

## Q2 2021 Earnings Call

### Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive Officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer
- Ricardo Paixao Pinto Rodrigues, Chief Financial and Investor Relations Officer
- Unidentified Speaker

### Other Participants

- Alex Ferraz
- Analyst
- Bruno Mendonca
- Daniel Gasparete
- Gustavo Cambauva
- Jorel Guilloty
- Marcelo Motta
- Thais Alonso

### Presentation

#### Operator

Ladies and gentlemen, welcome. Thanks for waiting, and welcome to the Conference Call for Analysts and Investors of MRV about the Results of the Second Quarter 2021.

Today with us, we have our Presidents, Rafael Menin, Eduardo Fischer; our CFO and IR Officer, Ricardo Paixao. We would like to inform you that all participants are going to be in listen-only mode during the company's presentation. We'll then start Q&A session when further instructions will be provided. (Operator Instructions)

Now we're going to turn the call to the President, Rafael Menin. Please, Mr. Menin, you may go on.

#### **Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Good morning, everyone. Thanks for attending another earnings release of MRV. Well, as you saw in our reports, I have been noticing some concerns from analysts about the sector. I myself am very optimistic. I am quite confident that we can have a very special decade for the housing segment in Brazil. Brazil is barely going to a new normal of interest rates. We were used to interest rates of 15%, 12% a year. And more recently, we

had the Selic rates that was at the lowest level ever. And we don't know what our stability is going to be, 6.5, 7 or 8 But I am sure it is going to be well below the previous decade.

If you think of it, we had very good structural reforms in the countries, some bad or some worse, [ph] but they will all reflect on a better country for the future. And interests are very important for our sector.

Another important point is that we went through a very complicated decade and economic period that lasted for a year that pressured income and the consumers' confidence. Despite of that, we had last decade much better numbers than the previous one. Last decade, we had 6,000 units a year. And I think that in the next 10 years, because of lower interest rates, the recovery of economic growth and explosive demand for housing, in Brazil, we have 1 million families being established a year. So I think it's easy to say that our sector is going to be growth -- is going to show growth of 40% 50% in this decade.

So I'm quite optimistic. We are in a sector given all the sectors that is going to grow a lot in the coming years. And the most prepared the companies will certainly surf this wave of growth. I do not see today any other company that is as prepared as MRV. We are operating 160 Brazilian cities, with very mature structured operations, differentiated teams. More recently, we started to expand our portfolio. That has been very important for the company.

Of course, this is more complex than it was in the past. But we do have this possibility of accessing the capitals market going to the real state funds, in the case of Luggo, having a growing portion of SBTE, [ph] via Sensia we are having a very good result with Sensia products. We are operating and several times, we can be more aggressive in markets with lower competitiveness, which is a major differentiator, and it is unique of MRV.

We can talk about Urba as well that has had brilliant performance in the first quarter. We launched a development inhibit on paper in the second quarter, another one in Campinas. And we have a very strong pipeline for the third and fourth quarters. Urba has a difference mode of operation. Everything we launch, we sell everything. We have a 44% gross margin in Campinas development above 50%.

So those portfolio of products, Casa Verde e Amarela program, Luggo, Urba, Sensia, all of that really place us in a differentiated position compared to other companies that operate in the sector. In addition, MRV is the only company that operates in two countries. AHS has been showing quarter-on-quarter phenomenal evolution. We already had the sales of two developments in the second quarter that much contributed to our net income. We have other six developments on sale. And sales will take place along the second half of the year, perhaps something for the next quarter -- for the first quarter next year. And more and more, we are seeing that funds are buying development. Before stabilization, we would only be able to sell six -- eight months after the completion of development. And now we have been contacted to sell to development that didn't even have the housing permits yet.

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So the demand for housing, this home work force is really exploding in these states, and there is no sign that demand is going to cool down. Quite the opposite, AHS ramp-up has been quite accelerated. We are now going to two new states, Texas and Georgia. Starting already developments there, given the speeds of approval of licenses in this state.

So we're talking about Brazil with a very strong decade in housing. We are talking about the U.S., a giant country, a giant market. NHS [ph] was a very unique operation, a vertical company. That has it all to have an increasing impact in our holding. Perhaps AHS in the coming years may even have a percentage of income that is even higher than Brazil. So that's very unlikely to occur.

So for all that again, I'm quite optimistic. I'm sure that MRV Co will reports better and better results for the coming years. The next years are going to be very strong. I think that we cannot see the landscape into short-term. Otherwise, our vision is a bit blurred. So I think that we are going to have a more comfortable times for the future, a reduction of competition. If our margin is tighter, imagine, smaller companies that have much more difficulty and less efficiency to navigate times with lack of the inputs and pressure from major providers will certainly surf the wave much better than the competition.

And if you take the snapshot of the time, it is one thing. But for the future, the gross margin will come back in '22 or '23. So the margin is going to be a bit more compressed this year. I don't think it's going to change this year. But for the for the future, if you see into the future, I'm sure that MRV margin will come back to what it was two years ago.

And also, I would like to talk about ESG initiatives. No other company in the sector has such an agenda, not even close. We know how important this is in Brazil. We have many problems and MRV is really conducting very interesting work together with Brazilian society. And this will continue to grow.

And also our investment in technology. I mean lots of good things to happen in the coming years. This is an agenda of low visibility to investors. But I can say quite confidently there's no other company that invests as strongly in technology, especially, counting on our database, we have more than 500,000 apartments, and lots of good things will come from our technology agenda.

And to close my opening remarks, you take a look at our price book, 1.5 times. MRV was close than what it was in 2010 market value. And if we look forward, I can say that we are very poorly priced. Not only MRV, but the whole of the sector. The housing sector has so much to deliver in the coming decade, which such great foundations should be priced, in my opinion, 2.5, 3 times higher.

So that is my message of optimism. Of course, we are concerned about the short-term. We are working very hard on that. But if you look a bit into the future, I'm very optimistic. We are doing our homework to prepare for a strong cycle of growth that we are going to surf in the coming years in Brazil and the U.S.

Now, I'm going to turn to Kaka that is going to talk about our financial indicators. I thank you very much.

## **Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

Thanks, Rafael. Good morning, everyone. I would like to start about -- talking about the increase in production, 15% compared to the first quarter and 30% year-over-year. Sales continue at high level. And with that, we had the historical records. This increase represents an expansion of 40% compared to the first quarter '21 and 10% compared to the 2Q '20. This increase net revenue and higher dilution of SG&A made our net income in the Brazil operation to be in line with our previous quarter. Net income of the Brazil operation together with AHS made the company report net income of BRL200 million for the second quarter '21, growth of 86% compared to the previous year and 48.5% compared to the first quarter '21. Annualized ROE of 14.1%.

And now I would like to talk a bit about gross margin. So we are going through a huge inflation pressure. And with that, we compressed our gross margins. If you think of estimates and budget, we estimate about an inflation within our budget. What happens is that the estimated inflation was below what was observed in the coming -- in the previous quarters. As of the third quarter '20, the inflation pressure was very much. Our IPCC in this last three quarters is in that 17.3%. The idea of MRV is to take consumers to the financing banks. With that, we optimize cash and we protect ourself against cancellations. But there is a side effect. After there is the transfer to banks, we do not have any possibility to correct contracts and we are exposed to the IN and PC. [ph]

So when we notice that the inflation pressure was above what we had expected in our budget, the company decided to review the budgets of all its development. So once they increase of prices was implemented in -- I'm sorry, once the increases implemented were below inflation, we had a compression of gross margins. So now we are revisiting our prices, try to offset at least partially this compression.

As a subsequent event, we had the sale of MRV's credit portfolio. We announced that in July, which is a very unique operation with ratings AAA of Fitch Ratings. And the amount was BRL241 million, BRL43 million regarding with the expenses with reserves. And with that, we had the net catch of BRL200 million in the beginning of the first quarter. That was one-off -- that was not a one-off operation. We believe it is a program that is going to be followed by several similar operations in the future.

I thank you very much. And now we are going to open for your questions.

## **Questions And Answers**

### **Operator**

(Question And Answer)

Thank you. We'll now start the Q&A session. (Operator Instructions) Our next question comes from Alex Ferraz from Itau BBA.

**Q - Alex Ferraz {BIO 19294308 <GO>}**

Good morning, Rafael, Ricardo. Thanks for your presentation. I have two questions. First on the release, you make a question about the inflation pressure, talking about a more aggressive price policy implemented in July this year. Would you give us a bit more color about the expansion of this new policy? If you're being more specific in FGTS units. We know that competitors are having great difficulty in this area. And do you think you're going to have more inflation pressure or do you think you have more possibility to pass on prices because the competition is weakened?

And also, something that Kaka mentioned. Are you talking about the expansions of platforms here, talking about the new launches? Or if you have anything in the construction cycle. In 2019, we saw something, I like that. Because generally when revisit budgets, we change a bit of the natural evolution. But I would like to know if there was something in construction or it was just operational.

**A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}**

Okay. This is Fischer speaking. Okay. Let's start with your first question. Price policy. Indeed we have been readjusting prices in recent months. But at the turn of the month of July, we were a bit harder on new prices. And in fact, we are testing market limits. What you did mention, and it's true, increase in a smaller cities. It's easier, because we see lower competition generally. You have smaller mid-sized players, which enables us to have better prices. But the clients from FGTS, they do have a limit of income and we are testing the limits. If you have less competition, it is easier. As we are testing prices, we have been observing that volumes are not going down. So we believe that this moment will stay and we are going to go back to having a rate above inflation for the new units prices.

As for the FGTS that you mentioned, indeed. The lower the income, the lower the price elasticity that you have. This is another advantage of our platform. You have units from Sensia and even from Urba, the launch that Rafael mentioned in the opening. We are selling piece plots of land at BRL800 [ph] a square meter. So it is a different game. If some units, we are passing on more prices, there's not as much. But on average, we have a positive trend and we are going to carry on with it as long as it does not affect the volume of sales. And this is what we have been observing so far.

As for revenues, Kaka did talk about the increasing production. So we are keeping a very high pace of sales. And also, production is picking up. Last year, we had a series of effects, especially the pandemic that did affect our production somehow. But this year, we started at a much faster pace. And obviously, this, when production gets closer to sale levels and basically the income is pulled up. So it's also driven. So revenues at higher levels, but production as well, especially in the first six months of the year. And I believe that this is going to be true for the next six months of the second half of the year. I hope I have answered your question.

**Q - Alex Ferraz** {BIO 19294308 <GO>}

Yes. Certainly for sure. Very clear. Thank you.

## Operator

Our next question comes from Daniel Gasparete from Credit Suisse.

**Q - Daniel Gasparete** {BIO 17999254 <GO>}

Good morning, everyone. Thanks for the call. I have two questions on my side as well. First, I would like to understand those budget reviews. What do you expect that is coming for the future given the pressure on prices? If you think that you have more view for revisiting prices. And second, I would like to understand your margins for new developments, especially after you revisit process. Thank you, and good day.

**A - Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

Hello, this is Kaka speaking. Okay. I think I can answer your two questions together. As we reviewed budget, what we saw is that everything that we had in terms of increased costs of raw materials have already been included. So we don't have anything that we know is going to go up or that has a positive trend that has not been passed on to a new estimates.

Lots of people are concerned about renegotiations of steel. We are past that. We have no expectations of increases for the coming months. This is already in our budget, both for ongoing and starting constructions. Margins for new developments. Well, the trend is to have higher margins than we have today. And for a simple reason, Gasparete, these units also have the possibilities of have increased prices. Ongoing units are already sold and transferred to clients. But the others, we can still increase prices before transferring to clients.

**Q - Daniel Gasparete** {BIO 17999254 <GO>}

If you allow me a follow-on. Are you thinking of a higher inflation for the next developments? Or are you expecting that this is going to be the same as we have now?

**A - Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

We in the past would have a 5% cushioning [ph] for inflation effects. Now it's a bit higher. But no one expected 17%. That was really out of the expectations.

**Q - Daniel Gasparete** {BIO 17999254 <GO>}

Okay. Thank you very much. Have a good day.

**A - Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

You too.

## Operator

Our next question comes from Bruno Mendonca from Bradesco BBI.

### Q - Bruno Mendonca {BIO 16313094 <GO>}

Hello, everyone. Good morning. I have two questions on my side as well. First, it's a question that might be a bit theoretical. Talking about the Brazil and margins and the pressure. I understand that there is some expectation for some relief in the long term. But theoretically, I would like to understand your mindset. I think the concern is when the drop of margins can start getting volumes. So the question is, what level of gross margins, if you do have the math, would make you decelerate launches or at least delay them to wait for better times?

Somehow what I want to know is if you're considering what return you think is satisfactory for each product. I understand that part of your answer has to do with the diversification of products and geographies that have been really important for you each as somehow offsets some domestic problems. But do you think a product isolatedly or do you see the platform as a whole when you decide to accelerate or decelerate your sales?

And second question about the sale of the credit portfolio that was announced last week. I understand this is a step-by-step. I thought it was a very positive sign. But the first sale was completed with a very strong guarantee structure. I believe that for portfolio sales to continue to grow and become more relevant, perhaps you should have less guarantee for the next sales. Am I wrong in my understanding? But the question is how do you see this market in terms of sales of credit portfolios? Thank you very much.

### A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hi Bruno, good morning. Okay. First, your first question. That's a very good question in fact, volumes. So what is the major difference of MRV compared to other listed companies? Geographic dispersion and expanded portfolio. That gives us the flexibility of being more aggressive in markets that are more favorable to us in terms of supply and demand, and a bit more conservative in those markets that are more competitive or that have less demand for a specific economic problem in the region. The Midwest, (inaudible) as in Brazil is really blooming and you have less competition.

So the capacity to be more aggressive in some markets and in some products and a bit more conservative in others will enable us even with short-term pressures have good operational volumes. But again, we have to take a look at the macro scenario, which is -- the major concern that I have to have as the company CEO. We are seeing a country that is more organized than it was in the past. With a new normal of interest rates, with the economic growth in the coming years, we really think that, that is going to have better employability in the future with the recovery of income although not as high. But all these pillars will make the market to grow as a whole for the future. And certainly growth is not going to be uniform. Some places are going to be faster. Some market segments are going to be faster, others slower.

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So the capacity to operate in so many regions in such diverse product portfolio is certainly a differentiator of MRV compared to other listed companies. And to answer your question quite straightforwardly, we do not think there is going to be a deterioration of margin so bad that won't allow us to launch products. I believe that we are in the valley now. And from now on, we are going and we are having already a gradual recovery of prices. And we do not expect another round of price increases at 12%, 15% in the next coming months. We might have some inflation, but I think it's going to be much lower than the last 12 months. And you know the problems with supply chains, commodities advancing too much, the exchange rate really accelerated. All that led to a very typical inflation rate. So I don't think this is going to happen in the future.

And again, we have the capacity of being more and less aggressive in markets. And when I mean markets, I'm talking about regions of operation and also market segments. You have Casa Verde e Amarela program, Luggo, Sensia, Urba. All of that gives us flexibility that is much different than competitors that are much more concentrated. I'm going to turn to Kaka to talk about the portfolio, okay Bruno.

#### **A - Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}**

Okay. About the sale. We wanted to have an unquestionable operation. So we made a point of having this operation with AA rating. And to have the AA double rating, we had to have the three months coverage. So that is what happened. And if it's a (inaudible) rating and price, the discount rate is CGI plus 2.50 a year. So it's a very competitive rate for this type of operation, with the option and possibility of not having, I don't know, AA, but having a BBB. And of course, then we would pay a bit more than CGI plus 2.50. And we would accelerate new issuances.

So it was a pilot, it was a test that we made. This is a portfolio that has a duration of 22 months. So this operation is going to be closed in less than two years. And any excess collateral so to speak will come back to the company. So we'll certainly have more operations of the kind. And we can have with lower ratings, even if that costs a bit higher to us. This is part of our strategy to recycle our receivables.

#### **Q - Bruno Mendonca {BIO 16313094 <GO>}**

Okay. Yes, very good. Thank you very much for the answer.

#### **Operator**

Our next question comes from Gustavo Cambauva from BTG Pactual.

#### **Q - Gustavo Cambauva {BIO 17329406 <GO>}**

Hello, everyone. Good morning. I'd like to ask you a question, is too along the lines of margins. I would like to understand more about Sensia and how it is positioned in this combat. You did announce the project for Campinas, Maceio, these new developments. And I would like to understand, in the specific segment, how you're seeing the passing on of prices? If this has been better compared to Casa Verde e Amarela program?



And also if you can talk a bit about mix. You have the guidance of size and units in the long-term, but I would like to understand in the short term in a scenario of higher pressure on costs, does it make sense to accelerate Sensia bit more? And, I would like then to understand the margin of these projects compared to the mix of low income Casa Verde e Amarela program, if they are very different, once the inputs had very high increase. Thank you very much.

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**A - Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Hi, Cambauva. Good morning. This is Rafael speaking. Okay. The gross margin of Sensia, isn't it better than the Casa Verde e Amarela program? These customers can absorb prices that are -- they have more savings, they have more of a formal income. And we see banks did increase mortgage rates for individuals. So if that increases 50 bps more, it's so much lower than the historical levels of interest. So in this segment specifically, they don't have much supply and they do have high demand. So we started Sensia about three years ago. And now we can say that this company is going to be very important for our future portfolio. Now, Cambauva, it's not either/or. It is always going to be slightly higher than Casa Verde e Amarela. Okay?

**Q - Gustavo Cambauva** {BIO 17329406 <GO>}

Okay. Thank you very much.

**Operator**

Our next question comes from Fanny Avino [ph] from Santander.

**Q - Analyst**

Good morning, everyone. Thanks for taking my question. First, I would like to know if you could talk a bit about how you see the second half year about consumption and cash generations. I understand that there was a change in the way that Casa disburses payments to you. And I would like to know how much the consumption of the third quarter is related to that? And what is your expectation for the remaining of the year? That's the second -- first question.

Second question, in the long-term -- I'm sorry, in the short-term. In the second half of the year, what do you think is the impact and how much should we consider of gross margins for the second half of the year? These are my questions.

**A - Eduardo Fischer Teixeira de Souza** {BIO 17580321 <GO>}

Okay, this is Fischer speaking, Fanny. As for Casa, we did have two factors that somehow impaired the first half year. First is the anticipation of the purchase of raw materials that we went very heavily on because pressures were going on. And we decided to have raw materials inventory and that causes some loss. And then the changing payments of from Casa, they decided to start transferring prices only after the corporate taxpayers have registered at the notary's office. That takes time and it does affect our production line.

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What is important to say is that their MRV's business model is naturally a cash generator as we launch, sell and transfer. And we have been really focusing on transferring clients to banks sooner and sooner, because of our management processes, guaranteed sales and et cetera. So we are transferring clients earlier. And then when starts building the unit, you will already start generating cash. So the model has not changed. So we are even more efficient. So MRV regularly generates cash.

If you think of the second half year, is that we are going to continue generating cash, and we are going to do that at volume that we still cannot determine. This is for the Brazil's situation. AHS after sales generates cash and supports the operation.

As for margins as Ricardo mentioned in the beginning, everything that we noticed in terms of price adjustments that had to be negotiated, are already included in our paid price metrics. Everything is embedded now. So what we see to the second half is maintenance of gross margins at more or less the level that we have today. As units are sold at higher prices according to the new price policy, naturally, gross margin will go up. This is our prospect for the second half of the year this time. I don't know if I answered your question.

### Q - Analyst

Yes, certainly. Because I thought that once you've revisited all the budget, you have a one-off that would impact your margin and I thought that would be a bit more relevant. So I just wanted to understand this trend from now on. But it's very clear. With regards to price increase, you're talking about new units, but you also have inventory of units that are being built. They are going to having price increased as well.

### A - Unidentified Speaker

Yes, certainly. Price increases were overall in all the company line-up, everything. Obviously, as I mentioned in the beginning, some more, some less depending on the customer's elasticity. But we've revisited the whole portfolio, even things that are under construction, the thing is that are things under construction that clients have already been transferred to banks. And therefore, a pressure on margins, but we repriced the whole portfolio.

### Q - Analyst

Okay. Thank you very much.

### Operator

Our next question comes from Thais Alonso from Citibank.

### Q - Thais Alonso {BIO 21979935 <GO>}

Good morning, everyone. I would like to know what is the gross margin dynamics? Because the net margin had a 1% drop and you said that margins are going to be tighter. So what is the variation between net margin and gross margin? And how the new

technologies will affect your margins if this is already reflected? You talked about steel, molds. So what can we expect in terms of savings based on those new technologies?

### **A - Ricardo Paixao Pinto Rodrigues** {BIO 21232785 <GO>}

Okay. This is Ricardo speaking. You have a net margin that has a relationship to the gross margin, but it's not a direct relationship. If you get the last six months, the effect that you have in the gross margin is similar, but you have the net margin with a difference of 2.5 compared to the gross margin. So what we are doing is that when we reviewed our budget, that had an impact on our EF [ph] and on new sales. Because new sales we expect to have some passing on of prices. And therefore, we think that the new sales will impact gross margin and EF. So this is what we see today.

As for savings, they basically have been used to partially offset the increase of input prices that we have observed. So technology aluminum molds, the 2.10 nodes that we are using in some areas of the England, State of Sao Paulo, the replacement of the metallic measures by fiberglass, dry walls for higher buildings. So all that has been used to somehow offset the increase of inputs that we are seeing, everything taking into account in the projections that we are giving on till the end of the year in terms of margins.

### **Q - Thais Alonso** {BIO 21979935 <GO>}

Okay. Thank you.

### **Operator**

(Operator Instructions) Our next question comes from Jorel Guilloty from Morgan Stanley.

### **Q - Jorel Guilloty** {BIO 18291521 <GO>}

Good morning, everyone. I have two questions. One is basically more of a general picture. I would like to know if you could talk about the tax performance that how that could affect the sector. And what are you thinking about possible results of the reform? And in general how do you think this can affect the sector?

And the second question is about the pro-soluto. I know this is an important part of your balance sheet in recent years. I don't know if that's still appealing to consumers and buyers. So I would like to know if you still believe this is an important part of -- for the company in an environment where the Selic rate is going up. Thank you.

### **A - Unidentified Speaker**

Okay. I'll talk about the tax reform first. I did not understand the question about pro-soluto very well, but I'm going to talk about the tax reform. What we see is that the first effect that we had in the -- which were that taxation of real estate funds, taxation of dividends that would be sent to the holding. That would affect our sector. As seem to have been settled, this is not something that we are expecting to happen. So we do not expect this impact in our operation. We don't think this is going to be passed.

Now, when you talk about the dividend taxation, this is a broader discussion that affects our sector, but also all listed companies that we have today at the stock exchange. As for your second question about pro-soluto. If I understood well, if you're asking if the correction of pro-soluto is still comfortable for the client. Is that it?

**Q - Jorel Guilloty** {BIO 18291521 <GO>}

Yes. If you think it is going to continue to grow. If you think it is still going to be used in an environment where the interest rates are going up.

**A - Unidentified Speaker**

Okay. I got it. Well, if the pro-soluto portfolio or the credit portfolio is going to continue to go up. We believe it's going to be stable compared to the percentage of sales. In fact, in recent years, we were able to reduce the portfolio that we are financing. I don't know if you had the opportunity, but there is a chart in our release, which is a drop in terms of the number of installments. So we want a higher a lump-sum at first to pass on a lesser time for the client. Of course, it would be great if we have a higher (inaudible), we could pass on less portfolio to the client. But what we see in terms of interest rates, thinking of interest rates and monetary correction, we have the IPCA plus 1% a month. And we are passing on that to the client info. And we haven't noticed any change in that vis-a-vis the higher inflation rates.

**Q - Jorel Guilloty** {BIO 18291521 <GO>}

Okay. Thank you very much.

**Operator**

Our next question comes from Marcelo Motta from JP Morgan.

**Q - Marcelo Motta** {BIO 16438725 <GO>}

Good morning. I have two quick questions. First about AHS. You said that the American market is very strong. I would like to understand about values. If you had an appreciation of valuation of \$380 million in some development. I know that the caps are also pressured there. And what do you see, i.e., in the market thinking of just for the future?

And second question is speed of sales. You also talked in the call that the increase of prices had not affect the speed of sales. Do you think the third quarter is going to be as good as the second quarter? Do you think you're going to have an acceleration? Because the guaranteed sales did affect net sales a bit. So I would like to understand how you see that.

**A - Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Okay, this is Rafael speaking. AHS. When we listed the company business plan, we saw yield cost of about 7% and starting cap of 4.85%. You're right. There is a shortage for this kind of product in the American market. And we have been observing a dropping cap. So the pressure of the cost is more favorable to us. And on the other hand, this older

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portfolio of the company that has not been sold yet has having higher leasing amounts. So the yield cost is also going up, and it's very likely that this new phase for the sales package of AHS will have a have a gross margin above expected.

Looking forward, we do have inflation. It's very hard to say what the recurring margin of AHS is going to be if we consider 2022-2023. We are comfortable at a level of 28%, but it might be that short-term sales third, fourth quarter '21 and first quarter '22 have gross margins that are positively surprising. The market is very much heated. We are concentrated in important American cities, and we might have a positive surprise there.

As far as speed of sales, we believe sales should be kept in the third, fourth quarter similar to what we had in the second quarter, despite the increasing prices. If you think of total value sold, we are going to have more Sensia products. So if we exclude the effect of the guaranteed sales that in the third part is going to be settled, the total sales in the third, fourth quarter should be kept at a level that is close to the second quarter.

**Q - Marcelo Motta** {BIO 16438725 <GO>}

Okay. Thank you very much, Rafael.

## Operator

Our next question comes from Anderson Ameneziz. [ph]

**Q - Analyst**

Hello, everyone. Thanks for taking my question. Congratulations on your results. I think that is very clear margins. I had also a question about AHS. But I would like to understand your perception about the performance of company's shares. You have talked about a buyback program of up to 15 million shares to be closed next months. Because of that, are you think of a new buyback program? Are you discussing that? So where are you at -- in this regard?

**A - Rafael Nazareth Menin Teixeira de Souza** {BIO 16905756 <GO>}

Hi Anderson, this is Rafael speaking. I'll give you my opinion. I think that we are ridiculously low our shares. We have an open buyback program. The topic is being discussed by the Board of Directors. It's important for our initiatives, AHS, Urba, Luggo.

Certainly, the buyback would be an obvious move in -- for the allocation of capital. Right now, because these three subsidiaries are growing and demanding capital, we -- you are not completely comfortable in being aggressive in the buyback program and at the same time allocating capital in the subsidiaries that we really believe is -- are going to give us excellent return.

But you're right, it's a dilemma that we discuss every time now if we should be buying back our shares strongly. We know that our shares are for free, but on the other hand, all companies have limited balance sheet. If we do everything at the same time, accelerate

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Sensia, Luggo, AHS and have a buyback program that is too aggressive, we can get to a leverage level that is quite uncomfortable. So we are very pressured. You have two options to allocate capital, one invest in the subsidiaries, the other invest in the buyback.

We believe we are going to continue to invest in subsidiaries, believing that our shares will recover as -- sometime soon. And if we don't invest in AHS, Luggo now, we'll lose two years. So we prefer to be a bit more tolerant with this ridiculous price. I think that's the word that describes it, knowing that this devaluation cycle is very short. But the real estate cycle is very long. So we thought that was not an opportunity for us to lose. But that's the idea. It's really that -- we believe that things are going to get better in the future.

### Q - Analyst

Okay. Thank you very much, everyone.

### Operator

Our next question comes from Daniel Gasparete from Credit Suisse.

### Q - Daniel Gasparete {BIO 17999254 <GO>}

Thanks. I'm sorry. I have one more question, just to use this opportunity. You talked about pressure on costs a lot. And I would like to know if you have already started talking to the government, to review parameters on the Casa Verde e Amarela. Do you have any movements from the government towards this?

### A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Hi, Gasparete, this is Fischer speaking. Yes, that happens via (inaudible) our association. But negotiations are on the table. It seems that the government is also looking into some initiatives in a positive mode. And why? Because if you increase prices, then you have a market that has a cap. You have a problem. The market is going to be smaller. You're going to have less players able to reach a cap. So this is an ongoing discussion. Of course, things take time, when you're talking about government discussions. But we do believe something is going to happen in the coming months.

### Q - Daniel Gasparete {BIO 17999254 <GO>}

Thank you very much, Fischer. Thank you.

### Operator

We are now closing our Q&A session. For the final remarks, I'm going to turn the call to Eduardo Fischer, the company's President. Please Mr. Fischer, you may go on.

### A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Well, first of all, I'd like to thank you. It's always good to exchange ideas and explain our views on the company and the market. I would like to highlight two important points.

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First, what we see in MRV results is fruit of a strategic decision that we made in recent years to go into the market, to create the big corporation, to create Urba. That are generating fruits now, but they cannot be disconsidered or miss, mess to the company's decision. MRV Co is a set of companies (inaudible) that are generating good results as in the case of AHS, and will generate even more. Brazil's operation is having pressured margins, but the other several initiatives that we created that are building body will be more and more representative in our strategies, results. And they are fruit of our strategies that we set out in the past, and we're executing now.

So we are going through a period that all companies are having a compression on their margins. This is happening. If it hasn't happened yet, it will. And, even in this scenario, we have other alternatives inside the MRV that can not only offset but also create more value as in the case of AHS and Urba this quarter. So that's very important. When you look at MRV, you'll have to see it all.

Rafael mentioned the word ridiculous. Sometimes things are treated as we're now. And we are seeing a beginning of recurrence, contribution from these other subsidiaries. And this is just the beginning. This is going to be part of our portfolio, bringing profitability and expanding our platform. So that is a very important point for us.

And the other thing that we mentioned in this call is that it's very clear to me that we are going to have what we call a markets downsize, especially for MRV. And I think we can benefit the most about -- in this. There are several markets in which we operate that are smaller. Markets can continue the same sign or grow, but they are going to have much lesser players, which can be very good for us already in the mid-term. So the downsizing of market players is very interesting. It's already to calculated in the new price metric. And that will help us with prices and market share.

So these are the two points that I would like to leave with you. Thank you very much, and we'll talk next quarter. Have a good day.

## Operator

MRV's conference call is now closed. We thank you very much for joining us, and wish you a good day.

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