

Q2 2020 Earnings Call

Company Participants

- A. Emilio C. Fugazza, Chief Financial and Investor Relations Officer
- Hugo Grassi, Investor Relations Coordinator

Presentation

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Good morning, one and all, and welcome to Eztec's Results Presentation for the Second Quarter of 2020. Please note that this call is being recorded and that all participants are in listening only-mode. By the end of the presentation, we will begin a Q&A session, when further instructions will be given as to how to participate. In case, any of you may need any assistance over to the call, please let us know through the chat box. In case you have any connection issues, you may reuse the same web link or ID to return to the presentation. You may find our link and ID as well as the slide, the slide of the the presentation at our website ir.eztec.com.br.

Before we start, we would like to mention that any statements during this call pertains Eztec's business projections, operational and financial targets are based on management's beliefs and premises, as well as on currently available information. Future considerations do not constitute an assurance of performance. They involve risks, uncertainties and premises. Investors may take into account that general economic conditions, industry or operational circumstances 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 pass the word to Emilio Fugazza, Eztec's Chief Financial Officer and Investor Relations Officer, who will get us started. Emilio, please, you may go on.

A. Emilio C. Fugazza

Hugo, thank you very much. It's delightful to be here presenting the first half 2020, second quarter 2020 results on Eztec. So on slide page number 3, you are going to see operational and financial highlights. From the operational side, I would like to highlight, net sales of BRL581 million in first half 2020. On launches, there was a lack of launches in the second quarter. So we ended up the first half of 2020, BRL564 million. Landbank was BRL8.9 billion by the end of the first half, but the trend is going to be BRL11.6 billion by the end of the third quarter 2020. We are going to discuss about it further on [ph].

Financially speaking, the company ended up the first half with a gross profit of BRL79 million in the second quarter with a gross margin of 51.2% [ph]. Net income was BRL68 million years within a net margin of 44.4% in the second quarter 2020. And in terms of

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cash position, net cash was BRL1.3 billion, generation of cash BRL29 million. I would like to highlight BRL519 million of performed receivables. With agreements of statutory lien, we have BRL504 million IGP plus 10%, IGP plus 12% annually and a little bit of IGP plus 8% annually in our direct receivables portfolio.

Moving on, slide number 4, I would like to say a little bit more, three slides about landbank. This is a very important subject this quarter, specifically because we ended up with almost BRL9 billion in landbank, taking in mind that in the second quarter specifically, acquisitions were something around BRL1 billion. Let's say that from this BRL1 billion, I would like to highlight one-third of this value re-evaluating our own landbank, previous landbank, and two-thirds, I would like to highlight buying land in the east zone of Sao Paulo, specifically in the neighborhood of Mooca [ph] something around close to BRL600 million.

However, in the third quarter, specifically in the last 40 days, were priceless in terms of landbank acquisition. It was something around BRL2.6 billion in new piece of land. Taking in mind that we have signed some options of BRL2.6 billion. The majority of those BRL2.6 billion are options signed with the landlords. So after due diligence, we are going to ratify those acquisitions reaching something around BRL11.6 billion by the end of the third quarter 2020. Reaching that we are going to increase landbank from the commercial side, the high-end side, mid-high end side. However, we have in our landbank enough possibilities to launch in each class with -- in each income class, we would like to fulfill in terms of new projects, new launches whenever we want to launch that project.

So moving onto slide on page number 5, we are talking about few projects that we acquired in this third quarter. So like subsequent events, the first project was a project in the left side of this slide is a project of high-end tower inside the complex. Inside this project worthing [ph] something around BRL400 million of PSV. It's a project, so inside a mixed use complex, which means a corporate tower, a mixed use tower and a residential tower. So nowadays, the residential tower belongs to Eztec. This project is close by Marginal Pinheiros in the south zone of Sao Paulo, less than half mile from Parque da Cidade project, Morumbi project -- Morumbi shopping mall project. So it's a supermarket called Carrefour. It's the very first store of Carrefour in the City of Sao Paulo, is a large piece of land over there, and is a kind of project that we are looking forward to seeing launched because it's going to be the same success, very close to the same success we had with the Parque da Cidade project launched last year.

The second piece of land in the right side of this slide is a small piece of land in the city of Osasco, the metropolitan region of Sao Paulo. It's a project of potential sales value of a BRL115 million. So we bought this piece of land in a public auction. It's a project that we can see the Jardins do Brasil, very close to this piece of land is a very well known plot [ph] in the city, is a very well known place in the city. So it's a kind of project that we are going to launch projects over there with the same price a little bit higher than Reserva JB [ph] that we launched last year to target a gross margin of a little bit above 40% given the cost over potential sales value of 12%.

All in all, those projects can reach something around BRL600 million in potential sales value. But as you can see, as a highlight, apart from these new projects, the company also

has BRL2.1 billion in projects confidentiality agreement signed, so option signed, due diligence ongoing to be ratified by the end of this quarter.

So all in all, let's go to slide on page number 6. This specific slide is very important to understand what happened to this company in terms of landbank or land acquisition since we released our follow-on September, October 2019. So since then, we bought something around BRL4 billion landbank potential sales value. You can see over right or over this slide that the acquisitions we made so far, we must have to pay ongoing BRL516 million. But the current inventory of lands in this company also has something around BRL198 million to pay, including some piece of land in resolution clause. But future obligations of grants or CEPACs to increase the potential of this piece of land can reach something around BRL220 million. So all in all, ratifying -- after ratifying this amount of land that we bought in third quarter 2020, we are going to reach a landbank worth something around BRL1.6 billion in potential sales value. The costs including the grants is about BRL1.72 billion. So you can see the ratio cost over potential sales value about 14.87%, so 54% of this whole cost refers to pay in the long -- in the short, medium and long term. So from now and five years, we are going to pay something around 54% of this whole landbank of BRL1.72 million.

The average cost over PSV in this last acquisitions is about 19%. Let me remind you that if you buy a piece of land in the metropolitan region of Sao Paulo, for instance, in the city of Osasco or Guarulhos, you are going to be something around 11%, 10%, 12% cost over potential sales value. But if you buy something around the south zone of Sao Paulo, very fancy neighborhoods over here, costs [ph] can reach something around 25% cost -- the ratio of cost over PSV. So it's important to remind, this doesn't matter if you can get a gross margin of over 40%, that's the guidance [ph] and that's the main idea for the completion of these landback.

So moving to page number 7, you are going to see operational performance. There is no lack of information that obviously you've got this information last July, 30 days ago. Just to remind you that the second quarter 2020, we got something around BRL148 million gross sales and BRL124 million net sales.

On the left side of this slide, you can see that 2020 we launched by BRL564 million, the gray bar, selling something around BRL261 million of this harvest [ph] the 2020 harvest. So far, the third quarter 2020, so far we reached something around BRL150 million of gross sales, which means that within 40 days of the third quarter, we reached more gross sales than we could get in the whole second quarter 2020.

So slide on page number 10, you're going to see next launches. Next launches means that we are going to -- we have been working on BRL6 billion over projects taking licenses in the municipality of Sao Paulo or Guarulhos, or Osasco in the metropolitan region of Sao Paulo. But in the short term, we are going to see those projects you can see on page number 10.

First of all, Gran Maia Giardino e Palazzo. Gran Maia means a project in the city of Guarulhos, a very well know city for Eztec itself. It's a kind of middle segment project.

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BRL204 million potential sales value, more than 500 units to be launched by the third quarter 2020.

For the fourth quarter, it's going to come something around three projects. The first of them is going to be Republica do Libano. It's a project called Park Avenue because it's in the same avenue of Eztec's headquarter in front of a very new [ph] social club in the city of Sao Paulo, it's a very fancy places to reach BRL25,000 per square meter. Gross margin of this project above 50%.

The second one Armando Ferrentini in the neighborhood called Aclimacao, even in the south zone of Sao Paulo, very well known place for Eztec itself. The stake of Eztec in this project is about BRL106 million, to be launched also in the fourth quarter 2020.

And finally, Fit Casa Estacao Jose Bonifacio, very close to a train station over there in the east zone of Sao Paulo, it's a low-end, it's called -- it's a kind of Minha Casa Minha Vida project, BRL131 million potential sales value. It's a kind of project in a segment that we have got a disclosure, a little bit more in the next slides.

Let's go to page number 11. Page number 11, you are going to see a little bit more deeper what kind of projects and results are going to come from projects Minha Casa Minha Vida program in the city of Sao Paulo and metropolitan region of Sao Paulo. This disclosure, you are going to see a little bit deeper in the earnings release from this quarter.

So first of all, Fit Casa Bras, we launched -- we have launched this -- we launched this project in the fourth quarter 2018. Something that around 75% of the project sold. Gross margin of 46% and the whole gross profit coming from this project so far is about BRL13 million, making a good contribution for the results for the company.

The second one, Fit Casa Rio Bonito, first quarter of 2019, it's going to -- we have already sold something around 90% to 95% [ph], gross margin of 45% and the total amount of gross profit we have already recognized in our profit so far, it's about BRL29.5 million.

Fit Casa Alto do Ipiranga launched first quarter of 2020, we have recognized this project earnings and profits 46% in the second quarter 2020 -- 46% gross margin. So far we have something around 30% to 35% of this project sold.

And finally, PIN International. PIN International is a very huge project that we have 60% stake of this one developed by our partner in the city of Guarulhos. Our stake is about BRL162 million, already sold something around 40% and it's going to be recognized in our earnings by the second quarter -- by the third quarter 2020 with the same regular margin of 40% above.

Financial performance on slide page number 12, you are going to see, first of all, net revenues. Net revenues coming at BRL153 million in the second quarter, a little bit less compared to the first quarter 2020 or fourth quarter 2019. This is simply because in a company like Eztec, which is a company that's very easy to understand every single

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operation, every single maneuver from the accountancy -- from the accountancy side you're going to understand that revenues come from three sides. First of all, when we sell performed units because it's 100% of net revenues coming at once. But obviously because of the crisis, because of the pandemic moment we're living in [ph], so far less units within March, April, May were sold in this specific segments of performed units.

Secondly to come, a bunch of revenues could be the launches, specifically because when you launch a project and this project is very well sold at once in the same quarter, you are going to recognize the amount of revenues corresponding the cost of the land. So you're recognizing the cost of the land because of the percentage of completion method we have been using in our accountancy. And as you know very well, in the second quarter 2020, there were no launches and that's why when you see BRL309 million 2019 fourth quarter or BRL250 million in the first quarter 2020 much more revenues coming from the side of the launching projects.

Finally, the revenues we are getting right now is coming from the project we have already -- we have under construction so far. So because of the authorities here in Sao Paulo, in Brazil, they have -- they took in mind that single construction at the site, the construction site is an essentially activity to keep going in our economy. We could get all the sites under construction without any kind of problem within the second quarter 2020 and that's why we have this amount of BRL153 million without any kind of problem coming from the construction site.

Let's talk a little bit more about gross profit and gross margin. Let me remind you that when you see backlog margin in the previous quarters, you see something around 44% to 45% gross margin. So in the further quarters, you could expect something around 44% of gross margin at least. But in this specific second quarter 2020, more than that we have recognized a little bit more adjustments coming from the receivables, coming from some changes in our accountancy regarding specifically some projects we have under construction and that's why we could reach 51% gross margin in the second quarter 2020. But mainly because the volume of revenues were too low, so any small adjustment in cost profitably can get or can raise the margins quickly. That's why you can see 51% gross profit in the second quarter 2020. However, in the further quarters, you are going to see a flat gross margin above 40% definitely.

Talking about selling expenses and G&A expenses, obviously, because of the pandemic moment that the huge crisis we are living on, you can see that the company made a huge maneuver to decrease the volume of expense and the huge amount of decrement you can see in the second quarter by selling expenses because with no selling [ph] with publicity distance, were closed, completely closed, we took advantage of new tools to work on sales, take [ph] vendors, our brokerage team, our brokerage side made a huge maneuver in terms of improving tools, improving ways to our brokers to offer our projects, to offer our products to the clients that we can expect that the further quarters, we are going to see a new level of selling expenses definitely.

In terms of G&A obviously because there were some sort of adjustments in terms of earnings, in terms of payrolls, some finance [ph] here. So all in all coming BRL6 million less than the previous quarter, a nominal adjustment in G&A expenses.

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On page number 13 get going with the potential performance, you can see financial results mainly because BRL21 million is coming from our portfolio of receivables, direct receivables we are providing financing to our clients (inaudible) huge as inflation adjusting our portfolio. So the total amount we can get was BRL21 million, making a very good one-third contribution in terms of the total amount of net income.

Equity income on the right side, top right side of this slide is about BRL6 million, mainly because of Reserva JB [ph] the project in the city of Osasco, a project that alone was responsible for selling the largest number of units from the whole second quarter 2020. This is a project controlled in partnership with other companies and Eztec has a stake of above 70% from this project.

Net income is coming at BRL68 million or a net margin up 44% a record during the last fourth quarter definitely, obviously less than expected, but much better than we thought at the beginning of the quarter, definitely. With the maneuvers with a very good practice in terms of prices, or in terms of pricing, let me remind you that the pricing, specifically in the third quarter now is increasing twice as much the inflation (inaudible) which is inflation in our sector. So you can expect very good results coming from the third quarter 2020.

And finally, results to be recognized. Obviously, it's not increasing, specifically this quarter is specifically because we had no launches in the second quarter 2020. But on the other hand, on the other side, you can see remaining 45% gross margin over here, the backlog margin meeting stable -- making flat since the third quarter 2019.

On page number 14, a big picture of our portfolio of direct receivables. Let me remind you that we ended up the first half 2020 worthing [ph] BRL504 million, meaning almost managing 100 clients under management here in our company. The highlight for this quarter is that, so in terms of payments over origination, we got a little bit more payments than we thought previously, specifically because the base interest rates here in Brazil is so low, record low. We are talking about something around 2% nowadays. So people with some savings, obviously they used those savings to pay back those units or their units. And that's what happened in both in the portfolio of receivables, performed receivables or under construction receivables and that's why when you see my balance sheet, you're going to see a lot of money. Even BRL29 million of cash generated this quarter is because people are paying anticipated payment advance the cash from the acquisitions, which means that we are doing all the constructions without taking any single penny from the banks in terms of -- to [ph] finance. This is very good. So and obviously, paying advance for me means that I can support all the SG&A from this company.

Gentlemen -- ladies and gentlemen, the last slide on page number 15, value generation for our company is just to remind you that the first half 2020, we ended up reaching net shareholders' equity of BRL3.9 billion, almost BRL4 billion in our company. And from liabilities, mainly, land payable booked in our accountancy of 3% meaning something around BRL116 million that's to be paid 2%, which means BRL67 million.

So from the asset side, the most important asset side that we can talk about cash and equivalents almost BRL1.3 billion, receivables of BRL1 billion, both performance and

unperformed receivables. Inventory of landbank, we are talking about BRL953 million. But as I told you before, it's going to reach BRL1.7 billion by the end of the third quarter if all those piece of lands would be ratified after the due diligence.

So saying that, I would like to open for questions, and thank you very much for your audience so far.

Questions And Answers

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In case, there happen to be any questions, you may send them either through the chat box and we will pick them up and read them up, or alternatively if you happen to be a sell-side analyst, you may also raise your hand and we will allow you to speak up.

In the absence of any questions, our conference call for the results presentation of the second quarter of 2020 is officially over. We thank you all for your attention, and hope you have a nice day.

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