

## Q1 2020 Earnings Call

### Company Participants

- Emilio Fugazza, Chief Financial and Investor Relations Officer
- Hugo Soares, Investor Relations Coordinator

### Other Participants

- Nicole Inoue, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's First Quarter 2020 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 begin. (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](http://www.eztec.com.br/ir) by clicking on the banner 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, IRO and CFO, who will begin the presentation. Please, Mr. Fugazza, you may begin the conference.

**Emilio Fugazza** {BIO 16474296 <GO>}

Thank you very much. Welcome everyone to our first quarter 2020 results. This is a moment that I have to say first quarter 2020 was a skyrocket moment for EZTEC. So just to bear in mind, this line number on Page Number 3, you're going to see some operational and financial highlights for this company. Before I will give the words to Mr. Hugo Soares.

So, the operational side, you are going to see net sales up BRL455 million for launches of BRL564 million, so it was a kind of movement that without selling, without selling apartments on March, we could achieve almost a record sales moment for January and February 2020 and that's why even in terms of gross margin, we were improving compared to 2019. Landbank we closed 2,000 [ph] at the first quarter, holding something around BRL7.9 billion in landbank, which means that in the first quarter we bought something around BRL1.1 billion in new pieces of land.

From the financial sides, gross profit of BRL101 million, but revenues are coming from the gross margin, achieving almost 41% in the first Q. Net income coming at BRL78 million with a net margin of more than 31%. In terms of cash, given the follow-on we did in the last September 2019, we reached almost BRL1.3 billion, trying to remind you that we hold something around BRL552 million of performed receivables by the end of the quarter, from this amount BRL512 of statutory lien agreements. So this is a kind of financing we provided to our clients, yielding something around 10% or 12% annually, plus IGP.

In terms of subsequent events, it's important to bear in mind that in our -- in terms of directors in the position of the directors, we managed to change that Mr. Joao Paulo Flaifel for Silvio Ernesto Zarzur in terms of New Business Officer position. Mr. Joao Paulo Flaifel has been working EZTEC for 12 years. At the time of retirement, he resigned specifically because in this pandemic moment it's a little bit hard to keep going with the operation of buying a piece of land. Let me remind you that holding something around BRL8 billion in new piece of land means that I am completely achieved my goal for the next four years. So it's a hard moment, it's a tough moment here in Sao Paulo. He is 76 years old, so it was a common decision with the company to resign, to get him retired and we thank very much Mr. Joao Paulo Flaifel for all the jobs done in the company and now Mr. Silvio Ernesto Zarzur, who is our Vice President and -- New Developments and Development Director. He is assuming, he is accumulating the work of New Business Officer position

In terms of Board of Directors, another kind of change. In order to ask someone as an Independent Board Member to come to visit, to help the team, to reflect, to think about what is happening now in this new kind of world, in this new momentum happening in the real estate sector here in Brazil, we called Mr. Luiz Pretti, which is the former Cargill's CEO and Chairman of Votorantim Cimentos Board of Directors. Votorantim is one of the major companies, producers of cement here in our country. So he is the Chairman of Board of Directors over there. He's going to help EZTEC a lot about improving governance, improving transparency, improving the way we think about our business and in order to do that Mr. Flavio Ernesto Zarzur and Mr. Marcelo Ernesto Zarzur resigned their spots on the Board of Directors. This is simply because it was not a time -- nowadays was not a time to increase spends in terms of new salaries, new payrolls for new members. So in order to

open space for these new members, Flavio Ernesto and Marcelo Ernesto, they resigned of their responsibilities.

Let me remind you that they are keeping completely their positions about; Mr. Flavio Ernesto Zarzur is our CEO and Marcelo Ernesto Zarzur is our Chief Technical Officer. It's important to bear in mind that all of the Board of Directors and Managing Directors of the company are completely united. They are in a common sense thinking about what is going to happen, what is the best way to manage this company. We are more prepared in network about sailing in this time of uncertainties, in this new moment of our economy and real estate business here in Brazil.

So, saying that, I would like to give the word to be Mr. Hugo Soares in order to talk a little bit more about the operational side of our company. Please, Hugo, go ahead.

### **Hugo Soares** {BIO 19772261 <GO>}

Emilio, thank you very much and good afternoon, one and all. I'll be speaking of the operational side right before taking it back to Emilio to conclude with the financials.

Now, if you could please move to Slide Number 4 where we discuss our landbank. As like Emilio just mentioned, we are talking about an operational pillar from EZTEC that is currently under the leadership of Silvio Zarzur. Silvio Zarzur naturally is a person that had very much involvement with new acquisitions as he is the Development Officer from the company, so naturally as the person who conceives of the projects, who -- that will be developed. He has always been a part of the process of making acquisition and he is a person that knows the City of Sao Paulo on the palm of his hands.

So when you look at the landbank that we have accumulated thus far, what you realize in the table below is that we're talking about approximately 8 billion in potential sales value in our landbank. That is very nicely distributed among all different income segments and typologies while entirely within our geographical domain in the broader Sao Paulo region and specifically the City of Sao Paulo.

As far as the different types of projects we have, we can roughly break it down between the corporate side, which you see represented mainly by Esther Towers as then -- on the leftmost chunk of the table. And while the residential chunk basically represents BRL6.1 billion in PSV, which are roughly distributed between a first third of economic projects, which have a vocation for Minha Casa Minha Vida. You have another third of the projects within the mid-high and the high income segments which are most suited for family as final consumers, also a type of a very useful asset to have in our landbank, while the latter third could be distributed between the middle income segment and the smart living segment. Smart living is basically small units suited for investors with very high (inaudible) investors.

As you know, we have recently come from our follow-on where we've raised as much as BRL941 million of new cash, some of which was already being directed towards new acquisitions, which gets reflected on the first quarter of 2020 as that BRL1.1 billion in

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added PSV and within that BRL1.1 billion, you have the possibly, the most importantly, the IBM parking lot in the Paraiso neighborhood. It's very, very appealing neighborhood where people do aspire to live in the high income project, which in some way resembles the prominence and profile of parking -- of EZ Parque da Cidade, also a very high success in the past quarters.

And as we stand with BRL8 billion in landbank and approximately BRL6.1 billion in residential landbank, that BRL6.1 billion basically implies as much as 3.2 times the amount of the volume of launches in 2019. So we currently have in the residential landbank 3.2 times the volume of launches we had in 2019. It is a very comfortable landbank position to have. It does grant us a lot of flexibility in times of unpredictability and naturally the projects where we already had work information and really had ongoing developments. Some of that will continue despite current circumstances, but naturally that's a landbank that allows us to be very opportunistic as far as new acquisitions in terms of really digging in for the most salient, these tender options that there is no need -- no imperative to buy landbank given what we already have.

Now if you please move to Slide Number 5, it's a slide where we exhibit basically what has been the operational track record for EZTEC going back a few years and what you realize is then, after having gone through a sustained boom period, we -- and surviving a very strenuous crisis, we were on a skyrocketing trajectory towards a very prosperous operation of cycle with launches and net sales going together at very high speeds.

Naturally, as everyone knows, there is a very abrupt interruption in this trend given the COVID-19 pandemic, but ultimately from what you can see, it's a pandemic that cuts the operational cycle very early stage and the fact that it's early stage actually has some -- actually makes it less of a burden to deal with than what you saw in the past crisis. So, for example, the launches that we have just recently made, they should be starting to get delivered and to be -- and to finish their construction by the end of 2021. That gives us plenty of room to accommodate both in terms of engineering, but also in terms of clients, as far as digesting the current situation before having to face the delivery of the project and having to transfer the balance to banks. So basically, it is a very prosperous beginning, that a very promising cycle, very abruptly interrupted, but leaving a very solid foundation and a good standing going forward.

Now if you move to the Slide Number 6, you see more details what I mean by that. On Slide Number 6, on the left side, we show the volume of launches that we had pushed forward in the past years and you also see on the carve-out, you realize how much of what we've launched is actually sold by this point. And what you realize is that, despite the very high volume of launches we made, that the actual gross inventory formation is very much under control. And even -- and when you look qualitatively at those sales, what you realize is that those are sales then were followed, were accompanied by very, very fast down payments, so the amortization schedule in average for the projects that we launched ever since 2018 implies that clients who have paid as much as 54% of the ticket price by the time of delivery, naturally that has very strong, very positive implications as far as the leverage that we have to incur to deal with constructions going forward.

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And as you see, the sales on the right side, the sales and cancellations, first of all, cancellations haven't shown their face in the first quarter and still very much -- very few symptoms on the going forward. And as far as gross sales, naturally, we were looking at a year -- looking at a beginning of a cycle of a year of 2020 which was on its way to break all operational records of the company, very unfortunate turn of events, but still very solid grounding.

Now going forward towards Slide Number 7, where we'll get into further detail as far as the company's inventory. When you look at the company's inventory, first and foremost, like I just mentioned, the volume of the inventory is absolutely under control. You see it's less than BRL2 billion in current inventory and the vast, the largest proportion is concentrated within the south zone of Sao Paulo where we can do very well.

You can see on the bottom bar chart, you see the separation of construction of which stage of construction the project is and you see that those -- the chunk of the projects that we have under construction and there were recent launches, those are projects that, like I said before, you still have as much as two years for it to be able to properly digest and to be able to work with before the time of delivery. So it's very manageable assets to have. As far as the commercial inventory, which again very much concentrated in the south zone of Sao Paulo, it's the type of stuff where you have most of that already rented, rewarding greater rates than the base rate for sure and all in all, it's a very comfortable position to be in.

If you could please move to Slide Number 8 where we get into details as far as the projects that we launched -- that we just launched, naturally the main takeaway here is the Air Brooklin project. The Air Brooklin project was a phenomenal project both in terms of the project type. It's actually a project that was recently reconceived to fit into the new regulatory master plan of urban development in the City of Sao Paulo. So it's the type of project that's very much suited for this new investor-driven small unit type of profile which has been the most selling mark of the past cycle and sold within the very first months as much as 60% of the project and we actually managed over the course of that launch to pick up some of the price where ultimately delivers in the first quarter around 39% in gross margin even though it has the investor profile I mentioned. Usually investors, they will pressure somewhat the margins, is out of the fact that they are down-paying so fast, so quickly, they usually -- is followed by some discount at the margin. But even so, it's a project that delivered a margin of 39% with great sales speed.

On the side, you have Fit Casa Alto do Ipiranga. Fit Casa Alto do Ipiranga is possibly the first project that we have conceived and launched as a Minha Casa Minha Vida project originally and much like the Fit Casa line, it does resemble very much the Fit Casa Bras project. It has -- it accounts on very robust demand, that there is very much pent-up demand in the Minha Casa Minha Vida segment, especially within the City of Sao Paulo, but usually it doesn't deliver very concentrated sales, very fast sales in the short term. It's lot about the surrounded bureaucracy of transferring still while at the launch. So it's a project that has very consistent pace of sales and a good project overall.

When you look at Z Ibirapuera, it is a project that very unfortunately had a bad timing as far as its launch in the sense that it was launched already by mid-May. It was actually

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launched at a week where we had a few circuit breakers. So it's -- the sales peak that we ended up having little bit less of 10%. It doesn't exactly reflect the underlying quality of the project, but it's also very much a project that we're comfortable in carrying forward both because it's very close to headquarters, the type of place where we'll surely be able to find clients going forward and also because of the quality of the type of the project. Z Ibirapuera is a follow-up to Z.Cotovia or Z.Pinheiros, both of which at this point are more than 70% sold.

Going forward to Slide Number 9, we do address what we have as the landscape for launches going forward and like we mentioned before, the landbank we have is quite versatile. So it does enable us to play in different fronts. You have Fit Casa Estacao Jose Bonifacio. Again, it's a big project where you can rely on a very abundant underlying demand just out of the pent-up demand in the Minha Casa segment. And when you look at Armando Ferrentini and Republica do Libano, the Park Avenue project both are high income projects where you can easily -- where if you were to be launched recently they would deliver gross margin as large as 40% in Armando Ferrentini and possibly as much as 50% in Republica do Libano. They are projects then also make us very comfortable as far as the capacity to absorb them going forward. So they should be a safe place in the environment that we're having to face.

That basically rounds up the operational side that we are living in and if I could, please, pass the word to Emilio Fugazza as he discusses the financial performance of the quarter and going forward. Emilio, please?

### **Emilio Fugazza** {BIO 16474296 <GO>}

Thank you very much, Hugo. Talking about our amazing operational performance in the first quarter 2020 as much as January and February sales over there, now talking about financial performance on Slide Number 10, starting with the first Q 2020, BRL250 million of net revenue come in that quarter. It's an increment coming from the first quarter 2019 and mostly because of the Air Brooklyn project launched in February as in this project we sold something around 60% of the project. The contribution of net revenues coming from that project was barely BRL60 million over there, something around 20% to 25%.

It's important to remind that net revenues are coming from three main sides. The first side is when I am selling a performed unit. So the whole rise [ph] of the performed units are coming to you as a net revenue at once. This is simply because it's a performed unit I am selling and receiving the price or providing financing to my clients. And then I can recognize at once 100% of the price as net revenue.

The second way to see net revenue is when I am selling recent launches, so given the recent launches, I can recognize the cost of the land and the proportion of the land in the price. So in a project like Air Brooklin, the price of the land so high because it's a fancy project in the south zone of Sao Paulo. It is a kind of project than can provide a much better and higher recognition of revenues.

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And the third way is by the percentage of completion. So as I am going forward with the construction, I am recognizing the percentage of the completion as revenues for our company. So I'm saying that, because in the second or third quarter of 2020, what you are going to see is much more revenues coming from the side, of the construction side than performed units being sold or launches being joined, specifically because there is no room for doing launches or selling as much as -- as many as units, performed units we were selling in the last quarters.

Saying that, I would like to say something about gross profit. BRL101 million in the first Q 2020, an improvement of barely 100% growth in the first Q 2019, but the more important message coming from this chart is the 41% of gross margin. Let me remind you people that -- guys, that the margin of the project, the Air Brooklyn project, which was the major contributor for net revenue was 39%. And let me explain this 39% of gross margin. So the majority of the units are being sold from the bottom to the top, so a lot of investors, they prefer it because it's a little bit cheaper to buy units at the bottom of the building. And obviously the units at the top of the buildings are units that can be sold for higher prices and mainly for the final users.

And one another kind of thing that is very good from the side of selling at Air Brooklyn was the majority of the people buying Air Brooklyn, so 60% of them, they bought the project clean, much more than compared to the initial agreements we proposed to our clients. So the regular asking price is paying something around 35%, in the meantime we were doing the construction. But in this situation, in this specific situation, given the low interest rates that we have in Brazil, so the majority of the people, they agreed to pay something around 60% up to time we deliver the keys. So going forward, obviously, we are going to need less production finance in this project. So, using the money of the clients to accomplish the construction. Let's say, this is the bright side,

But the other side is that, so you have to provide a kind of discount. In our case, in 2020, we have been providing something around 4% of present value adjustment in the prices of the units sold. And that's why the first recognition of gross margin is a little bit about 39%. Going forward, with the inflation of the sector, adjusting the price, you are going to see something around 40% to 41% or up to 42% in Air Brooklyn project.

On the projects like Cidade Maia, for instance, the major projects we have performed units of there being sold, it's a project that we can provide 44% of gross margin. Projects coming from Minha Casa Minha Vida side, which is the low line project, Fit Casa Rio Bonito is a project of 44% gross margin, Fit Casa Bras in Downtown Sao Paulo is a project of 46% gross margin, but projects located in fancy neighborhoods of the city like west zone of Sao Paulo or south zone of Sao Paulo, like (inaudible), it's a project of 47% gross margin, making a huge contribution for margins in our balance sheet. (inaudible) project launched in 2018, by the end of 2018, it's a project of 57% gross margin. So going forward, the level, the 40% gross margin level, it's a kind of assurance by the projects we sold so far.

In terms of expenses like G&A expenses and selling expenses, two kind of different things. Given the pandemic (inaudible) in the first Q 2020, you saw a BRL27 million more compared to the 4Q 2019, mostly because we made a lot of adjustments in salaries and payrolls in our company, specifically because it was a kind of -- it was a very profitable

movement in order to launching more projects, selling more projects, so we hired a little bit more people over there, but were skilled people over there with higher salaries, but now the reality is completely different, it's a game changing completely.

In the second quarter of 2020, we're going to see going down a little bit because of the adjustments that we have been doing in our payrolls and also because of the service providers we have in our company like law firms or even -- so rents we have to pay for our offices or for our sales stands. So you are going to see coming down a little bit the G&A expenses for the next two quarters.

The same for the selling expenses. Obviously, the expense is about publicity, for instance. So, nowadays, it's only online publicity, cheaper than the offline publicity we have been doing. Even though about the sales stands, so all the sales stands we shifted down the sales stands. Nowadays it is only online. So we have no more expenses to pay to support the sales staff. So in the second quarter and the third quarter, you're going to see a low level of selling expenses and obviously the remaining expenses, you're going to see is the remaining to support the expenses to their performed units to pay for the maintenance and tax property for the performed units that you can see on the sales expenses.

So moving to Slide Number 11, I would like to talk about the financial results of our company. First Q was BRL37 million. Let me remind you that mostly because our receivables portfolio right now which is about BRL514 million and the adjustment of IGP, so inflation in this quarter was 2.7%. So when we provide financing to our clients for over 20 years, we provide by an interest rate of 10%, plus an adjustment of inflation, inflation -- the index of inflation is IGP.

So the IGP for these three months of the first quarter was 2.7%. Only to compare with the first quarter 2019, the inflation adjustment was minus 1.52%. So there was a deflation at the beginning of 2019 compared with a lot more inflation in the first Q 2020. So just as a forecast, in the second quarter 2020, we're going to see an adjustment of 1.71% on these financial results compared to 2.7% in the first Q 2020.

Equity income on the top right of this slide is the projects we are not consolidating in our balance sheet, so projects we are sharing the management of those projects. And the majority of them are located in the City of Osasco, which is a metropolitan region of Sao Paulo and recently in last year 2019, we launched (inaudible) is a project of middle income segment selling very good even in the pandemic time. So it's a kind of project to achieve middle end people who spends something around -- about BRL300,000 to BRL400,000 per unit. It's a project to provide something around 36% of gross margin, but it's a project of more than 700 units over there. We have something around 50% of this project sold and the constructions are going to start by the beginning of March, by the beginning of May. So you are going to see the recognition of revenues coming from this project in the next coming quarters. And that's going to be impacted in this equity income result, going a little bit higher than the last few quarters.



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In terms of backlog result, results to be recognized, that's the bright side of this release, which is BRL445 million to be recognized. But the margin, it's about 44%. 44% means that all the sales we have done so far are in a margin of -- in a gross margin of 44%. As we are making the completion of the construction, we are going to see this result come into our P&L. It's important to remind you that as we are not using production finance to support the cash flow of our construction, so mainly because the clients are paying their installments in advance and we are with cash in excess to fulfill the construction, obviously, we are not going to be impacted as the cost of the financing for this construction, so which means that the 41% gross margin is going toward the 44% backlog margin we're going to see -- we can see in this specific chart.

And finally, the net income, the net margin. The net income came at BRL78 million, more than 4 times the first Q 2019, mainly due to the financial result and improvement in the operational side, but the bright side, it's about 31% of net margin in this side. So that's a kind of thing that even living in the pandemic time, you are going to see because of the reduction of SG&A expenses, you are going to see net margin improving a little bit.

So, guys, moving to Page Number 12, this is a little more to tell you about our portfolio of direct receivables. We ended 2019 at an acquisition of BRL519 million of portfolio of the receivables and now in the first Q 2020, BRL514 million, meaning that there was origination of BRL13 million, huge of [ph] BRL29 million and finally payments in advance or regularly of BRL44 million. Foreclosure, almost nothing so far and all of it regarding 1,910 units under management of EZTEC.

So going to the last slide, giving space, giving room to questions, I would like to talk about balance sheet value generation for our shareholders and analysts. So EZTEC is a company that ended up first Q 2020 in a shareholders' equity of BRL3.88 billion. And the majority of it, so it's a kind of made-off assets in a size of BRL4.3 billion and size -- BRL4.3 billion, meaning that BRL1.2 billion, BRL1.3 billion, it's cash and equivalents. So completely available to new investments, to new developments and we have a range of things to do think in this middle way we are living here in Brazil.

So we can buy new pieces of land, we can go forward with the construction of the new corporate towers like we have done with EZ Towers and we are doing with Esther Towers. We can buy, it's more company or a company, a real estate developer in another segment or in another region. We are going to -- what are we going to do and that's why we are -- we think that it's the best moment to take very good decisions. The moment we are fulfilled of cash to pass through this moment without any kind of instability.

In this -- on these assets, you can see the finished units receivables which means the portfolio we are providing financing to our clients is something around BRL552 million. Ready inventory, ready inventories, it's very interesting, because as Mr. Hugo told you before, the total amount of units we have, performed units ready to leave, it's about BRL700 million in our inventory and the cost of this inventory ready to leave, it's about BRL344 million. So less than -- a little bit more than 50% gross margin in our inventory, that's very important to bear in mind.

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And finally, talking about landbank, so as Mr. Hugo told you before, it's about BRL8 billion in landbank and these BRL8 billion in landbank, the cost is about BRL900 million, meaning that all the land, all the piece of land we have in the State of Sao Paulo, in the metropolitan region of Sao Paulo are in the cost of 12% to 13% cost over potential sales value.

When you see over our liabilities, so I said something about BRL4.3 billion in assets. But in terms of liability, we are talking about less than BRL500 million and the main liabilities we have, construction finance we don't have, so land -- so given we are acquiring land by installments in some piece of land, we have BRL145 million to pay in the next coming quarters.

Dividends we have approved in our shareholders general meeting held in last -- by the end of April, BRL6 million to BRL7 million to be paid in the next coming months. And finally, other liabilities, over 7% of our equity, which means BRL254 million.

So, saying that, I would like to finish the presentation. Hearing coming from new guys some kind of questions that we can provide good answer to you. Thank you very much for today.

## Questions And Answers

### Operator

We will now begin with the question-and-answer session. (Operator Instructions) Our first question will come from Nicole Inoue. Please go ahead.

### Q - Nicole Inoue

Great. Thank you so much, Emilio. Thank you, Hugo, for the very complete presentation. I think you stated very well that this was a cycle that was interrupted. And I'm curious, it's hard to see what's ahead, when the cycle is going to turn again. But I'm curious, what kind of things do you look at? Will you be looking at to decide whether to resume launches more strongly, especially in the mid to high segment? So is this something to look at consumer confidence, you're going to see where mortgage rates are, you are going to see where -- how your finished inventory is selling? Just to get an idea of what you look at to kind of -- in terms of signs that the cycle is getting better hopefully once again? Thank you. That's all.

### A - Emilio Fugazza {BIO 16474296 <GO>}

Nicole, thank you very much for the question. That's a very tricky question, specifically because it's a kind of forecast. I would like to say something we have been discussing in our company. In terms of -- let me break down into three, four answers.

In terms of providing financing, for instance, obviously given the interest rate in Brazil right now, the Selic now it's about 3%. There is no sense to provide mortgage financing to our clients. Banks, the commercial banks provide the mortgages, came in at a rate of 7% to

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8%. So some kind of a -- some sort of banks are increasing the interest rates in the mortgage side, which is a little bit insane. We have been fighting with the commercial banks in order to provide, we called saving plus. Saving plus, it's a kind of interest rate that you can provide using as an asset, the savings accounts for the people. So the Central Bank of Brazil could liberate a little bit the compulsory deposits over there in order to lend this amount of money because it's safe.

And so if the companies are coming through the savings account, lending this money within the spreads of the -- adding a spread of the interest rate of the savings account, so something like, let's say, the spread of 3%, 3.5% and given the savings accounts compensation nowadays which is a little bit more than 2, the interest rate could decline from 7% or 8% to 5% to 4.5%, this could improve a lot the sales, eventually much more the sales of the performed receivables, which is so important for the whole sector because obviously when we talk about performed units or units launching on the construction in the south zone of Sao Paulo, this is easy to sell. Sooner or later, we are going to sell those units, but the problem is, all of Brazil, in the country side or even in the metropolitan region of Sao Paulo, it's a little bit more tricky to sell those units without compensating the clients who are watching TV all the time and perceiving that it doesn't match the interest rate of the mortgages with the interest rate of Brazil.

Coming from the consumer confidence, we think that the problem is not only the consumer confidence. The problem is to understand how much -- how many people are going to lose their jobs by the end of this process, because the problem is not that singular person losing their job, the problem is the feeling, the moods this could cost in the whole society.

For instance, so far we have been perceiving that public employees are buying apartments coming from Minha Casa Minha Vida side. So that's why -- that is specifically because, they are completely, I would say, with confidence that they are not going to lose their jobs and that's why I am keep selling apartment in the Minha Casa Minha Vida side and that's why obviously one of the projects we are going to target the moment we are going to come back, long-term project is this project of Minha Casa Minha Vida.

In terms of high-end and that's why we placed the launches between Minha Casa Minha Vida in the high end. High end is something easy to understand, Nicole. For instance, so we know that likely the interest rate in Brazil is going to get down a little bit quarter, so from 3% to 2% to 2.5% and the problem is passing this movement. People saving money, huge, something around 2% minus taxes over there is not going to work.

A lot of people are going to think about three kind of things. So they are going to buy dollar like currency or they are going to buy stock because they are depreciated, the Sao Paulo Stock Exchange is so depreciated right now or they are going to buy apartments, because apartment is something that we can assure the value or eventually for people from mid high to high end, they think that they can add a little bit more. This is a kind of thing that they are going to provide earnings for the future, for instance, as a kind of a retirement plan. That's the kind of thing that in my personal opinion we are going to see by the end of this cycle.

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The tricky part of it is just to understand what is going to come from the middle end segment. We do know how hurt they are in terms of coming back and buying apartment. My personal opinion is something like that. So only at the moment, they are going to -- could see jobs generating in our society. They are going to come to go buying apartment they can because they are not afraid of losing the jobs or losing their earnings.

So far, we think that we are going to see this movement coming from low end, people which are not afraid of losing their jobs and the high end people who are moving assets, moving money coming from the banks to the real estate sector. So the mindset is something like that. But we have no answer exactly what is going to be the turning point that is going to -- that could change the idea of launching this or that project, Nicole.

### **Q - Nicole Inoue**

Okay. No, that's very helpful, Emilio. Thank you very much.

### **A - Emilio Fugazza {BIO 16474296 <GO>}**

Thank you, Nicole. Thank you.

### **Operator**

This will conclude our Q&A session. And we will conclude our presentation today. You may disconnect your line at this time and have a nice day.

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