

## Q3 2019 Earnings Call

### Company Participants

- Miguel Maia Mickelberg, Chief Financial Officer and Investor Relations Officer
- Raphael Horn, Co-Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Alex Ferraz, Analyst
- Jorel Guilloty, Analyst
- Luis Stacchini, Analyst
- Marcelo Motta, Analyst
- Unidentified Participant
- Victor Tapia, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, welcome to Cyrela Brazil Realty Conference Call, in which we will discuss Q3 2019 Earnings Results. At this time, all participants are and listen-only mode. We will then have the Q&A session. Further instructions will be given then. (Operator Instructions) This conference is being recorded and it will be available at [www.cyrela.com.br/ri](http://www.cyrela.com.br/ri). This call is being simultaneously interpreted into English and is being broadcast over the Internet. Questions can be asked by participants abroad. The earnings release published yesterday November 7th, after the close of B3 trading session is also available at the company's website.

Before proceeding, we would like to mention that any forward-looking statements that may be made during this conference, relating to the company's business prospects, sales, forecast, and operating targets related to its financial growth potential, are predictions based on management's expectations about the future of the company. These expectations are highly dependent upon domestic market conditions, the general economic performance of the country and international markets and are therefore, subject to change.

We have Mr. Raphael Horn, Co-CEO and Mr. Miguel Mickelberg, CFO, with us.

I will now turn the conference over to Mr. Horn. You have the floor now sir.

**Raphael Horn** {BIO 19714328 <GO>}

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Good morning everyone. Cyrela had strong operating performance once again in Q3, in addition to a significant presales value of launches. Those projects launched during the quarter achieved a strong sales speed, at 44%. Sales of finished goods or finished units were healthy as well. The approval of the welfare reform in October was one of the greatest political and economic achievements, and this (inaudible) responsible for joining the Brazilian stock market and share prices coupled with (inaudible) below expectations globally and domestically. Interest rates hit an all-time low (inaudible) a fall in future interest rates in Brazil.

In this context, the real estate industry welcomed the moves that Brazil's main banks were lowering their mortgage rates for individuals. We remain confident in Brazil's potential to sustain the growth (inaudible). Q3 doing is the 12th consecutive quarter in which we generate positive cash of BRL78 million. Net debt remains low and cash position remains high, and we are comfortable that allows us to continue adjust in our capital structure, always focusing on maximizing shareholders' returns. We're confident that our team is fully prepared for this new cycle that has just begun.

And I will turn over to Raphael -- or to Miguel, rather.

### **Miguel Maia Mickelberg** {BIO 20023910 <GO>}

Thank you, Rafa. Good morning. On slide 5. Let me talk about Cyrela's launches in Q3, we launched 22 new products with a PSV of BRL1.8 billion, 94% more year-on-year, excluding swaps and the volume launched in Cyrela was 112% higher year-on-year. The company's share in the volume launched in the quarter was 70% compared to 77% year-on-year.

On slide 6 to 9, we highlight some of the major releases in the quarter, all of them were at least 50% sold in the quarter.

On slide 10; let me talk about our sales performance. In Q3 2019, presales were BRL1.6 billion, a 65% increase year-on-year. Excluding swaps, presales amounted to BRL3.2 billion in Cyrela's share a 90% increase year-on-year. The state of Sao Paulo accounted for 71% of sales.

On slide 11, let me talk about our sales speed. The company's annual SoS was 54.8%. Looking at sales speed by period, projects launched at end the quarter have been 44% sold. On slide 12, we will address Cyrela's total inventory. At the end of the quarter, we were at BRL5.4 billion, of 4.5% higher than quarter-on-quarter. The change in our inventory, can be seen in the chart on the left.

On slide 13, you can see a breakdown of our finished units. We sold 13% of the finished units in the quarter at the beginning of the period, adding to [ph] our inventory, projects to (inaudible) price and units at market value. Finished units inventory decreased by 9% quarter-on-quarter. We are aware of how important this matter is to the company, and we'll continue to focus our efforts on these products.

On slide 14 we'll see our delivered units. In the quarter Cyrela delivered 14 projects, totaling 4,600 units. Delivered units accounted for a PSV at BRL1.2 billion, 92% higher year-on-year. Year-to-date 9,100 units were delivered accounting of -- for our PSV of BRL2.4 billion.

On slide 16 now, I will present our financial results. Net revenue was BRL935 million in the quarter, the same amount as Q2 2019, and 29% higher year-on-year. Year-to-date, net revenue amounted to BRL2.7 billion, up 48%. Gross profit in the quarter was BRL289 million, down by 1.4% quarter-over-quarter and 41% higher year-on-year. Year-to-date, gross income was BRL831 million, 66% higher year-on-year. Our net profit totaled BRL104 million in the quarter, with a net margin of 11.2% compared to a profit of BRL114 million in the previous quarter and losses of BRL121 million in Q3. Year-to-date, gross income reached to BRL267 million.

On to slide 17, this is our profitability. In Q3, 2019, our ROE was 7.3%, BRL0.27 was the (inaudible), with the earnings per share.

On slide 18, I'll talk about debt. Gross debt at the end of the quarter was BRL2.5 billion, with a cash position of BRL1.8 billion, our net debt was BRL696 million. 17% of the total gross debt are related to loans for construction and BRL79 million [ph] is long term. Our net debt over the equity ratio was 12.7%, 4.4% higher quarter-on-quarter, due to BRL300 million in dividends paid in the period. The low debt level confirms Cyrela's financial solidity, and puts us in a privileged position to adjust our capital structure and improve return to shareholders.

Slide 19 shows the company's cash generation. In Q3 2019, our cash generation was BRL78 million compared to BRL196 million in Q2 and BRL303 million in Q3, 2018. Year-to-date, cash generation amounted BRL424 million compared to BRL668 million [ph] in 2018.

We will now begin the Q&A session. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Victor Tapia from Bradesco asks the first question.

### Q - Victor Tapia {BIO 20566083 <GO>}

Good morning, folks. My first question is about cash generation, you have been posting stronger cash generation that slowed down a little. Are you -- was it because of land purchase or is it Minha Casa Minha Vida, the social housing program? Can you give us some color on that? And my other question is about the expected dividends payout for the year? Is there any impact? And I have another question, about the CCP shares, are you considering selling it?

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

Good morning, Victor, this is Miguel. Let me talk about cash generation. We had announced earlier this year that our cash generation scenario was more challenging in the second semester. We had fewer deliveries of higher end. We have to sell finished units to maintain the same level. Yes, we are speeding up the payment of land, especially when you compare it to last year. And the starting construction of the launches of last year. So that was on our radar. Cash generation would be challenged. There is the effect of Minha Casa, Minha Vida plan, it was about BRL50 million. It generated less -- BRL50 million less. Looking forward, Minha Casa Minha Vida gets back on track and a few non-recurring things, we believe that cash generation will be stronger, along the same lines of what we expected earlier in the year, between BRL500 million and BRL600 million. So we are not changing our dividend strategy. It's well below that strategic planning and we are planning to make a decision on the dividends payout in early December.

And Victor CCP shares, that's not a strategic position on our part. We are at a very early cycle, rentals or corporate leases go up, we believe they will go up. Prices will be better than -- and we may consider selling. But not at this time.

## **Q - Victor Tapia** {BIO 20566083 <GO>}

I understand. Thank you.

## **Operator**

Alex Ferraz, Itau BBA, asks the next question.

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

Good morning Rafa and Miguel. I have two questions. One is more specific about CPPIB; could you elaborate on these projects? Did you sell part of it or did you completely sell it? What was the rationale behind that sale? And my second part -- my second question, when we look at the first nine months of the year, you had BRL3.4 billion, will surpass BRL4 billion, taking into account the 4-4-4 plan are you going to exceed that mark, taking into account that the fourth quarter is stronger, but provided that the Sao Paulo market keeps being strong?

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

Hi Alex, this is Miguel. As to the SPS sales, we started a partnership with CPP to develop projects, we have started selling four projects. We just booked one of these two. We have an 80% stake. We are going to build it and maybe convert the operation once it's ready. That partnership can reach up to 10 projects, so this is something new to us as well.

About the 4-4-4 now, yes, 2019-2020, we are going to exceed the BRL4 billion mark, and that was not on purpose. Our strategy has always been to reduce equity, reduce capital. We have been focusing on it. But we are keeping the dividend level -- we will keep paying out dividends. The objective of the 4-4-4 was to reduce our capital footprint. We'll keep on doing it. We're not going to reduce dividends to fight it, regardless whether the cycle is getting better or not. We are keeping the 4-4-4 pillars.

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We ended purchasing better land than we expected and we can exceed, therefore that's what's happening in 2019 and 2020. There is no point to consider what we'll be doing in 2021-2022. This is an exercise that will take us nowhere. We are not giving any guidance as to volume of launches. We believe we can reach or exceed BRL4 billion with no pressure. We don't want to purchase land to please analysts, we want to purchase land when it makes sense. Luckily, we managed to exceed 4, the (inaudible) was alright. So we're ramping -- we're happy we're reducing our capital base. But that was not on purpose. There was no pressure to purchase land. We purchased land maximizing profits, and we are not giving any guidance. We will keep on purchasing land, because we are happy with the purchase, not to please analysts or whoever that may be. We will stick to 4-4-4 in 2019-2020, we will launch more than 4 -- maybe 2021, to reduce dividends, no, we're not doing it. I think I answered your question didn't I?

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

Perfect Rafa and Miguel thank you. Thank you very much.

**Operator**

Luis Stacchini from Credit Suisse asks the next question.

**Q - Luis Stacchini** {BIO 18717891 <GO>}

Good morning. I have two questions. Based on revenues in the quarter and the number of launches, we should expect more revenue, maybe you are reconciling backlog, because the projected was higher than what you booked. What was the sales volume that was -- and my second question, can you give us an update of your cash, maybe the portfolio size? What's the goal for 2020? What can we expect from this business next year?

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

Hi, this is Miguel speaking. As to the revenue, because of stronger billing, we have BRL3.3 billion worth of sales. In conciliation revenues amounted to BRL2.7 million. We're selling more than we are actually gaining revenue. Usually it's a quarter, you do not book that revenue, up until you start construction. It's about BRL13 million. This is already revenue, based on the sales price. But we are selling more than booking the revenue. So I'll turn it over to (inaudible).

**A - Unidentified Speaker**

Our portfolio is BRL400 million. And I think we have some good expertise, because of our real estate knowledge. We're doing it value by value. We're not in a hurry. We're not giving any guidance and not even making any promises. Everything is according to plan. So far so good.

**Q - Luis Stacchini** {BIO 18717891 <GO>}

I understand. Thank you. Have a good day.

**Operator**

(Operator Instructions) Igor Altero [ph] from Santander asks the following question.

### Q - Unidentified Participant

Can you give us some more detail on the sales of finished units? It seems that you're doing a good job there. Can we expect that same trend in the future, and what is the margin for that inventory? Thank you.

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

Good morning Igor. This is Miguel. Yes, we are on track, on our finished units sales, BRL1 billion, Q3 sales were good. The margin varies dramatically. One-fifth has over 50% margin. (inaudible) for our other products with lower margins. Finished units contributes negatively to gross margin. We have reduced that volume of finished units. It will continue to be substantial in the revenue. The projects we are launching now have better margins.

### Q - Unidentified Participant

All right, thank you.

### Operator

Marcelo Motta at JP Morgan asks the next question.

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

Two questions. Can you talk about the outlook of Vivaz for low-income projects? It's a more challenging scenario and the outlook about subsidies next year? If you look at your launch mix for the following years, is this business going to grow? Will it remain flat? Can you talk about margin? Part of the answer is in the sale of finished units, and what about the launches? What if that margin grows more than what you've got in this quarter?

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

Good morning, Motta. This is Miguel. As to the Minha Casa Minha Vida, there was an impact, but the launches were substantial in the quarter. We are at 30% for the year. We know that there are many uncertainties around the program, but we'll keep on launching new projects. Vivaz can help boost that volume as well. We are still -- we remain confident we believe in that segment. As to the gross margin on the mid-term basis, this is going to increase what we launched in 2019, has about 34% gross margin. In time these new projects will account for more in the revenue, but there may be major upswings from quarter-to-quarter.

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

Thank you, Miguel.

### Operator

Jorel Guilloty at Morgan Stanley, asks the next question.

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

I have two questions. Can you elaborate on the profile of customers that are purchasing high end projects? Is this someone that did not purchase during the recession or is it because there are more investors? And what is the focus now? Is it because people who are confident about the economy? My second question about the partnership with CPPIB; I would like to understand the profitability of that partnership. Is this a business that can grow abroad as well, due to decreasing interest rates?

## **A - Raphael Horn** {BIO 19714328 <GO>}

Hi, good morning. Yes. We are selling most of our projects to end users. We like to do it. Why are they buying? I think there are several reasons. The demand in Brazil is high for real estate. Brazilians like and they need a first house or apartment, and for a couple of years they couldn't do it because of the slowdown. Things are getting back on track, now and people came out of their caves. They're purchasing at a reasonable price. Not because it's cheap, but they couldn't buy for four years. We are not becoming a Venezuela. We're not going to go belly-up. So this is the right time to getting back on track, and interest rates are down, real estate prices are down. Its affordability of their needs. Four years down the road, without that natural demand. So this is what we are seeing now. It's appropriate for end-users and of course investors are back in the game. There are many investors. Also, there is no point in leaving your money in the bank. Stock exchange, real estate, well that's the dynamics that will play out about the partnership with CPPIB, I'm not going to give you any more detail. We are running this experiment, but it seems to be an interesting business. It didn't make sense in Brazil. It's difficult to get better rates from other investments, residential income will become yet another option in real estate. It made sense to us to test it now and that's why we did it.

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

All right, thank you.

## **Operator**

Victor Tapia at Bradesco asks the next question.

## **Q - Victor Tapia** {BIO 20566083 <GO>}

Let me follow up on one issue. Land purchase and breakdown of the 4-4-4? How would you break that down between low income and medium-income, taking into account the volume of purchase land in the following years? And I would like to also understand whether you are comfortable in trying to grow in low income, given this ever complicated scenario for the Minha Casa Minha Vida Program?

## **A - Raphael Horn** {BIO 19714328 <GO>}

We have several alternatives. We're not going to break that down, what is high income, low income, Sao Paulo, Rio. We have to feel comfortable depending on the segments. And three, four, years we didn't have it. But now we do have with us. We can be nimble for next year. We have way more than the 4, before 2021, depending on the price and opportunities we can purchase land. We do not set that in advance. We want to be in 2021

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with a profitable pipeline, it doesn't make any difference, whether it's high income, low income. If one segment is suffering, we can shift to the L1. We want to be and remain competitive, trying to use our installed capacity. Our team is very flexible. I wouldn't make any precise calculations in that sense. What it will play out in 2021 between low income, high income, I'd be lying. We discuss this business on a daily basis, and we pick and choose the right options. And about the outlook of the program, that will depend on the market. For the BRL5 billion and with the launches, we will keep on growing. Customers want to be profitable and give ROI at good standards. If this present Minha Casa Minha Vida remains with or without subsidies. The segment is still interesting with or without the subsidies. We'll be working with our JVs and Vivaz in this segment.

**Q - Victor Tapia** {BIO 20566083 <GO>}

That's right. Thank you.

## Operator

(Operator Instructions) There are no further questions. I would like to turn the floor over to Mr. Horn for his final remarks.

**A - Raphael Horn** {BIO 19714328 <GO>}

Thank you for attending the call. We have many things out there in the market for Q4. This is going to be a very exciting fourth quarter, because we didn't launch many things in Q3, but there'll be new launches in Q4. And we will help improve profitability and get back to very interesting ROI levels. Thank you very much.

## Operator

This concludes Cyrela's teleconference. Thank you for attending. Have a good day.

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