

Y 2015 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazzar, 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 2015 Results Conference Call. Note that this event is being recorded and that all participants will be in 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 either through the EZTEC Investor Relations website at www.eztec.com.br/ir by clicking on the banner 4Q '15 Webcast.

The following presentation is also available for download on the webcast's 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 the Company and could cause results to differ materially from those expressed in such forward-looking statements.

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

Antonio Emilio Clemente Fugazzar

Thanks very much. Hello, everyone. Welcome to our presentation of results 2015 and fourth quarter 2015. I am Emilio Fugazzar and apart from myself, Mr. Pedro Nocetti will take this presentation with me. I'd like to start talking about commitment. Commitment is the

key word for this administration. That means that through these years, we have been taking decisions to guarantee, to assure efficiencies in this Company. Taking to positive result and trying to keep profitability in this moment with a tough scenario ahead.

The results of the fourth quarter 2015 and the whole year 2015 can show you that the Company is completely prepared to this tough scenario and the Company has planned via conditions to growing again as soon as the market allow us to do that.

From the macroeconomic view, the country, Brazil, is crossing a very bad moment in terms of economic activity. That affect completely, the people to buy real estate. People are not willing to buy real estate right now and that has a huge impact in our long-term plan. At the same side, the total amount of units we have been selling. However, 2015 was a year that show to our investor, a huge generation of cash. Turning back the position, the net cash position and beside of that, we have been saving a lot of money to the size and the construction we have. And that can keep the margins at the same standards we have been watching the Company performing the last couple of years.

So, trying to show you the main highlights of the Company, I would like to start talking about that on slide number three.

On slide number three, you can see from the operational part, from the operational side of Company, that EZTEC has opted to focus on selling inventory instead of launching new projects. On the other hand, we bought an stake in a project we have in partnership, 50% in partnership and we bought this project adding 29% -- R\$29million in potential sales value to the total amount of launches we had this year. We had 2015 reaching R\$226 million in new projects we came up with 2015.

In terms of sales, we reached R\$412 million the whole year 2015. But 70% of those sales are from projects launched year prior 2015. So up to projects launches up to 2014. That means we have been selling a lot of inventory in 2015 in a very good prices.

In terms of land bank, land bank, we keep land bank in R\$5.9 billion potential sales value. Let me remind you that we have no purchases of new piece of land all that year.

From the financial side, that's the good news. To 2015 the Company got the all the efforts to sell new projects and the inventory, keeping the margins on healthy levels. And obviously, as I mentioned before, with the savings on budgets in our size and the cost structure, we could reach gross margin of 51% and the gross profit of R\$417 million.

In terms of net profit, we reached R\$444 million, return on equity of 18%. Let me remind you that the base interest rate in Brazil is about 14%. So 18% is four percentage points above the basic interest rate in Brazil. And almost 17% to 16% above the return on equity average for our industry in Brazil 2015. In terms of generation of cash, cash inflow and generation of cash, we got R\$438 million 2015, ending up the year with a position of R\$166 million of net cash position. Apart from it, we own R\$406 million, compensated by IGP-M plus 10 or 12% yearly and completely securitizable.

Let me remind you that those performed the receivables almost half of it we have agreements signed with our client, so we are mostly financing, provided financing to our clients and we can be compensated by almost 20% yearly because IGP-M plus 10 or 12% yearly means that we can reach almost 20% of it.

Now I will turn my presentation to Mr. Pedro Nocetti to make some comments on the operational performance. Please Pedro, take the presentation.

Pedro Henrique Rocha Nocetti {BIO 20904123 <GO>}

Thanks Emilio. Good morning everyone. Please I would like you to turn to slide number four, I will talk about land bank. As Emilio said, we almost have not acquired any piece of land in the year of 2015, but it's important to say that we ended the year of 2015 with more than 5.9 billion in own PSV, potential sales value in land bank. With an average cost of acquisition of 13% representing a total cost of acquisition of R\$779 million including costs with potential increase.

Looking at this chart, on the top right, you can see that, almost 70% of land bank was acquired after 2012 and very fortunate to say, it was acquired with a compacted cost that allows the Company when decide to launch the projects to have results, to have profitability very compacted even in the scenario that we are living nowadays.

Looking at the chart, on the call bottom left, you see the distribution for segment. You see that 76% of the land bank investment to the residential segment with standards from middle end to high end and 23% is invest into commercial corporate projects that allows the Company to launch, to develop project as EZ Towers when the Company sees that is the best scenario for it.

Finally, on the chart, the top right, 93% of the land bank located in the Sao Paulo metropolitan area including the city of Sao Paulo. It's very hard to say, we are still confident about this region. We are very -- we are looking at everything, we are finding the best opportunities nowadays. We -- in order to buy new piece of land, if feels good for the Company. And we have projects approved and projects under approval process that will allow the Company to keep having the same standards of quality, liquidity and profitability.

It's very important to say we have already launched a project in this year of 2016. I will talk about it later. First of all I will talk about the launches of 2015 on the -- in the slide number five.

Very important to -- looking at this slide, you see, though the projects we launched in 2015 and we have -- and we did not launch any project in the second half of the year because we felt comfortable with what we launched and our decision look like the correct decision.

As you can see, on average more than 65% of the projects we launched in 2015, they have already been sold. Diminish launches in year of 2015 was an strategic decision taken by the Company in order to focus on the sale of inventory, in order to keep the margins in

healthy level and in order to keep fitting the operational expenses aimed at current moment of the Company.

It's important to say the volume launched in 2015 of 226 million does not reflect the capacity of the Company. We have, as I told before, a great number of projects in our land bank a great volume of PSV to be launched in our land bank with projects that can offer good results and can offer good profitability. And we are working to launch those projects, the projects that we have in land bank in the correct moment.

About some of these projects I will talk about in the next slide, the slide number six. As I said before, we launched one project in the first quarter of 2016. The quarter is located in a fancy neighborhood in the city of Sao Paulo called Moema, south zone of Sao Paulo was launched with units on average with 172 square meters totaling PSV for EZTEC of R\$52 million in nowadays after 15 days of the day of the launch of the project, we have 18% of it sold.

About upcoming project, we have all of them located in the south zone of the city of Sao Paulo. One project in the Santa Catarina street, that come to the middle high end segment with units of 67 square meters on average, totaling a PSV of R\$71 million, a project in a quarter in a piece of land called Avenida Morumbi high-end segment R\$99 million with units of more than 213 square meters and a project in also south zone of Sao Paulo also high-end standard with R\$85 million of PSV in units of 88 square meters.

Now please turn to slide number seven, I will talk about sales and very important to say. As I said before, we decided to reduce in more than 80% the volume of launches of the Company. But as you can see in the chart on the top right, we could sell in the year 2015 more units launched in previous years than comparing to 2014.

So our effort nowadays is inventory. Selling the inventory we help margins for the Company. So, as I told you before, 70% of the sales were done from units from 2014 and before. And we ended the inventory in 2015 with more than 1.1 billion of market value from this inventory very important to say. Direct [ph] 37% of it is delivered inventories, concluded inventory.

The projects that are under construction, they have nowadays more than 70% commercialized. And the projects that we launched in 2015, they have only 33% of the unit in inventory. So they are totally in line with (inaudible) of profitability of the Company.

About the sales of the Company, very important to say, Tec Vendas, brokerage team of EZTEC responsible for 92% of the sales done in 2015. In the next slide, before handing back the presentation to Emilio, I will talk about the sales turnover. And we have been showing you this slide since the second quarter of 2015. It shows you the amount of units launched on each year and the percentage of cancellations of rescissions of these units as viewed today. So as you can see, from 2007 and to 2011 when we have all the units delivered, we started with a ratio, we started with the ratio of 15% and nowadays we have 22%. It grew a little bit in the last years.

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Considering the long cycle of business, products that have -- that were launched recently they have less possibilities to have new rescissions until they are delivered. Cancellations, they are completely part of the operation. We deal with it every day, it's a part of our job to do with it, and to keep our receivables comfortable for the Company. Therefore in the fourth quarter of 2015, we don't -- our provision for receivables that had an effect in the result of 25 million.

Considering only clients which rescissions of the -- the probability of rescissions are high, we were considering high. So, it's very important to point out, that our teams of (inaudible) they have done a very consistent job. We have been trying to find solutions for each client in order to keep the best sales that we have done in our history. But in order also to keep our receivables healthy. By saying that, after saying that I will hand back the presentation to Emilio Fugazzar who will talk about the financial highlight. Please Emilio?

Antonio Emilio Clemente Fugazzar

Thanks very much, Pedro. Let's start in on page number nine, on the slide number nine, check it out, financial performance number one, on top left, so we're going to say something about net revenue. Net revenues dropped 14% on the whole 2015 from R\$951 million to R\$814 million. That's because when you think about what happened in 2015, we had a very good execution of construction and obviously very well sold projects plus -- however, we saw less sales than in the past -- compared to the past. And that less sales means that we are not -- the recognition of revenues coming to this balance sheet so far. So instead of being net revenue is new creational drawing on inventory.

However, when you see on gross income and gross margin on top right, you can see 51% gross margin in the whole 2015. The fourth quarter 2015 shows us a 47% of gross margin. 47% because in the fourth quarter, we started some campaigns to sell real estate, to sell some apartments on the city of Sao Paulo, in metropolitan region of Sao Paulo. We did a very huge campaign called EZTEC 50%, which means that we have some projects and some apartment with up to 50% discount. But obviously that was only a call to see many clients in our opposite to be a standard by the Managing Directors of the company. That company was a huge success showing a very good piece of sales last December.

However, obviously we paid certain price to that campaign, which was 47% gross margin. So the discount we saw was 52% gross margin in the fourth quarter 2014 to 47% of margin -- of gross margin in fourth quarter of 2015.

Let me remind you that beside the fact that we pressed some discounting in the fourth quarter, we saw some savings on sites under construction or projects delivered that made a compensation on that drop on margin.

Looking at expenses now. G&A expenses and selling expenses on the bottom of this slide. We can start on G&A. G&A ended up 2015 R\$96 million, which was something like R\$67 million less than 2014 even with an inflation in the whole year 2015 of almost 10%. The official inflation coming from the government was 10% even though, we diminish our G&A expenses by something close to 4% to 5%.

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That means that we made some arrangements in our back office, but obviously we are not going to see the same arrangements on 2016 especially because if there are some areas that we have less need of people nowadays, which can be the developing area, the sales area, we are going to see much more efforts on some areas from the back office like the legal area or like the receivables area. The receivables means that we have much more need to see people calling our clients to touch them, to push them to pay that debt with the Company. And obviously that's going to be our main scenario over 2016 and 2017. We are going to see some drops on G&A, but it's absolutely with no relevance on our P&L.

In terms of selling expenses, let me remind you that apart from sales spent and advertisement campaigns, we spent in the last year, one line increased in selling expenses was the line of maintenance, maintenance costs and tax costs or inventory ready to live or perform the inventory. We finished -- we ended up 2015 with a little bit more than 1,000 units ready to live in our inventory. And all those units we have to pay for the maintenance, we have to pay the taxes and those expenses are accounting in our selling expenses. So 2016 you were going to see a small increment on these expenses -- on those expenses.

Let's move to slide number 10, financial performance number two, let's start with financial results. Financial results was R\$82 million 2015 compared to R\$60 million 2014. That's easy to explain specifically because we are net cash position, our cash and equivalent available in our Company is compensated by 40% yearly which is a base interest rate in Brazil. So that means R\$40 million in financial positive results coming from our cash, our cash and equivalent. And the remaining R\$40 million are coming from our performed receivables. Performed receivables are receivables in which we have agreements with our client to be financed by -- to be funded by EZTEC. EZTEC shareholders equity and we charge something close to IGP-M plus 10 or IGP-M plus 12% yearly. That means or that means in 2015 something close to 20% which is good enough but obviously it's so good that the delinquency can be higher than in the past. And that we are paying very close attention, we got close attention to the subject because obviously, it's a kind of interest rate so high to pay in a macroeconomic scenario of other downturn cycle in Brazil.

In terms of equity income, let me remind you, equity income means that we have some results outcome coming from projects we have, we don't have the control. So we are sharing the control of this projects with our partners in partnership. So the outcome from those projects was R\$115 million 2015 compared to R\$103 million 2014. The drop we saw in the fourth quarter, it's because we bought the stake of Chacara Cantareira project. This project was a controlled project in partnership and, buying this project, we are now watching those results coming on the consolidated balance sheet, the P&L of the Company.

So in terms of net income on the last, on the bottom last of this slide, you can see R\$444 million, only a 6% drop coming from 2014 to 2015. That's a huge victory for the Company which means that, we tried to manage the company with efficiency, trying to gain something on the expenses, gaining something over our -- on the construction side, something gaining on the managing of the sales and the result, the outcome was 444 with the net margin of 55%.

I think that 444 means 18% of a return on equity. That's good enough to the scenario and much higher than other real estate companies in the real estate sector in Brazil.

Results to be recognized, which means backlog result is 380, the drop in terms of result is because we are selling much less than in the past, but margins of the backlog means that we are selling pretty much with the same margins than in the past. That's not my forecast for the near future, but so far we can see very good results.

The right message to say over here is on the slide number 11. On slide number 11, you can see on the red line up on the top of the chart, the red line, I can show you that, since 2011 we have been working on margins above 50%, gross margins above 50%. And even in 2015 we worked on 51% gross margin that way.

That means that the Company even in a scenario that we have to practice some discounts on our merchandise and our real estate properties, we can get very good margins specifically because since ever we have been buying piece of land good enough to launch even in tough scenarios like this one. So and we have margins good enough to press discount without hurting our margin so far, or without hurting so much because of it we are completely confident to pass through these scenario without any kind of troubles in terms of financial strength.

On slide number 12, you can see another good news. Obviously, coming out with R\$444 million of net income means that by the law we have to pay a dividend R\$105 million and by the end of next April the general meeting of investors will decide the moment to pay this amount of dividend. But a part of the dividend, we are going to do the capital increase from earnings reserves, which means R\$136 million, by the law we are obliged to do that. But we are going to do that with issuance of almost R\$8 million of common shares at a cost of R\$17.21 per share. That value means the shareholders' equity divided by the number of shares we have today.

So apart from R\$105 million of business, we are going to see the capital increase with issuance of R\$8 million in new common share split by top, the investors of the Company.

On slide number 13, you are going to see the potential value for EZTEC, we have been showing, we have been releasing this slide, because it's important to bear in mind that a part of the current share price of the Company in R\$16 per share, the book value of the Company so far is about R\$17 per share.

And if you take back the land bank of the Company we have our -- we own an inventory EZ Towers, Tower B and backlog result to add a potential almost R\$8 to R\$9 per share with this amount of things released that we can see in the near future. So for a Company showing, releasing since 2007, 2008 at least twice as much on average the base interest rate in Brazil at a return on equity is almost insane. We see the price of the share comparing to the same, to the same value of the -- to the book value of the Company.

And let me remind you, that EZ Towers, Tower B although we have been releasing R\$600 million of the potential sales value is only booked by a cost, which now is about R\$250

million, R\$260 million. So we are not in a rush to sell EZ Towers specifically because the Company has no debt, the Company has no fear of being a very good asset to get a potential good value in the moment, in the right moment of the economy stops, the economy stop downing in this downturn cycle and it starts growing again.

So, and because of it, we go to slide number 14 to see the potential cash generation for the Company, because apart from the fact that we own our shareholders' equity of R\$17 per share that means that we are going to see in the near future, a generation of cash coming from the unperformed receivables.

Unperformed receivables right now is about R\$1.1 billion. And the obligations of construction we have is less than 50% of the total amount of receivables. So only R\$500 million, so thinking in mind, all the cash coming from the projects in the equity income and the projects we have been managing a 100% by our own show a 100% managed by EZTEC. We are going to see in the near future, R\$1.5 billion in potential generation of cash.

Potential generation coming from the units we sold, were sold by EZTEC in the last couple of years and it's going to be delivered in the next eight quarters. Apart from it, we have our inventory, our inventory including EZ Towers, Tower B is above R\$1.8 billion. So without any kind of launches ahead, record generation up to R\$3 billion in cash. So the Company has strengthened us to pass through the next quarter without paying a huge penalty for the moment, the negative moment of our economy.

So and that brings me to the last point to end this presentation. Even in this negative scenario, we are preparing to manage the Company because the Managing Directors are experienced enough in crisis like this one. So the Company is a 37 years old company passing through a lot of crisis. We are talking about at least four like this one in the past 37 years. And apart from the Managing Directors, we have the Board of Directors.

The Board of Directors, our Chairman is Mr. Ernesto Zarzur, an 82 years old man with enough experience in the real estate market of Brazil in the city of Sao Paulo and in crisis managing receivables, managing clients in moments like this one. We have a solid financial structure, strengthened us to pass through this moment without any kind of new debt.

So our engineering team is good enough to finish the construction with quality and under the budget we have booked in our accountancy. So I would say, saving money to compensate the discount, we have to do in our new sales.

TEC Vendas or the company of the -- our own company of brokers, so this company nowadays take almost 92% of the total amount of sales and almost a 100% of the sales of units, performed units, units ready to live. So that is rent [ph] from this side on the sales.

And finally, let me remind you, at land bank and inventory, land bank, we bought this land bank R\$5.9 billion with the most higher concept of quality and cost and obviously we have feasibility analysis to launch those projects whenever we want to do that, or whenever or whatever scenario of crisis or both crisis or not crisis to launch, to take enough profitability.

And finally, inventory, inventory of units ready to use or units under construction. High quality, good costs and obviously in very good locations with the best projects, architecture project to face the competition on those regions. So, from those subjects, from those point, I will say, EZTEC is the best Company to take advantage of these scenario ever.

And saying that, I would open these presentation to questions from our investors. Thank you very much for your audience today so far.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer section. (Operator Instructions) There appear to be no questions at this time. I will turn the call back over to Mr. Emilio Fugazzar for any closing remarks.

A - Antonio Emilio Clemente Fugazzar

So, thank you very much for your audience today. We are completely available for any further questions you may have. Apart from myself again Mr. Pedro Nocetti will be available through e-mail through phone. Please, let me see if you have any further doubts. Thank you so much. Have a good day.

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

Thank you so much. Have a good day.

Operator

Thank you. This concludes today's presentation. You may now disconnect your line at this time and have a nice day.

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