions will be given. In case any of you may need in assistance over the call, please let us know through the chat box. In case you have connection issues, you may reuse the same web link or ID to return to the presentation. You may find a link and ID as well as the slides for this presentation at our website, ri.eztec.com.br.

Before we start, we'd like to mention that any statements during this call pertaining to EZTec's business projections, operational and financial targets are based on management's beliefs and premises, as well as only currently available information. Future considerations did not constitute an assurance of performance. They involve risks, uncertainties and premises. Investors may take into account that general economic conditions, industry or operational circumstances, which may ultimately affect EZTec's future performance. They may cause the Company's results to differ materially from those expressed in those forward statements.

Now I would like to present myself. I am Pedro Tadeu, IR Coordinator, and here with me in the room, there is Mr. Emilio Fugazza, our CFO and Investor Relations Officer who will further talk about the financial figures in this presentation. Now moving forward, I would like to start in the third slide where we are going to start talking about the launch of the 2021 and here we will be able to see that we launched something close to BRL1.9 billion in PSV. Talking about the more recently launches, the main spotlight is on Unique Green, our first phase that we launched in the last quarter, a project that is something close to BRL367 million, a 100% EZTEC in where you'll be able to see that is already 52% sold. Along with, we launched another project that is split in several phase that (inaudible) listing goes up project only BRL41 million (inaudible) 60% of stake EZTEC and it is 18% sold. At the bottom of the chart on this slide, we are able to see all the other launches that we may (inaudible) across the previous year.

Moving forward to slide number four to our operations performance, I'd like to highlight the chart that is in our left that is showing you the launches and the sales in terms of PSV. And then you will be able to see that the majority of our launches that you we made that BRL1.9 billion Just talked about (inaudible) we only sold 400 million of them. So this is

there majority chat. This is the main challenge that we are carrying with these new year of 2022, to be able to address all of these inventory under construction, that have been made in the last year.

Now moving to the right part of the slide, I would like to emphasize about the reconciliations. In 2021, we had BRL127 million in terms of conciliation, in average a something close to BRL30 million and BRL40 million per quarter. These (inaudible) of conciliation is very close that need to BRL126 million reservation that we saw in 2020. So the Company was able to maintain the same amount of the conciliation despite all the challenges scenario that occurred in the last year.

And even when we talk about the net sales UVA, which you see that we kind of maintain the same amount that we had done in 2020, now in 2021 meaning something close to BRL1.2 billion net sales. Moving to the Slide number five let's start talking about the land bank, and here, you will be able to see how landbank changed across this quarter and you will see that we maintain the same amount that we had in the third one.

Emilio C. Fugazza {BIO 16474296 <GO>}

This slide therefore almost BRL500 million that we had launches, we had some changes broader the year specifically addresses the mutation by you see, that is correct. In our lands, now land bank. That because finished the fourth quarter 2021 in BRL11 billion in our landbank. Alongside of it we have options with constellation cost, if you do something close to BRL2.6 billion half. So our land bank for further he saw the growth BRL14 billion here. In the bottom part of the slide, you will see that the majority of these land is well located in the south zone of Sao Paulo. So to close to BRL7 billion -- of these BRL11 billion we had Bank is located here in these normal of the CDs, where we are focused, you might are built recently launches. In the to do at your you'll be able to see that you something close to BRL5 billion high is middle and high-end products with the brand, is that 2.6 see inside of our low or economic projects that we, that that is all our brands and 3.8 something closed before recent highs inside our is a or variable for commercial, the segment.

Now talking about the inventory. You can see in the chart that you're less the dispersion the regional dispersion of our inventory and then you see that the majority of it is this was say traded in the south zone of some volume 72% of it and what in the and Sao Paulo metropolitan region 11% of it. And talk about the segment and dispersion by, we can see that the reason is red bars in the chart that corresponds to the commercial inventory that the company's current Gary is fortunate to point that the majority all of these even this commercial even is already rented so there is so it's some ramping revenue for the economy.

And in the short of the B2B -- is where we will be able to see more clear our inventory under construction and how this how we made these to go up for us, these 2022 the majority of our inventory is not ready. So, only 12% of it is ready units under our inventory and something close to 60% of it is inventory that correspond to product that were launched or under construction inside this city of Sao Paulo. So those are operational figures. I would like to best now to Mr. Emilio Fugazza, who will start to talk about the

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financial performance of the company. Mr. Emilio. Pedro, thank you so much. Let's go to page number 7, financial performance, net revenue on top left of this slide. Starting with BRL958 million in 2021 was a little increment compared to 2020 although within the quarters in the first, second and third quarter, was a growth compared to the same quarter 2020. 2021 fourth quarter was not good enough to improve or to keep year of net revenues growing this quarter. So simply because we have been suffering a lot of incrementing costs, only to bear in mind when we talk about costs, it's important to understand that for five quarters in a row, we have been adjusting our old costs in that in our accountancy over 50% above the INCC index here in Brazil. Which means that the costs the Company have been facing, is simply in the city of Sao Paulo, the projects with this sheet, with this design, we have been developing here in the city of Sao Paulo, it's a little bit different than the average projects from the INCC, which means that the gross margin of our company is (inaudible) from these incrementing costs above INCC and plus the volume of sales from units not performing so far, which means that when you think about the first three quarters of 2020, we saw coming from revenues an amount of units put forward with growth margins above 50%.. It was simply because they are from projects we delivered in within 2019-2020 or earlier than that. Apart from that, it's important to mention that we have been facing kind of thing in terms of construction costs that is completely different -- that we saw into 2010, kind of year that we saw and spite in construction costs less in almost one year at that time. Nowadays is a little bit different. The first impact this cost was there the needs that we have been watching in the supply chain. -- will Brazil specifically. Apart from that, the commodity costs still mainly is still despite of steel cost was something around 200% in the last two years, but apart from that, nowadays bad news coming from the Europe the war between Russia and Ukraine means that these supply is this organizes again And we do know for sure what kind of impact -- what, but the way we have been dealing with in our accountancy in terms of booking costs is something like that. We have been watching the exposure. We can see it, We have, we've got from some kind of supplies -- some kind of materials -- and as we've got something the around 3D [ph] sites -- the construction in the -- all we can do the same. What is happening in one of them and trying to understand what that kind of specific back in be seen in the others side of construction and then we can book an adjustment overdose costs. And that's why, also we have been watching an increments in gross margin from 43%, 2020 to 46% in 2021, this specific margin off the fourth quarter 2021 is below what we saw in the third quarter 2021 Saying that's talking about certain expenses, certain expenses is pretty -- much in line. We saw the past four years, so the ratio between -- publicity and stands or the (inaudible) we have been doing all the gross sales. It's pretty much 4% which means in line with our new target for those expense. In terms of GNA expenses 2021 was I hope within BRL13 million -- comparing to within BRL205 million, -- when you're which means something around 7% increment, which is less than IPCA. IPCA last year was about 10%. So we could manage that those expenses in order to keep those law. Moving on to the slide on page number 8. Page number 8 can provide, on our quick glass and provides our of all the financial results. Financial result was BRL168 million. Yeah, I, which means almost 40% of the total amount of --. by this company in 2021. Which was pretty much the same result of 2020, but the composition the breakdown of those are completely different. 2021, although we, the main, the key factor for these amount our financial attribute a positive financial result is our off coming from our results coming from the growth. The portfolio --, but the receivables. But now this discipline, second half of 2021 we saw great improvements terms our compensations or both the cash this company as the basis risk in Brazil is coming from 2% at the beginning of this year to almost something around 11% nowadays is about the 11.75%,

which means that's almost what BRL1 million -- is impacted by these amount off if rates gaining here in Brazil. I love it. Key factor for good results in 2021 was the income brackets, which means that our projects, we have been doing. Doing in 2 partnerships, both in the middle income segment in the low segment at the high-end. 2021 was something around BRL7.7 million. And I would say the timelines from these is the projects coming from the branch we from Casa is rather our volumes with the brands. We have already delivered two projects from this branch. In both the two projects, we have some -- we saved a lot of our budgets, incrementing the margins, the gross margins of the projects coming from the (inaudible) income brackets. Let me highlight that the gross margin of the projects in the fourth quarter 2021 was about 44% above the general and the average gross margin of our company. Net profit came at BRL430 million and an incremental BRL25 million compared to 2020 net margin of 45%, an improvement of 2 percentage points, which is good enough given this scenario we have been passing through. And in terms of backlog result in the bottom right side of the charts, you can see BRL324 million of results to be recognized at a backlog margin of 42%. It's important to highlight here that this decrement of 3 percentage points in margin means that some projects have very good margins above 45%, we deliver it up to the fourth quarter 2021, which means that all the revenues were recognized so far. And obviously, the average wait of those projects is partially responsible for the this decrement in margins. Apart from that, the projects recognized from launches in 2021 are projects that we can see margins coming, I would say, below the average 45% we saw in 2020. Projects like Arkadio for instance sales are projects in the middle-high income segment in the south zone of Sao Paulo. You were going to see coming in line with the average margin of the gross margin (inaudible) of 45%. On the other part, on the other hand, you can see (inaudible) range as Pedro mentioned before, is the projects (inaudible). So far, the recognized revenues (inaudible) 38% gross margin. On average, it is something to expect 42% gross margin. Apart from this plan, I would like to highlight another key factor in terms of gross margin and backlog margin, which means it's a proxy of gross margin in the next coming quarters. We have payments in advance for the supply chain during (inaudible) coming from BRL20 million the items 2020 to BRL100 million made in 2021, which means that the company has been doing a very good management in terms of trying to deal with this incremental cost, buy in advance a lot material, especially some kind of commodity materials in order to, would say, avoid incremental costs. All of those materials are storage within four, five piece of land we have been spread all of the city of Sao Paulo. And as we are a very great player here -- big players here and holding more than 40 piece of land, we have plenty of spaces to do something like that, which means that the BRL100 million -- means something around one or two months or percentage of completions not recognized so far because when we pay materials in advance means that we have this disbursement cash and I have recognized it in my account as payment in advance to the supply chain. But we have not recognized it as costs under construction to fulfill the percentage of completion in terms of recognizing revenues. So our mindset is to deal with these costs in order to keep the margins at historical levels (inaudible) above 40%. Coming to slide number 9. The fourth quarter portfolio of the receivables. I'd like to highlight here, we ended up that year at BRL384 million in terms of total (inaudible) declined from 6,000 clients in 2022, almost 1,000 clients in 2021. We need BRL622 million payments in advance for their (inaudible) specifically, trying to migrate from EZTEC financing project to the Bench taking -- commercial borrowing mortgages from the commercial Bank specifically because we had on average 10.3% plus IGP which was almost 33%, and -- we are off to 2021 to decline and the majority of the commercial banks will now average provided something around 7% to 8%. All -- interest rates through this clients. So the clients with

enough capability. They -- could bring the contract -- bank in order to say this increment of offline respects --, That's not the kind of things that we have been -- what can -- have been facing in the first two months of 2021 and the hand we have been facing some incremental contracts coming to our -- portfolio specifically because the conditions, the commercial conditions to those clients. I'd say getting a little bit -- awards were down. So it's highly expect to see the portfolio of the -- receivables increasing by the end of this year 2022, on page number 10 the highlight is the financial performance of Fit Casa, Fit Casa our, as I said before, is our brands for cash -- demand in a low -- growth the coming through --, highly managed by cash flow within (inaudible) our view in Brazil. Fit Casa was responsible for 56.3% of gross margin at the full quarter in 2021, on average, the full-year 2021 was 51.7% gross margin and net profit BRL68 million, which means that almost 15% of the whole amount of net profit coming from is it debt 15% belongs to this branch, we have nowadays five projects under constructions and these branch. Three of them with in partnerships to wanting to sort of Sao Paulo -- wanting to (inaudible) with the other one is sort of what does the partnership with (inaudible) and two projects managed complete by fintech -- one is call Fit Casa out will be -- to be delivered by the end of this year. While savings in our budgets, And the second one, we are beginning the construction of this project, which means Fit Casa -- definitely fast in the Far ease zone for (inaudible) the main highlight of this slide is the return on equity of (inaudible) which means 21.2% return on equity. The shareholders (inaudible) of this branch is about BRL400 million. Moving on to page number 11, talking about assets and liabilities coming from (inaudible). Let me highlight the assets first. Firstly, the cash and equivalents coming to BRL900 million, almost 23% of the total amount of equity of this company. The pro forma receivables from finished units BRL579 million. Let me remind you that I told you before (inaudible) are completely managed by in our portfolio for the receivables, which means that another BRL200 million receivables coming from projects that we have almost delivered in the fourth quarter or in the third quarter of 2021, the timeline for being sent to the banks to bring the contracts to the banks to transform this BRL200 million receivables into cash for our company in the next two three months so far. Now I would like to highlight is the cost of the ready inventory. As Mr. Pedro mentioned before, the total amount of portfolio of units was about BRL500 million and so far the costs of this inventory is about BRL242 million, which means that the forecast for gross margin in this inventory is about 50%. Land bank is BRL1.3 billion. BRL1.3 billion is compared to the BRL11 billion Mr. Pedro told you before at the slide of land bank, which means that the ratio between cost and potential sales value can be something around 12%. Let me add that this 12% includes grants and (inaudible) we have been booking in our land in order to increase the potential of the land. So all in all, the finished cost for this land at the end of 2021 was BRL1.3 billion. (inaudible) I would like to highlight BRL102 million dividends to be paid. The people's lands we've got so far coming from this BRL11 billion of potential sales value. It's about BRL200 million, so comparing to the assets, 1.3 billion in land bank, BRL200 million something around 15% of the total amount of land bank to be paid in the next coming quarters, and only and last year, say again, only BRL23 million of debt. So meaning that's the total amount of debt this company has been carry the whole year of 2021, is about BRL23 million for and total amount of shareholders equity of BRL4.2 billion. Thus far, more is simply because we saw in the last two years, a lot of payments in advance coming from our clients And from these cash and equivalent you can see on the assets chart of BRL900 million, something of around the 40% belongs to the brackets, meaning that they are -- we have deposit is specifically from each project under construction right now. And so, I have to use these amount of money before take any kind of borrow, any single penny from our finance. And that's why so far was not necessary to borrow money from the banks of project finance.

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Moving onto slide on page number 12, the subsequent events. Here, I would like to highlight that on this slide, as mentioned BRL405 million PSV launched, but it is a little bit more than that because we have acquired a project at the very end of the full quarter 2021. And the numbers of this project potential sales value and units sold, we are going to release within the earliest results of the fourth quarter 2022, which means that, so far, we have a large (inaudible) BRL500 million. But from those projects right here, the good news is the speed of sales of those projects, we are open to the clients a little bit earlier than the carnival here in Sao Paulo, which means one month ago for those projects at February and we saw Expression Ibirapuera being sold 42% of potential sales value of those BRL180 million. Expression Ibirapuera as well upon the something around 40 square meters to 50 square meters, BRL228 million potential sales value, we saw 27% being sold at the beginning of the launch. Exactly as we saw in the fourth quarter in 2021, the speed of sale of products being launched is so good, which means that we have is some kind of neighborhoods, it some kinds (inaudible) specifically in the city of Sao Paulo, no matter what kind of apartment it is, we have been watching. The final users very interested about buying something because they know for sure that with these amount of inflation we have been facing, the amount of problems and severities that the world is facing right now, a good place to be is real estate. This is the kind of Brazilian mindset we saw and we have been seeing very good pace of sales at the launches of EZTEC. Finally, I would like to mention two kind of subsequent with the bank very important to our shareholders. First of all, the partnership between EZTEC and Construtora Adolpho Lindenberg. Construtora Adolpho Lindenberg is a very old friend of EZTEC, specifically because since we have been public in 2007, together we launched something around BRL4 billion in projects an average 44% of gross margin and that we've got so far something around BRL1.3 billion in net profit coming from this project, which means is that (inaudible) some thing goes to BRL1 billion in net profit coming from this partnership in the specific projects we have been doing so far. Meaning that from the total amount of net profit, EZTEC provided in the last 15 years Construtora Adolpho Lindenberg was responsible in partnership to provide something around 20% of this, which means that they are old friend and here the the management and controlling shareholder group of EZTEC pay high respect to the management of Construtora Adolpho Lindenberg. Apart from that, Construtora Adolpho Lindenberg is in public since 1917, is one of the oldest names on the city of Sao Paulo and they were truly responsible -- fully responsible for developments of a lots of very good projects, very high-end projects. It is in south zone and west zone of city of Sao Paulo, is specifically a (inaudible) neighborhood, is the kind of neighborhood very close to Paulista Avenue. So a lot off the high-end developments coming from that area are coming with brand Adolpho Lindenberg. In the last five to six years, they were truly responsible responsible for very high end projects nearby specifically (inaudible) very close to the investment banks headquarters, projects that we sold for BRL30,000, BRL40,000 for square meters and have been good gross margin, the gross margins in line with the gross margins developed by EZTEC through these years. This partnership, there was a kind of approvals that we have been passed thorough, but there will be two kinds (inaudible) First of all is only a JV. 6-years of this whole JV and part of our partnership. To the global BRL1.75 billion -- think launches and which require something around BRL130 million -- of investments we needed the first 3-years. So, apart from that, they will hopefully mid-band. We have propose to initial shareholders agreement. That is the rights to a subscription option within 4 and we 3 -years within 2-years after the force minimum period of 4-years. So within 2-years, so the fifth and a sixth year of this partnership, we did exercise this rights and share the controlling shareholders group we need it. Currently shareholders controlling group of it was go meaning. All the money, we're going to provide is our

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primary effort. We are not going a big any single --, to the currency general to the currency -- this group. In order to buy dissolve -- All we are going to provide this. The financial support to do development. This financial, I would say skills are managing in half scenario like this one, we have been -- and they are going to provide their expertise to the develop high end projects with very, I would say 30 managed technology of construction for these a specific kind of this low end, but with high or higher quality construction. That's the kind of thing that we put a lot of efforts was more than one year to discussions with them and it's an of partnership that we are very proud to announced, is a very beginning to be in partnership with these --. So apart from that, the subject here is the reason. Given that position off cash, we've got of all, we have somewhat, the Board of Directors has approved. BRL102 million -- of legal distribution of defense, which \$0.46 cents per share, and we are going to pay as soon as -- what we are disclosing that negotiation base is it will be March 23rd of 2022. Which means that three days from now, it's going to be to this negotiation day to be within -- is this lower shareholders. So send that, I would like to thank you. So far, for the audience and we are completing able to answer and for the questions. Thank you so much.

Pedro Tadeu

Thank you, Mr.. Emilio. We will now open the call for the Q&A session. In case there are any. We will get the cash from those who will raise your who have used a bunch of has available if there is to. And then we will go. We want to proceed to figure those questions for the chat box. So, for those who would like to make request your questions please let us know so if no raise your hand. We understand. As a result, there is no questions. So we are going to proceed to the end of our conference call. And we'd like to take you all for your time For listeners and then end in the Company results. So our conference call for the results presentation now is over. We thank you all for the attention and have a nice day. Have a nice weekend. Thank you all.

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