

Q1 2021 Earnings Call

Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive Officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer
- Raphael Rocha Lafeta, Chief Institutional Relations and Sustainability Officer
- Ricardo Paixao Pinto Rodrigues, Chief Financial and Investor Relations Officer

Other Participants

- Alex Ferraz, Analyst
- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Daniel Gasparete, Analyst
- Gustavo Cambauva, Analyst
- Jorel Guilloty, Analyst
- Marcelo Motta, Analyst
- Nicole Inui, Analyst
- Ygor Gomes Altero, Analyst

Presentation

Operator

Ladies and gentlemen, good morning. Thanks for standing by. Welcome to the Conference Call for Analysts and Investors of MRV to discuss the earnings of the first quarter of 2021. Today. With us are Rafael Menin and Eduardo Fischer, the Company's Presidents, and the 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 will then start the Q&A session when further instructions will be provided. (Operator Instructions).

I will now turn the call to Mr. Rafael Menin, the Company's CEO. Please, Mr. Menin, you may go ahead.

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

Good morning everyone and thanks once again for being here with us in our conference call to discuss the earnings of the first quarter '21. I'm going to start talking about our great optimism, talking about MRV. We are building something unique with a truly giant

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potential and we would like to highlight that in Brazil in the 160 plus cities that we operate, the population altogether is about 80 million inhabitants with the extension of our portfolio with Sensia, Luggo, Urba, and obviously maintaining our traditional company MRV, we have an addressable market of 50% of this population in the cities in which we operate. No other company in Brazil is exposed to such a large market as MRV in Brazil.

Another very important aspect and this is a major difference for MRV something that we -- I have it, which is the operation in the American market by means of AHS. We know the American market with a family income of \$40,000 to \$70,000 a year and AHS defined as its scope of operation cities and states of operation, those, that grow at the most the Sanibel. We are in Florida, we recently started operations in Georgia and in Texas, and most probably, we are still this year going to start operations in yet another market in the US.

With that MRV&Co by means of all subsidiaries MRV, Prime, and MRL in AHS, we are certainly the company in the western world, which is exposed to the largest real estate market. It's certainly a challenge, but it signalizes what size we can have in our real estate platform. We are building the company, we still have major challenges, but we are very confident of our strategy and team and that we are going to deliver important results in the coming years.

Also, I would like to highlight our optimism with regard to AHS's. When we acquired the company and that was completed in the first quarter '20, we announced a plan to get to 5,000 units a year. What's happening is that we are a -- but we have been able to accelerate the plan, and today, we clearly see that we can go way past the 5,000 units a year. Indeed, the American market, in the social stratum, and this market is highly heated with explosive demand and competition that is still low in our model of operation.

Today we compete basically with old properties given that the major companies that operate in the rental market in the US have preferred to work at a higher income level market. Well, to talk about each subsidiary. MRV is a company that runs like a clock. For several years we have production of about 40,000 units a year in a market that we know has huge demand, we see Brazilian cities that unfortunately have important housing problem -- unfortunately for the country but fortunately for our industry and for MRV, so the range 1.2 -- 1.52 and 1.3 have huge demand and Brazil will certainly have to make 300,000, 400,000, 500,000 units a year for many years for us to be able to address this potential demand.

More about the second subsidiary, we created the company in 2012. It is also a market niche with huge demands, what Brazilian most want is to live in houses, and Urba is there to address the demand. So this is a company that will grow in geographies, in we have been present for many years and Urba will have grown on our well-paved roads. We are quite optimistic. We launched a project in the first quarter we sold it all. We are going to launch another one in bout the wedding Campinas and the success that we are seeing leads to a very important commercial success, which is a pity is the bureaucracy to be able to complete licensing in Brazil. This is a process that takes too long and if it weren't for that, Urba would be at an even higher level, but the pipeline is huge and it's a very strong market.

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Luggo, the same applies, today we have zero vacancy. This is an apartment that immediately as it's vacant, we can rent it, the model is tested, the demand is giant. We're able to have a very modern development with services, laundry services, cable TV, Internet services, a gym, pet care, mini markets. So these developments with everything that is most modern in terms of housing. We can rent in five minutes. We can check out in five minutes, you pay with a credit card, and more important than that with a very democratic price. Luggo is the only company in Brazil that was able to reach the permit, a housing permit for family income of 35 to 4 -- up to BRL7000 a month. So vacancy shows that this is a very right model, almost a zero vacancy and we have other projects on the link, that we want to complete in '22 and perhaps follow 105 of the developments and we have several plots of land approval. This is going to be a very representative subsidiary.

And AHS as we mentioned, huge demand. This year we are seeing rentals taking place even faster than last year, the recovery of the American economy will certainly contribute for us to further accelerate the rental process. The new plan announced by Biden will certainly have a very important impact on the social strengthening of which AHS operates. It has eight projects now at different levels to a bit more recent be after six, already stable and these eight projects altogether have a PSV of approximately \$370 million and we expect to complete the sale of these developments along the year of '21. It will certainly bring a very important impact on our cash generation and operating indicators.

Finally, we know that our short-term challenge is not small, it's a huge challenge, we are in the middle of pandemic. In Brazil, we recently went through unexpected inflation in the beginning of last year, perhaps the high as in the industry in the past five years. The inflation still shows some industries trying to pass on prices, but I think that the worst has passed, we know that there is still a mismatch in some materials in terms of demand and supply, we are going through a super commodities cycle, but perhaps, valuation of reais as it happened in the past weeks and I think that it can go on, can mitigate or offset part of this pressure on commodities. So we know that these are our short-term challenges.

In the long-term, we are very optimistic and certain that MRV&Co is in the middle of a project of building something uncomparable in the Brazilian market, and MRV&Co the real estate company is today exposed to the largest market except for the Chinese companies. And so lots of work ahead of us, we are certain of our strategy, portfolio and team. We are going to deliver something very good for the coming years.

Now I'm going to turn to Ricardo Paixao, our CFO to continue the presentation.

Ricardo Paixao Pinto Rodrigues {BIO 21232785 <GO>}

Thank you, everyone, and good morning everyone. I would like to talk about our financial highlights. I'm going to start talking about the expansion of our net operating income, BRL1.6 billion, which is above the results that we had in the last year. Basically, because of net sales of 1.62 and the production of 9,000 plus units. Then we have the gross margin, with a slight drop closing at 27.8% and that reflects the pressure on the raw materials, that as Rafael just mentioned and we are experiencing and which was not totally offset by the increase of prices in our units or our strategies to reduce the consumption of materials like steel and concrete.

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Commercial expenses saw a drop year-on-year and also quarter-on-quarter and here we see room for higher efficiency gains, that commercial expenses over total sales are going down. Admin expenses in the real estate development is at 6% dropped and the increase of expenses basically come from subsidiaries that are growing. The highlight here is local, which is a natural movement given the stage of maturity of the company.

And here, we still see the financial results of the company with an improvement. The best impact in our customer portfolio, and all that said that makes our net income in the quarter get at BRL137 million. This is 31% higher, the last quarter, I'm sorry the first quarter last year, and we had BRL100 million of dividend payout and we have investments in the ramp-up of the operation.

To close, I would like to talk about credit to clients. We have a team of data analysts, quite qualified that work on algorithms to grant credit and mitigate default rates. They have been working exceptionally and proof of that is that we are able to improve all indicators. The average time of installments is 38 vis-a-vis 48 last year. Down payment increased by 30 bps and now it's 4.3%. Total credit granted went from 14.6% to 13.8% year-on-year. I hope that combined makes our average time to receive go down to 17 months.

That's what I had for you, it's going to be a pleasure to go to the Q&A session. Thank you very much.

Questions And Answers

Operator

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

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Rafael, Ricardo. Thanks for the presentation. I have two questions. The first is with regard to margins. Can you talk about some of your innovations, reinforcing plans in parts of the concrete while by fiberglass, Dry Wall is that replicable, that is can you keep the pace of the construction making this adjustment or is it more of a palliative measure, given the huge pressure that you are having on concrete wall prices. And second, cash generation, basically your debt covenant. One specific covenant is net debt to be paid by acquisition, we are very close to your covenant. What do you think is going to go on in the future and what we should expect in terms of cash burn because I think most of it comes from AHS that will continue to grow? So what do you see for the future?

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

Hi Alex, this is Fischer speaking. Hello. I'm going to answer your first question and then I'll turn to Ricardo to answer the second. Margins, while none of the actions that we took and the changes that we implemented are palliative. We have a fairly strong and innovative engineering team, and several of the innovations that are being rolled out now were

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developed along with the last year's fiberglass, as you mentioned, is something that we had been working on for more than two years.

And we have already performed tests and when the steel prices went up, we quickly rolled out and the decision that was made. So we have it in the pipeline, and we are already starting up constructions with -- at this note. And there is no reason for us to go back only unless the ratio between steel and fiber changes and the same applies to Dry Wall. We had several developments of working with Dry Wall, we identified to be advantages and now because of costs, we decided to accelerate in terms of the rollout.

So they are not palliative initiatives, we have studied them, and not only them, we have several studies going on. We mentioned at the beginning of this call pressure on margins and an increase in prices that we felt in the turn of the second half of 2020, the first speaker did stabilize, but we think there is still more to come. Although the current moment does not show that and we are addressing this issue somehow. First, with (inaudible), our constant innovations and also, with prices, we are increasing our prices. I think that you're monitoring that, the advantages that we have a product that is better well located with very good quality and that translates in good liquidity and capacity and plasticity for us to increase our prices and we have been able to do so.

And in several geographies, we are far from the ceiling of the Minha Casa, Minha Vida, Amarela Program. So we have some room to increase prices, which we have been doing without affecting demand or the contracted sales volume. So this is important, and I'm going to turn to Ricardo for your second.

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

Okay. Alex. With regard to covenants, I would like to say why it's not going up. We had very good opportunities in the purchase of land in the last two quarters, and obviously, we saw that there was room for us to move on. And so it was an opportunity that we had, we bought lots of land, more in cash than in swaps. And that does not change the strategy of the company of buying most of the land by means of a financial swap, but anyway the alternatives that we have is the sales of AHS portfolio. We are not going to sell to be compliant with the covenant, but that's because, that's what the business is to sell, raise funds, and with the funds increase the operation.

We also have a structure of the fund that opens room for us in our covenants and helps us with the cash generation. We are also working with our (inaudible) portfolio, we are going to sell part of this portfolio to speed up perhaps this quarter or the beginning of next quarter, our gains. We have it ongoing and with regards to cash generation, we already see a better number of transfers to banks. So we are going to see the Brazil operation increasing cash generation with a higher number of transfers and certainly giving us room to make the investments that we need in AHS.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you very much, Rafael, Ricardo. Thank you very much. Very clear.

Operator

Our next question comes from Daniel Gasparete from Credit Suisse.

Q - Daniel Gasparete {BIO 17999254 <GO>}

I have a quick question. Thanks for taking my question. It's with regards to AHS, you talked about one more project and you're going to stabilize the number of projects to be sold. If I'm not mistaken, you had said that part of the project should be sold in the first half of the year, do you have anything under negotiation, and also what is your payment scheme that you are thinking is going to be like, are you going to have a huge income of cash in our lumpsum, is it going to be more spaced, was it's going to be like?

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

Hello, Pedro. Good morning. This is Rafale. Payment, generally it is on sites. All the transactions have been on-site and it should be the same for the portfolio, the eight projects I mentioned are ongoing at different stages, in fact, we have three buyers, each looking at part of the portfolio and it's just possible that we have the closing after the sale, of some product, in this quarter, the end of this quarter, it's not certain that the funds are going to come in, in the end of the half-year, maybe it is going to go for the second half of the year, but we are convicted, and I would say that's the right way, we are convicted that the eight projects are going to be sold in the year of 2021, perhaps two developments in the first half and the other six in the second half. So the commercial activity is huge, lots of people are looking for this kind of assets. The American market is very mature in this kind of transaction. So we see no bottlenecks or difficulties to have the closing of the eight properties in 2021. Thank you very much and have a good day.

Q - Daniel Gasparete {BIO 17999254 <GO>}

You too.

Operator

Our next question comes from Nicole Inui, Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning, thanks for your call. In the release, you talk a bit of anticipating the purchase of raw material. I'd like to understand if you could quantify how many months in advance and how many months you have inventory to understand when you will have to go back again. And then, another problem that this industry is talking about and you are the largest player in the market. So I would like to know how players are reacting to this increase in input. Do you see a delay in constructions, just to try and understand how the market is being impacted as a whole? Thank you very much.

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

Hi, Nicole. This is Fischer. Okay. In terms of advancing purchases, how do we work? Well, obviously we have major negotiations because of volume that have defined periods.

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When the supplier says that they have to renegotiate prices, we see that increases will come and we can have a color of numbers from distribution and then we advance the negotiation, but this is based on the type of material and the expected increase that we are going to have, because sometimes it makes no sense and there are things that you cannot have in inventory like concrete.

So this is a case by case, volume by volume decision, and we had the movement in the fourth quarter last year, that extended to the first quarter this year, we are going to see this decelerating because the pressure is lighter, but whenever we think it is fit, we are going to do it again, and that's the rationale. We always look at suppliers' demands. The impact of the likable increase, and then we see how we are going to advance or how we are willing to advance. So this is a case-by-case scenario.

As for other players, how do I see that? Well, we have a business that has its complexities, we sell a product before building it. So we have future costs, and then this movement and we did talk about that in previous calls of gains of market share because of the pandemic, tends to intensify lower players with a lesser capacity to navigate those more complex environment tends to quit. And therefore, we are going to probably have a greater concentration in mid and large players that can anticipate inventory and have a higher power of negotiation. But I do not see us systemic problem contraction is going to delay. I don't see it happening, and I don't think it will. I think MRV is the largest player in the market. See that it is a difficult scenario, but it has the best conditions to leave the situation with an even higher market share. I don't know if I answered your question?

Q - Nicole Inui {BIO 17757166 <GO>}

Yes, it is very clear. Thank you very much.

Operator

Our next question comes from Andre Mazini from Citibank.

Q - Andre Mazini {BIO 20377100 <GO>}

Hello, everyone. Thanks for your call. First question about covenants, one second. So we see the 0.6 to 5 covenants in the 19th debenture, and if you think other debentures are going to have the same covenants and to understand how much you are subject to those covenants. We saw three quarters, which of these covenants should have the prepayments. So you can have a change in position there. And one of the solutions that you mentioned is you would have the (inaudible) plant, could you give us a bit more color on that. Then, my second question is the acquisition of MRL with BRL63 million, BRL24 million of spread a year, so it is developed. Could you talk about the strategy that you're thinking for this, on how it is going to be in the market, just for us to have an idea of your next steps? Thank you.

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

Okay. This is Ricardo speaking. Starting with the covenants, we are close to the limit of these covenants, which are valid for our beds, almost all of them. We do not have

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advanced maturities, we do not have automatic maturities, if we don't meet the covenants for three quarters, we would have a problem, but this is not anything that we are considering. Not one quarter, let alone three quarters, so this is very much and control and we will see the numbers are getting better as the year develops. As the land of funds, that the near or the land bank front, we have just closed with an investor, and then we buy land with the funds of the investor -- it is as if the investor page on-site to the landowner and landowner will then sell it cheaper, at a longer time and we pay the investor binding of our financial swap collected by interests along the way. So that's the idea of the land bank funds or the land fund. MRL is a subsidiary of MRV Engenharia. Since its inception, the idea was the acquisition of this operation, and what we are doing basically the following. It's almost the region -- regional brands real estate development working at the low-end market. It works with Luggo as well. So it's just the same operation, it's a cut out of the MRV operation. We have been partners with the company for a long time and now we decided to increase our share in the company. We already have a contract for the coming years to acquire the remainder of the company and we continue to have shared control of this company until acquisition is completed.

What is mentioned as spread and equity value? While this is a company you know of its history. It has been recovering quite well in recent years already showing excellent operational performance and therefore we had their position with lots of comfort in a natural movement because we already knew what we're buying, we're buying -- instead of buying a share in projects, we decided to acquire the remainder of the company and in three, four years time we are going to see the MRL operation fully consolidated inside MRV.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you, Ricardo. Very clear. Thank you.

Operator

Our next question comes from Ygor Gomes Altero from Santander.

Q - Ygor Gomes Altero {BIO 21419045 <GO>}

Hello, everyone. Good morning, thanks for the presentation. First question would be a follow-up on gross margin, you talked about the increases in prices but still, you haven't offset your cost so how do you see the dynamics along the year, what should we expect for the remainder of the year and the first quarter is slightly lower but then are we going to have an increase of margin for the future. This is the first point and then I would like to know your financial position that is going to benefit from the pro soluto portfolio, and also could you give us a bit more color about that operation. Thank you very much.

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

Hello, Ygor, this is Rafael speaking. Okay, let's go. Gross margin as Fischer mentioned, we think that the worst has passed, that is the major increase of costs happened in 2020 materials, really going out cheaply especially steel and concrete, which were the most representative in the third, fourth quarter and even the first quarter. There is still something to come. We are seeing some demand in the industry, but in terms of sales,

prices, and construction processes, we expect to have a good margin in the budget that we had in the first quarter, similar to what we have -- will have in the whole of the year, which is a gross margin that is not ideal because we are at about 30% and we had reported in the past 28%. We had some expectation in the past that the gross margin would improve this year, but because of the unexpected situation, we don't think it will not this year.

Now the other subsidiaries of the company, although it has a very high gross margin, since about in your Casa Minha Vida program, and AHS is not consolidated line by line, but we Southeast, but the net margin of the AHS portfolio is very high and will certainly contribute to our bottom line. So, gross margin, do not expect a recovery of margins this year. We are working very hard to resume the historical levels that we had above 30% in the future.

Now I'm going to turn to Ricardo that is going to answer your question on financial results.

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

Hi, Ygor. Well, you know that we have a receivable portfolio today at about BRL2.5 billion, half of it's before piece and after piece, all with financial corrections. The first is based on INCC and the latter IPCA plus 1%. So we had an acceleration of inflation rates both of IPCA and INCC and the result is the increase in our financial results. As a secondary fact, we have a swap that was conducted of that in AHS. It was a swap that went to LIBOR map plus. The swap also brought us a positive result, but most of it comes through INCC and IPCA corrections.

Q - Ygor Gomes Altero {BIO 21419045 <GO>}

Thank you very much. Rafael, Ricardo, very clear.

Operator

(Operator Instructions). Our next question comes from Bruno Mendonca from Bradesco BBI.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Hello, everyone. Good morning, I have a question about AHS, Rafael talked in the introduction of going past 5,000 units a year. Are you thinking of that up to 2025 and what is the funding of this work like, what it is like and how do you expect to evolve at the net debt-equity ratio for this development?

A - Raphael Rocha Lafeta {BIO 21611691 <GO>}

Good morning. Bruno. The AHS project was to get by 2025 with 5,000 units by a year. We are working to advance these results and even more important than that to say we have the confidence and certainty that our model is successful and very soon we are going to present an even stricter plan, not with that line for 2025, but to the end of the decade. But we are sure that AHS is going to have an important way to enhance our portfolio, alone could this cycle of growth of the company. Certainly, because of the exchange rate

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difference and the value of the units that they would sell the unit at approximately 240,000 units. So if you talk about 5,000 units, you're talking about BRL1.2 billion at an exchange rate today that would be a company of BRL6 billion. So we think that this company can grow and beyond that MRV will generate today a business of 50,000 units a year, 22 states, 162 cities. So our know-how of managing a verticalized -- a vertical business at a very large geographic footprint will benefit AHS because this is a subsidiary of the MRV. The market is huge segmented with several players and this rental market grows at a higher rate of the traditional development model. So certainly, we see in the future, AHS gaining relevance in MRV portfolio. So this project of 5,000 units will certainly be excel by launch, I'm going to let Kaka answer your question on construction funding. Kaka?

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

Hi. Bruno. Well, it's a pleasure to talk to you once again, what we see is the following, Bruno. AHS developments, the sales of these assets, part of the resources from the sales of these assets, which is what we are doing. There we also have construction funding as we have in Brazil with approximately 70% of the construction costs, and we are looking into other complementary strategies, drawbacks, and investment funds to contribute to the funding of construction of the remainder of our properties.

Q - Bruno Mendonca {BIO 16313094 <GO>}

If I may, just a follow-up in the previous question. Yugo asked about your receivables and pro-soluto. It's natural to expect the client to have a higher likelihood of delinquency, do you think those clients can support the kind of readjustment that we are seeing with IGPM and IPCA. I don't think that the answer was very clear. So if you could give us a bit more color.

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

This Ricardo, once again. What's the point, these clients pay IPCA plus 1% a month. So although the IPCA has increased a lot, 1% a month is already very high and clients have to be programmed to make this kind of payments. So IPCA plus one also helps us to fight the delinquency of these clients. So we don't have any kind of renegotiation now with clients with regards to these rates, it's different from rental contracts that were with IGP MRI changing rates. So we continue with IPCA, no changes there. And we have been collecting and receiving that, we do not see higher delinquency there.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Thank you.

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

You're welcome.

Operator

Our next question comes from Morgan Stanley, Jorel Guilloty.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning, everyone. I have two questions, the first is about the cost of the inputs in the US, especially with AHS, cement, and others, and I would like to know if that affects what you think of the potential yield cost of the projects there. And the second question is about inventory levels. They are a bit higher this quarter, and I would like to know, what level of inventory are you comfortable with. And you can, as I know where does inventory generate cash and lower also your indebtedness. Thank you very much.

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

This is Fischer. Good morning. Okay. AHS, what we have been observing. We are able to take from Brazil to US, the construction process that is used in Brazil, which does not exist in the US. So we were able to get permits to be able to work this way and we have a competitive advantage. Of those still and concrete prices went up in the US, they went up less than would, which is the main input of construction for our competition in the US. So that brought us even greater competitive advantage.

In addition to AHS being a vertical company, which is not common in the US. In addition, there was an additional advantage of our process being taken to AHS which is productivity. Labor is very hard to do as it has always been and it's getting even harder especially in civil construction and the productivity of our process is higher than that uses the traditional route. We have less processes, we use less labor. So we are able to put together a process which is very competitive and right now in a time of crisis this has given us even further competitive advantage.

Going to your second question, what we are observing is a growing speed of demand for property in Brazil. So our inventory grows as we launch more, but it's also consumed faster. Our inventory of ready units is going down and also sales are taking place sooner after the launch. So, the speed of sale is very good. That obviously generates huge benefit first, working with the lower inventory and generating cash faster because we are a sale investor. So I'm quite optimistic about the way we are managing inventory, regardless of the costs we discussed before. We have high demand and that is going to help us keep our inventory at lower and lower ring levels. Thank you very much for your question.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Thank you.

Operator

Our next question comes from Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hello, everyone. Good morning. I have two quick questions from my side. The first, if you could please talk a bit about Sensia, you had this first launch in the first quarter, and could you talk about the expectations of growth for this arm, how much you think you can reach in terms of launch volumes and next year, you can get to BRL1 billion, BRL1.5 billion. And

also if you could talk about this segment, what you see in the segment. It seems that the first project had a very good speed of sales. So what are you considering in terms of margins and speed of sales for Casa Verde e Amarela? And my second question is if you estimate any impact in your operation due to the change of the subsidies curve if you look into your operation and so if you can have an impact there. Thank you very much.

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

Cambauva, Good morning, how are you? Okay, let's talk about Sensia. Well, the first development well did very well. This is located in -- it is located in Campinas, the margin is above the average margin up Minha Casa Minha Vida, it is a characteristic of the sector. We have a bit more price elasticity. This is a subsidiary that we have a high bet on. We see many cities in which we operate have a little competition there. If you take a look at the Sao Paulo market, it is a bit more competitive, but many other markets in which we operate perhaps this is an advantage that is unique for MRV, the Northeast, Midwest, South. So we are exposed to important markets with huge demand for this product that is turned to the middle class.

Despite an increase in the Selic rate which will probably get to 5.5, the cost of funding is the savings accounts, which still gives the banks a very reasonable spread. So at this level of 7.5 plus TR for the client, we believe this segment is going to be very important and will certainly add to our portfolio. We think we are going to get to 4,000 units, 5,000 units a year, right. This is very reasonable. And we have the second premium line which is flex right below Sensia that also uses the SBPE fund, and these two lines will probably account for 10,000 units a year within three years time approximately. So your average price of 300,000. You might have a company of about BRL3 billion a year in the future.

As for subsidies, Minha Casa Minha Vida, we have been discussing with the government and the various expectation for changes, but nothing really impactful, if there is an impact that will probably be going to be positive, in recent discussions, we see that we are going to have a slightly positive impact in our business. Okay.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you very much, Rafael. Just another question, in this discussion. Are you talking about an increase in the cap of Casa Minha Vida prices?

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

Well, the cap is not a concern with this level of interest in SVP, when the product gets close to the cap, most times this client will go to SBPE in range three, which are the clients that the cap. SBPE today date is a bit better than Minha Casa Minha Vida. So the cap was a risk in the past, but it's no longer so.

Operator

Our next question comes from Marcelo Motta from JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I would just like you to talk a bit about guarantee the net sales in the quarter. We think that there is something that is going to be seen just in the second quarter. So I would like to know what the second quarter is going to be like and if you are going to consider a very strong quarter, or what are your expectations. Thank you very much.

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

Okay, Motta. This is Fischer speaking. While indeed, we had something that partially is converted into sales in the following quarter. They're part of it, does not. So we want to continue with our strategy for the whole of the year of '21, which is going to give us more stability and confidence without volatility. We do have a bit of a delay now, but we are changing mobiles so that everybody can see prospects clearly, and the idea is to capture 85%, 90% of the sales in the coming quarters and they amount to as of course mentioned is going to continue, part of it is really turning into concrete sales in the coming quarters.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you very much.

Operator

(Operator Instructions) We are now closing the Q&A session. For the final considerations, we are going to turn the call to Mr. Eduardo Fischer. Yes, Mr. Fischer, you may go on.

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

Well, thank you. Well, once again, thanks for attending the call, a very rich discussion. I'd like to highlight a few points that were mentioned during the call. We are obviously growing through a period of compression on margins because of increase of cost as we can all see, but we can say it in two ways. I always say that MRV is addicted to the long-term. So today, we weren't discussing our strategy for the next five, eight, nine years, thinking of the different segments and capturing a demand for property in Brazil and the US and we are very optimistic. We do not only have the ambition to capture this market, but also the competence to do so. There are very few companies that can say that, and in a long time and we continue to do so. We invested in gaining efficiency, being innovative, and that is true for our software and hardware and just what we said, all this investment from steel to fiber. This change of process into dry all of those that data already three years back, different frameworks.

So we are always looking into innovation and we developed technology in-home that will bring as gains in quality and the speed that is going to be huge, and therefore better costs. We completed the first development this way. The second is going on and we even have a more aggressive rollout for the future. So operationally speaking, we are at challenged times, but we are going to overcome this and we are very optimistic about MRV in the future and even larger company, more diversified with benefits of scale, that are going to be clearer. MRV will continue to gain efficiency and our expectation is very

good. Well, this is what we had for you. Thanks very much for attending and have a good day.

Operator

MRV Conference call is now closed. We thank you very much for attending and wish you a good day.

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