FINAL

Bloomberg Transcript

Q1 2012 Earnings Call

Company Participants

- Antonio Fernando Guedes, General Director of Living
- Corporate Participant
- Elie Horn, Chairman and Chief Executive Officer
- José Florêncio Rodrigues Neto, Vice President of Finance and Investor Relations Officer
- Ubirajara Spessotto de Camargo Freitas, General Executive Officer of Cyrela São Paulo

Other Participants

- Analyst
- Guilherme Rocha
- Luiz Mauricio Garcia
- Marcello Milman
- Rafael Pinho

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting and welcome to the Cyrela Brazil Realty Conference Call where the results of the First Quarter 2012 will be presented. All participants are connected only as listeners and later on there will be a Q&A session for which instructions will be given. [Operator Instructions].

This conference call is being recorded. The recording will be available on the company website, www.cyrela.com.br/ri. This call will be translated into English and overseas participants will be able to ask questions. This conference call and the slides are posted on the Internet and can also be accessed on the company website.

Questions can be sent via Internet through a webcast platform. You can access the results release disclosed yesterday May 14th after close of trade on the BM&FBOVESPA stock exchange, again on www.cyrela.com.br/ri.

Before we proceed, we would like to clarify that any statements during this call regarding the company's business prospects as well as projections operational and financial goals concerning potential for growth. Our forecast based on the expectations of the management for the future of Cyrela, these expectations are highly dependent on domestic market conditions on the general economic performance of Brazil and international markets and are therefore subject to change.

With us today we have Mr. Elie Horn, Mr. Ubirajara Freitas General Director of the São Paulo regional office. Mr. Antonio Guedes, General Director of Living and Mr. José Florêncio Rodrigues Neto, Financial VP and Director of Investor Relations.

Now I handover to Mr. Elie Horn. Mr. Horn you have the floor.

Elie Horn {BIO 1823000 <GO>}

Good morning, everyone. I'd like to begin the results with 2012 with a few brief remarks. In recent years, we've been going through a phase of intense transformation and the market is expanding dramatically. We've got some things right and other things wrong. We've grown very quickly and have had first hand experience of growing pains.

In this process, we have learned from the path we have followed and we are much more mature today. The result of all of this is that we have decided to simply our company. Keep it simple is our motto. We believe that our business has always been and will continue to be able to generate a great deal of value and to capture this value impeccable performance is essential.

We have translated this strategic decision into a set of practical actions which are; one, that we shall grow cautiously and privilege organic operations. Two, that we shall continue to operate in those regions where we already have a presence and will not expand our geographic presence. Three, it is a privilege those segments in which we know how to operate efficiently. Map the acronym meaning the middle and high end segment will likely remain our flagship while the living category our economical segment is growing gradually within the living category we still focus on those brackets where we believe we can generate most value.

And four, we shall be increasingly selective in our choice of projects. We have increased the margins required to enable the purchase of landbank and launches. First to guarantee shareholders the expected returns.

No less important than what we do is how we do it. This is why we rely on our culture which is based on financial solidity with conservative management of resources, hard work with the humility to understand that we can always improve, employees with the outlook of onuses of the company working in an atmosphere of meritocracy, actions and relationships for the long-term strengthening the brand and ensuring the company's longevity.

We believe in the market's long-term potential and we want Cyrela to keep its place among the best companies in the business for the next 100 years. We will therefore never sacrifice the quality of our products and our financial solidity to growth. We shall continue to focus on a profitable and sound operation. With the support of our employees, suppliers, financial agents and shareholders we shall continue upon our path always striving to delight our clients.

I give the floor to Freitas who will comment on this quarter's operating income. Thank you very much.

Ubirajara Spessotto de Camargo Freitas {BIO 15314879 <GO>}

Good morning, everyone.

In slide five we'll comment on Cyrela's consolidated results including the Living category. In the first quarter 2012 we launched 10 projects totaling R$890 million. The average price per square meter was R$6,200, 38% up on the first quarter of 2011. The average price of units launched was R$405,000 in the first quarter of '12, 32% up over the first quarter of last year. Cyrela's share in the launches came to 77% in the quarter, compared with 79% in the first quarter of 2011.

Geographically speaking, the states of São Paulo and Rio de Janeiro and the southern region of Brazil accounted for 86% of the year's launches, inline with our strategy of strengthening those regions where we have a consolidated presence. Living products accounted for 19% of total launches in the first quarter 2012. The highlight of the third quarter was the launch of the 360 Degree on the Park project in Rio de Janeiro with a significant PSV of R$278 million, 48% of which has been sold to-date.

Slide number six, we are going to comment on pre-sales for Living. In the first quarter of 2012 pre-sales came to R$1.2 billion, including partners. This was up 20% over the first quarter of 2011. Cyrela's share was R$958 million. 27% of sales for the first quarter of 2012, was for launches within the quarter and 55% were launches in 2011. The states of São Paulo and Rio de Janeiro and the Southern region accounted for 79% of the accrued sales for the year. Our Living products accounted for 31% of the company's total sales in the first quarter of 2012.

Annual sales over supply was 52%, 1.5 percentage points up on last quarter and 1.3 percentage points up on the first quarter of 2011. We believe that these figures within what we deem a healthy sales velocity level for the company.

Slide number seven, we shall be speaking of stock and we will be showing at the end of first quarter 2012 stock at market value came to 6.4 billion, down by 110 million over the close of 2011. 12.6% of this total stock was unit completed

The company is focusing on the sale of shares. This quarter we launched R$890 million -- sorry the sale of stock and we sold 334 million of it. In other words, in addition, we sold a further R$ 887 million in projects launched prior to 31 December, 2011. Currently stock is equivalent to 11.4 months of sales comparing with the sales of the last 12 months.

I now give the floor to Mr. Antonio Guedes, who is going to speaking about Living.

Antonio Fernando Guedes {BIO 17964221 <GO>}

Good morning, everybody.

Now we will move on to slide number nine which talks about Living segment launches and sales. In the first quarter Living launched four projects with total sales lead of R$ 168 million. Of the 8,887 units launched in the first quarter of this year. 54% are eligible for the government's Minha Casa, Minha Vida program. In regards the sales Living sold R$ 384 million in this quarter, which accounted for 31% of Cyrela's total sales for the year.

Sales in 1Q '12 are segmented as follows. 26% of sales in the super affordable segment, 64% of sales in the economy segment whose price ranges from R$ 170,000 to R$ 250,000 per unit and 10% of the sales in the mid-market segment, whose price ranges from R$ 250,000 to R$ 400,000 per unit.

We can highlight two launches from this first quarter, the Way Vila Guilherme project in São Paulo and the Agora Dolce Vita project in Porto Alegre with 60% of the units sold respectively.

In slide 10, we are going to talk about the delivered units from Cyrela's and Living in the first quarter they delivered together 50 projects which totaled 4,300 units of which Living's share was 4,200 units. These units represent PSV of R$ 575 million, 93.3% of these units have already been sold.

For 2012, we intend to deliver from 25,000 to 30,000 units. At the end of the quarter there were 203 building sites in operation, 89 of which were for Living.

Now, I'm going to pass to José Florêncio who is going to talk about Cyrela financial highlights.

José Florêncio Rodrigues Neto

Good morning, everybody. Let's move on to slide number 12. Net revenue came to R$ 1.4 billion in the first quarter of 2012, 20% up from the first quarter of 2011. Gross profits came to R$ 426 million in the quarter 26% down on the fourth quarter of 2011 while 29% up on the first quarter of 2011.

Gross margin advanced 0.4 percentage points over the previous quarter to come to 29.5%. The EBITDA in the quarter was a R$ 188 million 33% higher than in the first quarter of 2011. EBITDA margin came to 13% in 1Q, '12, the adjusted EBITDA margin was 18.5%. Net profits came to R$ 118 million in the first quarter of 2012, 43% down on the fourth quarter of 2011, while 40% up on the first quarter of 2011. The net margin was 8.2% for the quarter, excluding the effect of the profit sharing program the net margin would be 9.4%.

Lets move on to slide number 13. In 1Q '12 the transferred amount was R$ 516 million 16% higher than in 1Q '11. R$ 211 million or 41% of this total were middle and high end units and R$ 305 million or 59% were Living units.

In addition to the transferred amount, the volume of units fully paid off was another highlight. In the first quarter of 2012, 700 units were paid off a volume of 102 million. Thus a total of 3800 units were transferred and paid off in the first quarter of 2012.

On slide 14, we have data on indebtedness and liquidity. Gross debt by the end of December totaled 4.6 billion at the same level as in 4Q '11. The cash and cash equivalents position was R$ 1.9 billion at the end of the quarter, R$ 52 million or 3% higher than in the preceding quarter our net indebtedness over net equity fell in comparison to the previous quarter.

Leverage fell from 55% of net equity to 54% taking total debt into consideration and down 1.5% if we only consider corporate debt. Of our total debt, 61% is for SFH financing for building. Net debt over EBITDA is 3.1 times taking total debt into consideration.

At this stage the company has net cash of R$ 73 million. 74% of the company's debt is long-term. The average duration of the company's debt is approximately 2.6 years. The average rate including SFH debt is 110% of CDI.

On slide 15 we data data on cash burn. Operational cash burn for the quarter was R$ 6 million, compared with R$ 134 million of cash burn in the first quarter of 2011. Living aside the effective paying out for the profit sharing program which we did in the second quarter of 2011 operational cash generation was some R$ 164 million or greater. We did not perform any securitization this quarter. We expect to present cash generation in 2012.

As announced in July 2011 we begun our stock repurchasing program. 12.3 million shares or 2.9% of the total in circulation have been repurchased. At present this program has been 58% completed. We are currently canceling 6.3 million shares or 1.5% of the total number of shares. The process also aims to maintain shares to support the stock option plans for the coming year. The program is still open.

We will now answer any questions you may have. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. [Operator Instructions]. And our first question is from Guilherme Rocha of Credit Suisse.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Good morning, everyone. What about gross margin over the year please? Could you tell us more about that? And comment on processes to -- some companies this semester, I'd like to know how you're doing this? Are you doing this on a quarterly basis. What is happening exactly? So this review or this downward revision that's happened in other companies?

A - José Florêncio Rodrigues Neto

Good morning, Rocha, Florêncio. Well, the gross margin is upward still. We hope that over the year it will continue along this path, not just the rise of the gross margin in the quarter, as over the last quarter of last year, but also the rise in the RES margin. So these older margins of poor periods as new projects are entering we'll be increasing our margin. This is what we expect.

We think that the increase will be small quarter-on-quarter and we're sticking to our guidance as published in January. As for a budget review, we are reviewing the budget every month. We review the budget every month. We look at NAM to see what can be turned around and this is booked in our accounting and so far as we are sure that this is the budget that we need to follow.

Q - Guilherme Rocha {BIO 17303509 <GO>}

With all this monthly process, have you observed any deviation in any of the components for example labor cost, and what about counterparties from municipality? Have you anything to say with specific municipality given your nationwide presence? And for example the licenses for moving in and the granting of these licenses anything to say on that?

A - Corporate Participant

What I can say in fact with regard to the behavior of prices over inflation is until our general bargaining process comes out, which will be less than we expected. We're expecting 10% was what we had expected, but it will be lower than that. Our wage -- process. It will be very similar to 2011. But in some regions, Freitas might have more comments on this. There is a decoupling of prices with regard to IMCC. This has reduced. We still have some thought in terms of feasibility, but we have seen some reductions. So IMCC is on average a good evaluator of inflation in construction. It ranges, it varies region-by-region. São Paulo for example is heavier. We see quite a small mismatch.

A - Ubirajara Spessotto de Camargo Freitas {BIO 15314879 <GO>}

Freitas speaking. I just wanted to underline what Florêncio said. Generally speaking Brazil wide we haven't felt any kind of specific cost pressure. There is costs we are following it carefully by business units. We are following the inflation at each business unit. Regionally the price pressure impacts are different but IMCC as Florêncio said, either represents the whole cost of each business unit or when there is a mismatch, it's very small. There are ad hoc differences, as you say increases in counterparties, specific legislation for each particular municipality. We don't see any deviation of cost with regard to what's been predicted. The cost of our construction in Brazil the costs are all controlled with IMCC with a certain margin of fact as we say to face this situation.

Guilherme, unlike the past, the difference today is that there is much less productivity today. The labor force is less effective and they spend longer to produce a square meter than in the past. This is in our cost.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Thank you.

Operator

Our next question comes from Mr. Luiz Mauricio Garcia from Bradesco BBI.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good morning everybody. Basically I have three questions and the first one is in relation to the repurchase program and our canceling the shares of 1.5% of what in circulation. So I believe that's a good initiative away to compensate the shareholders and I would like to how it will continue in the same direction, if we can see in the current prices that the program will be resumed?

And the second point, something that Elie mentioned in the beginning which is keeping the company simple. As was mentioned before by José in the beginning also, everybody is very concerned, the market is very concerned about cost execution. And I think there is a huge differentiation between the companies. And I believe that will continue to happen.

So based on the bad results I'd like to know what you expect that you will have through this program. And another point I'd like to know if you can talk more about the increase of the threshold in choosing your projects and the feasibility, not just for buying land bank, but also for the launches and that is coming in an appropriate moment, very suitable moment to know what was implemented in this matter?

A - José Florêncio Rodrigues Neto

Good morning, Luiz. This is Florêncio. I am going to answer two of these questions. I think Elie, Ubirajara and Antonio answered that better In regards to the repurchase, what I'd like to say is that we bought a very interesting -- project in a bit higher than R$13 per share and the strategy was to leave shares, a certain stock in the treasury to cover for the stock options program.

In the projection, the outlook that we have in terms of the rest I believe that adds a lot of value to shareholders since Cyrela's market value is much higher than what we actually paid for these shares. So said that, we believe it's a good strategy to create value for shareholders and if the price is correct, I mean lower than the liquidation amount, we will continue on this path.

I'm going to skip to your last question and keep it simple parts can be answered by Elie.

In regards to the increase in the threshold, I think that the first initiative that we took was to request the work on top of what was invested on Landbank and that was an information that gives us the correct incentive so what you buy is going to be executed as soon as possible, as fast as possible and another thing is that we adjusted the required margins as result of the business risk not just the business in terms of segments but also based on the regional aspect, so those were the main initiatives that so we squeeze the threshold the investment threshold.

In regards to the keep it simple thing, it's to make life simple so that means less work site, less headaches, less future cities or zero future cities, focus on what we know how to do best, less attempt, less innovation or dreamy innovations and less growth as possible. Think of profitability and increasing your margin and launches, better purchase of Landbanks and concentrate and refocus our life.

I think I was very clear in the opening remarks. So keep it simple. So in two years we want to a very strong and profitable Cyrela with less people that service, our employees and our shareholders et cetera. In that mind, Elie, I'd like to make a comment. Do you see any changes, because we clearly see a lot of pressure in this sector. Specially in labor efficiency, lots of productivity and the increase of labor prices which is much higher than inflation.

On the other hand, the industry is a major supplier of labor in Brazil because it's low technology is in place. So, long cycle any change, but you see any changes that are feasible given the labor cost in the near future. Today, labor is more available than two years ago. I think things will become stable in the natural basis. It's a matter of time as it has always been that way.

Q - Analyst

Okay. Thank you. Thank you.

Operator

Our next question comes from Mr. Marcello Milman from BTG Pactual.

Q - Marcello Milman {BIO 7252528 <GO>}

Good morning, everybody. I have two questions. The first one is in regards to the cash burn. If you can talk about the delivery dynamic you've been delivering a lot so have you seen that throughout the year? Do you see a more stable improvement or that kind of improved or worth and FD deliveries don't take place.

As much and another question in regard to the increase in the feasibility margin for the project, I would like to know at what size the company would become stable given it's new level of profitability that you are seeking if this current science would be the stable size so you are thinking of something smaller, something in that range?

A - Antonio Fernando Guedes {BIO 17964221 <GO>}

Good morning, Marcello. In regards to the cash burn, I think that the first question was if it's good, if it was expected, yes it was expected? Just to remind you that the result for six, cash burn is practically neutral. We paid the profit sharing program this quarter. And if you compare to the first quarter 2011, we only paid it in the second quarter. So the difference was much higher compared to 1Q '11 about 160 million, which shows us that we are taking the right path.

And more than that, we didn't have a securitization and the Landbank purchase level was very similar to the first, to 1Q '11. So it shows us a very interesting path.

In regards to the predictability, cash burn on a quarter-by-quarter basis is very hard, because it depends on the level of investments that we will have in Landbank and what we will do in securitization. So what I can say and what we have been reiterating is that we expect to generate cash in the year. I'm not going to risk giving you a quarter-by-quarter forecast though. In regards to the second question, increasing the threshold feasibility means that we will become more selective. So it does imply in growing less but today our goal is to grow about 10%-15% per year, which actually does not imply in a square meter growth, in square meters there might be a reduction.

So some 10% to 15% what we see is an increase in the average price. So as Mr. Elie said, a 200 -- site just too much. So we're planning on becoming more cautious in regards to that and the growth will come mainly from our price increase and logically focused on having more profitability and profit.

Operator

Our next question is Rafael Pinho of Morgan Stanley.

Q - Rafael Pinho {BIO 15321539 <GO>}

Actually thank you my questions already been answered.

Operator

[Operator Instructions]. As there are no further questions. I would like to give the to Mr. Elie Horn for closing remarks.

A - Corporate Participant

Before closing, there is a question about the capital structure. Net debt-over-EBITDA, we prefer to think of net debt-over-NE because it's likely to fall as over the year, we do not intend to increase our gross debt over the year. So the fundings that we have been carrying out in order to extend the profile of the debt and to prepay the debt and also to roll over what we have to pay for the year. So we are not going to increase our gross debt. And since we are generating more profit, with cash flow generation, this means that we are going to reduce our level of indebtness. So I won't give you a figure today, but a threshold below 50%. Thank you.

A - Elie Horn {BIO 1823000 <GO>}

Ladies and gentlemen, thanks once again for your interest in Cyrela Brazil Realty. Our final message is that we won't to simplify ourselves. We want to earn more, grow less in terms of square meters and have better margin, better land bank. And this project or this process began about eight months ago and it will continue for the future and we will have a much leaner, younger and a better company which is more profitable.

Thanks very much.

Operator

The Cyrela conference call is closed. Thank you very much for your participation and we wish you good morning.