

Y 2021 Earnings Call

Company Participants

- Miguel Maia Mickelberg, Chief Financial and Investor Relations Officer
- Raphael Horn, Co-President Director

Other Participants

- Alex Ferraz, Analyst
- Bruno Mendonca, Analyst
- Daniel Gasparete, Analyst
- Elvis Credendio, Analyst
- Marcelo Motta, Analyst
- Ygor Altero, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Cyrela's Conference Call to Discuss the Fourth Quarter of 2021 Results. Today, with us, we have Mr. Raphael, Chief Executive Officer; and Miguel Mickelberg, CFO and Investor Relations Officer.

We would like to inform you that during the company's presentation, all participants will only be able to listen to the call. (Operator Instructions) We would also like to inform you that the conference call in Portuguese will be presented by the company's management. For the English conference, there will be simultaneous translation. This event is being broadcast simultaneously on the Internet via webcast.

The conference call contains forward-looking statements that are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those in the forward-looking statements. Such statements speak only as of the date they are made and the company is under no obligation to update them in light of new information or future developments.

I will now turn the conference over to Mr. Raphael Horn, who will begin the presentation. Mr. Raphael, you may proceed.

Raphael Horn {BIO 19714328 <GO>}

Good morning, everyone. It's been a challenging scenario due to the increase in the interest rates. Inflation has been above the expected rates and we have continued to face challenges due to the COVID-19 pandemic. So in 2021, our execution capacity and positive results -- our results were positive and we had solid deliveries. We came to a total of 7 billion -- 7 million in number of enterprises and net revenues were 12% above last year, even in this delicate context.

So we were boosted in our financial results. Our gross margins reached 24%, 2.8 percentage points above last year, even though we were pressured. Our -- we generated BRL400 million in cash, which led to a low level of debt of 4.1% this quarter. We know that 2022 will be challenging. There are political risks, macroeconomic factors are less favorable and that could affect our sales, as well as the elections and the World Cup. So we are ready to face that with all the factors that we have in our favor, and we've been trying to optimize the returns to our shareholders.

Now, let's talk about our operating figures.

Miguel Maia Mickelberg {BIO 20023910 <GO>}

Thank you, Rafa. Good morning, everyone. Slide 5 shows some figures on our launches. During the fourth quarter, we had 17 new projects launched with a VGV [ph] -- excuse me, a PSV of BRL7 billion in 2021. And excluding swaps and the Cyrela percentage, we launched 26% more than in 2020. Slide 6 and 7 show our main launches or main highlights this quarter.

Continuing on Slide 8, we're going to be talking about our sales performance. This quarter, contracted sales reached BRL1.6 billion, a reduction of 15% versus the fourth quarter of 2020 and an increase of 15% [ph] versus the previous quarter. Ex-swap accrued sales reached BRL4.6 billion, a -- an increase of 13% versus the previous year. The State of Sao Paulo represented 55% of our sales.

Slide 9 shows our sales speed. The company's annual SOS was 44%. Looking at Launch Vintage, projects launched this quarter represented 30 -- were 31% sold, excuse me. Slide 10 shows the company's total inventory. At the end of the quarter, it came to a total of EUR7.5 billion, up 15% versus the last quarter, led by the launches that we had during this time. Our inventory is shown on the graph to your left.

Slide 11 shows our finished units. During this quarter, we sold 12% of our finished units. And adding to the sales of finished units and the PSV delivered, we had an increase of 1.5% versus the third quarter of 2021. Slide 12 discusses our delivered units. This quarter, we delivered 10 projects, a total of 2,200 units and a PSV of BRL781 million. For the year, we delivered over 4,800 units and 25 projects, a total PSV of BRL2.2 billion.

Slide 14 discusses our financial results. The company's net revenue reached BRL1.3 billion this quarter, 2% higher than the third quarter of 2021 and 25% above last year. Gross profits and margins are shown here as well; 33.4% versus 34.7% versus the last quarter and 31.8% in the same quarter last year. For the year, the reported gross margin was

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34.8%, above 31.9% in 2020. Our net income was BRL218 million versus BRL261 million in the fourth quarter of 2020 and BRL238 million in the third quarter of 2021. For the year, we reached BRL914 million.

Slide 15 shows our profitability. For the fourth quarter of 2021, our return on equity, measured as our net income in the last 12 months over the equity average in the last 12 months, ex-minorities, obtained 15.6%. Slide 16 shows our debt. Our gross debt was BRL6.3 billion. With our cash position of BRL3.2 billion, our net debt was BRL282 million, 82% of which was long term. There was the reduction in our net debt over equity versus the last few quarters, which reflects our solidity and places us in a great position to maximize our returns for our shareholders.

Slide 17 shows our cash generation. For the fourth quarter of 2021, our cash generation was EUR100 million versus EUR177 million in the third quarter.

Now, Raphael and I will answer your questions. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the questions-and-answer session. (Operator Instructions)
The first question will be asked by Mr. Alex Ferraz from Itau BBA.

Q - Alex Ferraz {BIO 18651758 <GO>}

Good morning, Rafa and Miguel. Thank you for this presentation. I have a couple of questions. First, about your margins. I can see that it was better from the last quarter, even though you were pressured in costs and you had some less space to pass on the prices due to affordability. So I'd just like to hear more about that. What new launches in 2021 have better margins? Are you able to offset it due to that? So, if you just tell us a bit about why your margins were lower this quarter? Is it at a healthy level?

And also, I'd like to ask about cash. In the release, you mentioned that administrative expenses have gone up, pressured by operations. If we look at it year-on-year, we have BRL30 million more in G&A this quarter versus last year. So how do you see this cash growth in your investments? Should we expect it to continue to go up? And also, what other funding alternatives have you looked at? We've seen some competitors catching [ph] up. So I just like to hear more on your perspective about that.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Thank you for your question, Alex. Considering gross margins, this quarter, we had some work delays, which impacted our gross profits. But if that hadn't happened, our margins would have gone up slightly due to the launches we had this quarter and had a gross margin of 39.9% this quarter, which is quite high. This was pulled up by three large quality projects, one in the South, one in Rio, and one in Sao Paulo. They all had very good margins.

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So, the reason why the quarter margins were low is because of these delays that I had mentioned. Otherwise, it would have gone up. Regarding CashMe, our G&A was BRL89 million, which was a growth from 62 -- or, excuse me, up from BRL62 million [ph] since 2020. I think 2021 was the year where we had relevant strategical changes. We wanted to bring in senior management to the company, we invested a lot in technology. We've seen some results. We were able to get good origination, BRL550 million this year, which basically doubled since 2020. So our ambition for growth this year is also high, and we're always willing to exhaust any alternative that might be interesting for us. So we can look at funding alternatives and others. We don't have anything on our radar yet, but we are always willing to look at the alternatives that we believe will make sense for the company.

Q - Alex Ferraz {BIO 18651758 <GO>}

Great, Miguel. That's very clear.

Operator

The next question will be asked by Mr. Ygor Altero from XP Investimentos.

Q - Ygor Altero {BIO 21419045 <GO>}

Hi, everyone. Good morning, and thank you for that presentation. I have a couple of questions on my side. First, I'd like to understand what you are thinking about launches in 2022, considering that 2021 was very different from your history. Also, with sales, you did very well during the pandemic. So what new launches do you have in mind? And do you believe you are going to focus on the high income segment, which seems to be the most resilient one, that is taking less from affordability? So I'd like to get your perspective on that. And on the low income segment, specifically, I'd like to know if you've had new updates, if you are being benefited recently and what that means for you with the new launches. So that's it for now.

A - Raphael Horn {BIO 19714328 <GO>}

Hi, Ygor. How are you? Considering launches for the year, we've been careful, and of course, we like our team and our projects. We're excited about the team we have, but we're cautious because of the moment we're currently facing in the market. Let's see how it goes. Our landbank is very good and it's big, so we still have a lot that we can launch. Of course, if things get worse, we'll have to hold back. But we're taking it one day at a time. This is Brazil, you know. We're very used to working here. So we just have to take it one day at a time. We can't control our destiny. What we have to do is to work every day very well. So that's what we can control, and we'll have to see how the economy does. So, one day at a time.

Regarding segments, we have people who are low income and who are doing very well. We have partners who are doing very well in that bracket. So we like middle and high income, and we're not as focused on one. I mean, I think all segments are still doing well. There are a lot of players who work very well in the low income. So I don't think that that's a big issue for us. We'll continue to attack all segments.

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A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Ygor, this is Miguel. Considering changes in the curation [ph] -- and so, they have no impact on our operations. Our market is not -- it doesn't overlap what they have affected. So, that didn't have much of an impact for us.

Q - Ygor Altero {BIO 21419045 <GO>}

Great. That was very clear. And the second question is about cost. Just like to hear a bit more about what you've done to make the new projects viable. Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Thank you, Ygor. Whenever we launch an enterprise, we do a detailed launch based on the previous projects, and we use unit prices for all of our inputs, the current ones that is. So what we've seen is that some inputs have had a above average variation. Especially for the launches that we had in late 2020 and 2021, there was an increase in steel and hydraulic installations that was not captured by the index. So we were impacted much more.

We believe our budgeting process is very solid. We have our assumptions with Vivaz [ph]. Since we don't have any connection to the receivables portfolio, we consider that inflation is 8% a year. So in our cost, for three years, we've been provisioning our balance to face inflation, and we currently believe that the future level of inflation is 8% a year. So that's already reflected in our plan.

Q - Ygor Altero {BIO 21419045 <GO>}

Great. That was very clear. Thank you, Miguel, and thank you, everyone.

Operator

The next question will be asked by Mr. Bruno Mendonca from Bradesco BBI.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Hi, everyone. Good morning. Thank you for that presentation. So, I'd like to ask a follow-up question. I was surprised by some of your strong figures. And in the launches you haven't made yet, should we expect their margins to be at a similar level, at least on average? That's my first question. My other question is more specific on your landbank in Rio de Janeiro. I've seen that the state has been doing a little bit better, it had been stalled for many years. So, how do you see that considering the current scenario where costs are high? I know that you have an agreement for low income clients there. But I'd just like to ask that question in general. That's all. Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Bruno, this is Miguel. Considering our launches margin, it's very hard to say, because we did have a very good performance in 2021, around 37% margins, which were very healthy. Of course, there are still financing costs, which will reduce that margin, but they are

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healthy margins. However, we know how difficult it is to pass on inflation if it is high. So it's hard to say what the margins will be. We understand that our margins are at 34.8% and that is -- that has more potential for an upside than a downside on that margin. Of course, we have to do things very well. We have to have good margins, and we'll see how it goes from now on. But we've still been able to have margins of that sort in our new launches.

Bruno, considering the construction that you've been asking a lot about, and I understand why, NTC [ph] was a major villain in the last few months, because we had to pass on our prices, right, or a part of it, at least. So if we have been able to do it in NCC [ph] specifically, what would our margins have been like? So, of course, INCC took its toll and we did become dis-attached to it. But one thing is the impact that has on our margins. Of course, it does, because we could have sold at much better margins. But the other thing is the accounting side. Accounting is already offsetting our NTC perfectly. So we haven't had many surprises versus what we had budgeted. Of course, cost of execution has gone up and it has become dis-attached at some point. And that's why we said there was some loss there. But one thing is having a high level, and the other thing is being surprised. We haven't been surprised as much there. So it's important to make that clear.

Considering Rio de Janeiro, we still have a major landbank there. The market there did improve, not enough so that we could have a better turnover for our landbank there. But what I mean to say is that the market in Sao Paulo got better in the last three or four years. Rio did get better in the last 24 months. It's not the best, but it's -- if you select very well, then you can make it work. This quarter, we have a very important project there and it's been doing very well. So yeah, we've been making it work, but our landbank in Rio is bigger than the market right now. So we still have a long way to go to make our landbank work. If we could, our volumes would be higher. We're working at our current levels, because Rio is doing well, but not as well as it was. So, that's why we have been able to put out our landbank there.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Great. Thank you.

Operator

The next question will be asked by Daniel Gasparete from Credit Suisse.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Good morning, everyone. So, I'd just like to get your perspective of this year. Do you believe there will be any adjustments to your costs, and do you see any risks at that? Thank you.

Operator

Gasparete, can you repeat your question, please? We couldn't hear you.

Q - Daniel Gasparete {BIO 17999254 <GO>}

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Right. Can you hear me now?

Operator

Yes, we can.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Okay. So I just like to ask you to talk a bit about the BRL33 million in higher costs. So what potential new adjustments will you have this year? Do you think any labor changes will affect you? Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Great. Thank you, Gasparete. So I had said in a previous answer that we base our projects on previous projects, which are very precise. But of course, there's still a margin that changes. So the next nine months, when we start construction, we already have an engineer, we finalize our executive projects, and that's when we have our executive budget based on that.

What we've seen is, at the end of last year and in the beginning of this year, having the sort of executive budget from launches in 2020 and early 2021, unit prices had gone up much more than NCC captured, especially due to steel, electrical, and hydraulic installation. So we had to re-budget for that, and we had to record some loss. We're still going to have some impacts. Of course, substantially lower this quarter, some of the works that had to be re-budgeted, and then we believe we'll normalize things. So engineering is challenging on one hand. We have a high demand for labor. We had a huge number of launches in Sao Paulo. And what our engineering team is saying is that they have been able to hire personnel, but often, they need to cancel contracts early. So we understand that contract cancellations will need to continue, but we still have to assess it. It's still very uncertain.

With materials, we had things under control. There were some reductions, the exchange rate helped us. But with the Russia and Ukraine conflict, things will change significantly. That could have an impact. We've heard about steel prices going up, but our prices have already been closed for the next months. We're seeing what we can do to mitigate impacts, but that's a potential source of inflation. So our question is, how much we're -- we'll be able to pass those higher prices on. But that's what I have to say for now.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Great. Thank you, Rafa -- or excuse me, thank you, Miguel.

Operator

The next question will be asked by Mr. Marcelo Motta from JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Hi, good morning. I have a couple of questions on price. First, I'd like to understand the price variation adjustments that you've made in your inventory under construction or not. Although they are small adjustments, you said that you've been able to pass that on to the sales price. So, I'd just like to know if you -- if you've been able to pass that on and how that's doing. Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Thank you for your question, Marcelo. Yes, we did have some price readjustments at the end of the year, especially in legacy units. You can see that most of the adjustments are in our inventory. So there are projects in the South and in Campinas. There are older projects, and we had to readjust the price. So we were impacted at the end of the year. It's not as relevant, but yes, we did have to adjust some projects.

Anything on price, Rafa?

A - Raphael Horn {BIO 19714328 <GO>}

Well, yes. Obviously, we did pass on some prices. We do what we can. Of course, prices went up, and I'd say that happened all over Brazil. Prices went up. So, that's what we can do. Of course, NCC is much higher and we didn't pass all of it. I said we passed some of the prices on, but I didn't say it was enough to cover the difference. It wasn't low, but it wasn't enough to cover the difference.

Q - Marcelo Motta {BIO 16438725 <GO>}

Great. So, the margin that you mentioned is still very strong, and I do believe that it reflects your work as well. So, thank you.

Operator

The next question will be asked by Mr. Elvis from BTG Pactual.

Q - Elvis Credendio {BIO 20084266 <GO>}

I have a couple of questions. First, on receivables. I think this year, with the last cycle, things have started to accelerate. So I'd just like to hear more about the quality of your portfolio. What sort of clients do you have, and how comfortable are you passing on those higher costs? And what opportunities do you see for the future when it comes to buying land, and what has your appetite been for that? Are you focusing more on swaps or cash? That's all. Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Thank you, Elvis. I'll answer your first question about our portfolio. Well, the projects that we are delivering this year are 87% sold and the average receivable has already been updated by NCC. Considering the units that would pull the -- disregarding [ph] them units will pull those average up, it was 61%, which is very comfortable.

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Another important piece of data is that 85% of these units, the amount that the client paid corrected by NCC is below the current listed value. So the encouragement that they have for contract cancellations is low. So we're very comfortable for 2022. For 2023, they are 74% sold and clients have paid 28% and that same metrics, so just regarding the ones that have already been fully paid. So there are many installments to go that it would be an NTV [ph] of 72, far lower than banks use. So we are comfortable with that. We know that a high NCC with increased interest rates can be a problem, but our portfolio has very good clients.

Our financing rates have gone up. It's at 11%, which is higher than what we have at the other end. So our clients have rates of 8.3% or 9.3%. So our rates are much higher than that for credit analysis. And when we increased it, we didn't see a relevant amount of credit being denied. So we feel very comfortable, and we'll have to see what happens.

Regarding the land, Rafa will answer your question.

A - Raphael Horn {BIO 19714328 <GO>}

Yeah. Miguel gave us some good information on the -- on that. But when we look at contract cancellations in 2008 and so on, they were much different. So I don't think we're ever going to go through that same situation again. Most of our clients at the time were canceling the contracts, because they had to, not because they wanted to. So again, we are not worried about that, and I don't think we ever will be. But we're -- right now, we are not currently concerned with that. We are going to get our receivables. And about land opportunities, I still think it's early. It's early to say anything. We don't know. We don't know where the interest rates will finish. Of course, we have to adjust our portfolio. There will be elections. It's still early to understand what will happen with the macro economy and how it will impact our micro economy. So we have to take it one day at a time. Our landbank is quite good.

Q - Elvis Credendio {BIO 20084266 <GO>}

Great. Thank you.

Operator

Thank you. I'll pass it on to Mr. Raphael Horn for his last remarks. Mr. Raphael, please continue with your closing remarks.

A - Raphael Horn {BIO 19714328 <GO>}

Thank you, everyone, for this call, and we'll speak to you soon for the next one. Thank you.

Operator

Thank you. This conference call is now finished.

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