

Q4 2012 Earnings Call

Company Participants

- A. Emilio C. Fugazza, Chief Financial and Investor Relations Officer
- Pedro Henrique Rocha Nocetti, IR Coordinator

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to EZTEC's fourth quarter 2012 results conference call. Please, note that this event is being recorded and that all participants will be in a listen-only mode during the company's presentation.

After the company's remarks are completed, there will be a question-and-answer session, when further instructions will be given. (Operator Instructions) Today's event is available through a live webcast that may be accessed through the EZTEC Investor Relations website at www.eztec.com.br/ir or by clicking on the banner 4Q12 webcast.

The following presentation is also available for download on the webcast platform. The following information is stated in Brazilian real and in BR GAAP and IFRS applicable to real estate developers in Brazil, except where stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call regarding the business outlook, forecasts, and financial and operating targets, is based on the beliefs and assumptions of EZTEC's management and the information currently available to the company.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the conference call over to Mr. Emilio Fugazza, Chief Financial and Investor Relations Officer who'll begin the presentation. Please, Mr. Emilio, you may begin the conference.

A. Emilio C. Fugazza

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Thank you, very much. Good morning, everyone, and welcome to our fourth quarter 2012 and fiscal year of 2012 presentation of results. My name is Emilio Fugazza and I am EZTEC's CFO and IRO and with me today is Mr. Pedro Henrique, EZTEC's IR coordinator. And we both are going to disclose the operating and financial highlights of EZTEC.

We are pleased to announce another quarter, highlighting again the strength of the operation and the company's ability to give consistent financial performance.

Let's move on to slide number three, in it I will start talking about the highlights of 2012, about the guidance we released of R\$1.2 billion to R\$1.4 billion we have there. The company launched 50 [ph] new projects in 2012, totaling R\$1.16 billion. These new projects are on average 58% of the total amount of the units sold.

In addition, through the purchase of equity interest in projects launched in previous years, the company bought R\$23 million in PSV from our partners. Thus, we ended up the year with R\$1.19 billion in potential sales value done, 99% of the guidance accomplished.

Sales reached R\$876 million in the period, within [ph] 27% of the units launched in prior 2012. Land bank ended 2012 with a potential sales value of R\$4 billion, which is more than enough to three years of launches.

In relation to financial highlights, I'd like to -- first of all, in 2012, we surpassed by almost 12 percentage points the minimum threshold of 40% of projected gross margin, with gross profit 10% greater than the previous year, reaching R\$414 million.

The net margin was 42% in 2012, surpassing again the guidance provided by 12 percentage points. Net income for the period was R\$336 million, resulting in a return on equity of 24%, one of the largest among Brazilian companies publicly traded.

The company ended up the period with a net cash position again of R\$33 million, plus performed receivables of R\$304 million, yielding IGP-M plus 12% per year and qualified for securitization.

I'd also like to present the slide number four that talks a little about land. On the slide number four, as I mentioned before, we ended the quarter with a land bank potential of R\$4 billion in our potential sales value, acquired at an average cost of 10% of own PSV, included in these accounts the expanding increasing of construction potential.

EZTEC has a net position of land with 80% of the cost of acquiring the land already paid, where we have currently R\$85 million to pay on it.

In the chart above and to the right I highlight the age of the company's land bank in which 57% were acquired in 2011 and on, keeping the focus on getting the gross margin at least 40%. In the chart below and to the left there is the allocation of the land by default where 71% is allocated to the segment of middle to middle-high income class and 22% for the commercial segment.

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Finally, the chart below and to the right, it is observed that 84% of the EZTEC loss are in the metropolitan region of Sao Paulo, including the City of Sao Paulo, one of the most profitable regions of Brazil, which shows clearly that the focus of activities shall be held in the coming years. Now, please, let's move on to slide number five where we talk about the EZ Towers venture. In this slide, slide number five, we can see the updated picture of the construction site of the venture. The foundation steps are already completed and currently the structure of the first tower is already on the 12th floor. By December 2012, the total cost incurred for the project, given the range, CEPACs and construction was R\$131 million.

It should be noted that all costs until December 2012 were paid with own cash, own equity. Moreover, until now there had been no recognition of revenues or results of this enterprise and it should occur only in 2013.

The current schedule sees [ph] the delivery of the Tower A in December 2014 and Tower B in December 2015. As disclosed in material fact dated January 15th, 2013, EZTEC sold the Tower A of EZ Towers to Sao Carlos, a Brazilian publicly traded company for R\$564 million adjusted by INCC since September 2012. At the same moment, EZTEC and Sao Carlos signed the financing agreement for the construction of the project with Banco Bradesco, one of the largest commercial banks in Brazil for a total of R\$425 million, more than enough to build the both towers. This debt will be assumed by Sao Carlos after the granting of the deed of Tower A by December 2014.

For EZTEC, this sale means the motivation for continued development of Greenfield businesses, given the relevant contribution of the company's active participation in all stages of the development process, qualifying us for the construction of corporate upscale buildings as well, catching operational synergies and financial results that only an integrated business model may offer.

Now I will hand over the presentation to Pedro Henrique, who will speak on more operational highlights. Pedro, it's all yours.

Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}

Thanks, Emilio. Good morning, everyone. Please turn to slide number six, where I will talk about the launches in the year of 2012. EZTEC launched five projects in the fourth quarter of 2012: the residential and the middle high-end segment project, Parque Ventura, located in Guarulhos, with an own PSV of R\$141 million with 76% of units sold.

We also launched two phases of the project Jardins do Brasil, in Osasco, a city in the Sao Paulo metropolitan area, one phase called Abrolhos with own PSV of R\$64 million and 64% of units sold; other phase called Amazonia, with R\$78 million and 43% of units sold.

EZTEC launched two projects in the City of Sao Paulo: one high-end project, a residential project in the south zone of Sao Paulo called Brasiliano, with a PSV of R\$34 million and 81% of units sold; and an economic project in the north zone of Sao Paulo called Dez Cantareira, with an own PSV of R\$27 million and 46% of units sold.

Those projects in the fourth quarter of 2012 totaled R\$344 million in own PSV. Considering the year of 2012, in new projects EZTEC launched R\$1.166 billion in own PSV. Also, EZTEC acquired stakes in projects launched in previous years. Those stakes totaled R\$23 million. Therefore, EZTEC launched R\$1.189 billion in own PSV in the year of 2012.

In the slide number eight I will talk about the guidance of our launches for 2013 and I will talk about the projects launched in the first quarter of 2013.

Now, please go to slide number seven where we talk about the contracted sales. EZTEC sold R\$210 million in the fourth quarter of 2012, totaling R\$876 million in the year of 2012. From those sales, 55% were done by our own brokerage team and 27% of those sales were from units -- came from units launched in previous years. So we ended the year of 2012 with an inventory of R\$961 million. Also talking about the sales, 77% of them came from the middle end -- middle high-end segment, our focus and 15% from the commercial segment.

Now please go to slide number eight where we talk about the guidance of launches for 2013 and the projects launched in the first quarter of 2013.

Yesterday, EZTEC released a material fact containing the guidance for the fiscal year of 2013. In terms of launches, that guidance is from R\$1.2 billion to R\$1.4 billion of own PSV in launches for the year of 2013.

So let's talk about the launches in the first quarter. EZTEC launched the residential middle-end project in the south zone of Sao Paulo called Premiatto Sacoma, with an own PSV of R\$50 million and 67% of units sold. Also, we launched the high-end residential project Splendor Vila Mariana in a very fancy neighborhood in the south zone of Sao Paulo with R\$66 million of own PSV and 69% of units sold. Also, in the south zone and also in a fancy neighborhood, we launched the project Le Premier Paraiso in the high-end segment with R\$85 million of own PSV and 43% of units sold.

Therefore, we totaled R\$202 million in own PSV launches in the first quarter of 2013. That represents 15% of the -- middle point of the guidance of launches for the year of 2013.

Now, I will hand back the presentation to Mr. Emilio Fugazza, who will talk about the financial highlights. Please, Emilio.

A. Emilio C. Fugazza

Thanks, Pedro. Please move on to slide number nine. Quickly starting with net revenues, the chart on top left, we know that for the year there was an increase of 7% due to the higher number of construction in practice, although some decrease can be seen in fourth quarter 2012.

In revenues, the effect is seasonal due to some deliveries in construction without the immediate replacement of the projects launched in 2012. I have to emphasize that four

projects launched in 2012 have not yet recognized revenues in 2012, which should occur only in 2013.

For 2013, the EZ Towers recognition of revenues will be meaningful as well as by the sharp rise in the number of construction sites and the activity that we have to have until the end of the year.

Looking at above and right is the gross margin of the company that shows us, first, the resilience of prices charged by EZTEC with maintaining to the average margin of the year up 50%, reaching a record high of nearly 52%. It is important to stress that the margin of fourth quarter 2012 is not a portrait of the year 2013 as many projects launched and with excellent margins had not started construction yet. Just below, on the right, in the slide number nine, we see the backlog margin, whose appointment [ph] is maintenance of 50% of gross margin. I want to remind you that the sale of EZ Towers has not yet been recognized in the accounting, consequently neither the backlog, and therefore only will be part of the results in 2013.

Finally, I would like to talk about net income of R\$336 million with net margin of around 42%. Here, I have to remember that, in 2012 we had less effect of positive financial results, because we have invested consistently despite the interest rate has declined. Nevertheless, we had a higher recognition of expense due to the growth we are getting and -- for these expenses, the dilution of revenues consistently only will occur in 2013. An important issue to note is that we are not making disclosure of what was the impact of the tax reduction to practice of the Patrimonio de Afetacao. This stems from the fact that it is an estimated number indirectly and unaudited.

In addition, the newly launched enterprises are not yet subjected to this tax regime. In short, not relevant to the results presented by the company, but will contribute the positive effect on the margins of what is sold and unrecognized.

Come now with me to slide number 10 where we are monitoring the guidance. In the slide number 10, in summary, we have -- for purpose of launches this EZTEC administration fulfilled 99% [ph] of the minimum level of the guidance, noting also that throughout 2012 we developed the construction and sale of EZ Towers, which as mentioned, is a minimum of R\$564 million of future revenues. Therefore, the correct number would be reached with R\$1.75 billion released in launches in 2012. For 2013 we are renewing the commitment of R\$1.2 billion to R\$1.4 billion in new launches, and so far we have reached R\$200 million in new projects with an excellent pace of sales.

In terms of margins, gross margins exceeded by 11.8 percentage points of minimum guidance and net margin surpassed 12 percentage points of the guidance. I have to remind you that for 2013 we have the same guidance of gross margin and both net margin. This can be understood as a way to disclose to our shareholders the minimum target when I am buying the piece of land to reach a minimum gross margin of 40% and a minimum net margin of 30%.

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I want to emphasize that, looking at the numbers and same quarterly [ph] grew up or didn't grew up for promising a volume of launches close to the previous years, is shortsightedness, since every product we release we try to extract the maximum profitability and efficiency.

So to do more than 50% gross margin and more than R\$1 billion in product launches is awesome. That's what we did. And we seek to do it every day with the team, with particular focus, without underestimating each obstacle that we must overcome.

On slide number 11, we'll talk about dividends. Let's go. For this year 2012, the new record will result in a record net income distribution. After the legal deductions of 79 -- after legal deductions we have to distribute R\$79.8 million as dividends amounting to 25% of net income subject to approval at the Annual General Meeting to be held on April 26, 2013, representing a dividend of R\$0.54 per share, an increment of 2.2% over the previous year.

I also -- I will also point out that, I always answered questions from shareholders and analysts about a time when there will be a change in dividend policy. At this time, the company remains fully motivated by their business model, where land acquisitions occurred in cash or invested all money on large projects. So we have to keep the dividend policy unchanged.

Finally, on slide number 12, I'd like to emphasize the value of the company. Let's go to slide number 12. The result of the net assets of the company, as we can see in the chart in the left side of the slide, the net assets of the company achieved a significant step-forward in the year 2012 from R\$16 per share to R\$24 per share representing a cumulative growth of 35% since 2009.

I emphasize here the importance of land bank with a potential of R\$4 billion, that should generate a minimum gross margin of 40%, adding an additional R\$1.6 billion in net assets in the coming quarters which represent something around R\$10 to R\$11 per share in the coming quarters. I've heard sometimes that the company's value on the stock is high compared with other companies; however, I'll make a comparison here with the sale of our products. Results of recurrence, low operational risk, full defined strategy, lower volatility of management, undoubtedly a company whose management and the Board are the same since the time of the IPO, both are factors that produce long-term results and peacefulness. This comes with a price. Therefore, we are less comparable with developers and more comparable to companies of recoverable income.

I'd like now to present the final message of this administration for 2012. After taking stock of the year, I think that this administration accomplished exactly what could be done considering the ability to execute, speed of sales obtained and the approval of the projects, resulting in an understanding [ph] of margin, quality, punctuality, which has been unique in the industry. 2012 was a year that EZTEC clearly demonstrated the consistency and sustainability of its operation.

We delivered seven projects, some of them having already been released in 2010 on time, in line with the planned budget. We had on average 20% more construction sites in

operation in comparison with 2011; and in 2013 we will have 50% more construction sites than 2012, using the same controls of that performed, which will increase not only the revenues but also the results, which actually creates value to our shareholders.

Seven blocks [ph] bought with the same criteria of profitability, (inaudible) seeking minimum gross margin of 40%, which allows us to achieve the annual guidance of planned margins. We have kept our net cash position without requiring corporate debt even after buying land in cash, paying dividends of R\$78 million in the third quarter 2012 and investing very own cash in the construction of EZ Towers project.

In 2013, we re-affirm the guidance of launches and margins trusting in the liquidity of our projects and in the profitability achieved by them. As a result of quality in our developments and the correct pricing, we sold out Tower A of the EZ Towers project in a business that created value for all stakeholders and that will provide a bonus to the company's results for over next three years. Therefore, EZTEC holds strong in its operation, confident in the strategy adopted and aware of the challenges ahead, always focused on profitability.

I wish to thank first to the Board of Directors of the company, that on top of these experience -- their experience has helped us to make the right decisions and focus on generating value for our shareholders.

Following, I want to thank all of our executive officers who take responsibilities and (inaudible) to achieve challenging goals, always with good judgment and commitment.

I want to thank all the employees of EZTEC, which throughout 2012 helped to create new personal and financial records, whether through the commitment and intelligence, either through patience and perseverance, this team of which I am very proud is assisting in the creation of thousands of houses and in building a strong and prosperous economy in Brazil.

Finally, I thank all of our shareholders and analysts who throughout 2012 followed us, believing, cheering, and I am absolutely sure you are confident that EZTEC is the company with the necessary consistency to keep long-term value.

I can't forget to thank the whole EZTEC IR team, in which commitment and intelligence were the key. Thank you all. Now I will be on hand to answer questions from our listeners. Thank you all.

Questions And Answers

Operator

Ladies and gentlemen we will now initiate the question and answer section (Operator Instructions) And at this time I'm showing no questions. I would like to turn the conference call back over to Mr. Emilio Fugazza for any closing remarks.

A - A. Emilio C. Fugazza

Thank you all and you may ask anything you want to the IR team. Apart from myself, Emilio Fugazza, we have Pedro Nocetti and Eric Rodrigues to answer any questions you have. Thank you very much.

A - Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}

Thank you.

Operator

Ladies and gentlemen, we thank you. This concludes today's presentation. You may now disconnect your telephone lines.

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