

## MRV - INGLÊS 10/11/2016

**OPERATOR** – Good morning and welcome to the conference call for analysts and investors of MRV's 3Q2016. We have the CEO Mr. Rafael Menin and Eduardo Fischer, Leonardo Correa, chief financial and IRO, and Ricardo Paixão and Mateus Torga. This event is being recorded and all participants will be in listen-only mode. Afterwards we'll have the Q&A session for analysts and investors. If you need any assistance during this call please press \*0. We have the audio simultaneously in the Internet.

Before proceeding, the forward looking statements are based on the beliefs and assumptions of MRV's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and depend on circumstances that may or may not occur. Investors should understand that general economic condition, industry conditions and other operating factors could also affect the future results of MRV and could cause results to differ materially.

Now I'll turn the conference over to Mr. Rafael Menin, CEO who will begin the presentation. Please Mr. Menin, you can start.

**MENIN** - Good morning. It's with a great pleasure that we announce one more quarter results with great indicators. In this 3Q we had the best gross sales volume and the smallest volume of mutual efficient of the year. In addition to these good operational indicators, I also highlight the continuous evolution of our gross and net profit. We generated good cash volume which has made MRV leverage to reach extremelly low 5.7% in relation to net equity. Our expectations for the future also deserve a highlight. After several consecutive quarters generating cash we reached such leverage level that allow us to increment the distribution of capital surplus we have in the Company's balance sheet. Therefore, provided the current conditions are kept we expect to have from now on a new strategy concerning dividends distribution and share

buyback. Finally, I would like to emphasize once again how optimistic we are, not only with the Brazilian housing market size for the next years but also with MRV capacity to have a biggest share of this market. As mentioned, we made a big investment in landbank in the last 3 years which gave us a good volume of suitable properties in most of the cities we operate. On the other hand we still have a big number of cities with a low number of products available to sell. As this landbank turns into products ready to sell we expect some growth in MRV monthly sales potential. Thank you and now we open the Q&A session.

**OPERATOR** – Thank you. And now we will start the Q&A session. If you have a question, please, press \*1. And after your question is answered you can leave the queue. We kindly ask you to take the phone for you to ask your question.

Gustavo Cambauva from BTG Pactual would like to ask a question.

**CAMBAÚVA** – Good morning. I have two questions. According to the results you have a great reduction in expenses specially in contingencies and I'd like to understand how this line will go forward to reduction that was really strong. You can keep this expenses level, does it make sense? And my second question is related to the landbank. You invested a lot in properties and what about 2017, to work with this level of landbanks of R\$ 40.0 bi. Is it reasonable for the company and then purchase land just to replenish or would you like to reduce the landbank? And how much would be invested in landbank in 2017? thank you.

**FISCHER** – Gustavo, good morning. Other expenses, well, this is the third call I mention this. We started the strategy in 2015 more aggressive of agreements that were very beneficial to MRV. And this would give us better conditions. Unfortunately we still have some liabilities scenario representing high values, but during 2015-2016 we changed this strategy and now we are getting some benefits. It's hard to say that in next quarter this level would remain the same. Our view for 2017 and 2018 is to have a big reduction of this. As for the

second question, landbanks. In 2015 we invested in increasing and diversifying our landbank following the strategy that we presented. We see huge potential that we can capture in the markets we operate and this goes through the structure of the landbank. We continue this work in 2016 and I believe with the potencial we have that in 2017 we will keep this strategy. We are not just talking about of replenishing but to integrate new land. And according to our planning we'll work in refilling.

**CAMBAÚVA** – What was surprising, was that the result was positive. But my question is what generated R\$ 2.0 million in this 3Q? Maybe winning more causes than you have provisioning?

**FISCHER** – Maybe was not so clear. When we have an agreement this agreement has a value that is in the provision. When I have very favorable agreement we zero the position and the expense is marked. So you have this, we have the charge back in the anterior position. This quarter was different and this is what happened.

**CAMBAÚVA** – OK, thank you very much.

**OPERATOR** – Mr. Guilherme Caparelli, from Citi, would like to ask a question.

**CAPARELLI** – Good morning. I have two questions. First, is the extraordinary dividends. You have the intention to incorporate a greater distribution or are you making the announcements when it is more adequate? And the second is about the cashflow of this quarter. Can you detail what was kept because of we had with the banks or are you going in to have this amount in the 4Q or is it going to be dilluted?

**RAFAEL** – As for the first question, for the dividends, we had a very low leverage in the previous quarter. We started with less than 10.0% with a favorable scenario to increment dividends distribution. And the political and economic scenario was confused and we are a very conservative company so

we decided to be more conservative in the dividends for the half of the year. And from now on we are more confident, the scenario is more predictable, we think that we have gone the deepest we could so with the current market conditions the company will be more aggressive in terms of dividends. We prefer not to have a pre-determined policy about this. We will analyze quarter after quarter, analyzing the value of the bonds and we expect that part of this capital we have in the balance sheet to be distributed to the shareholders. But we want to have this or to analyze this moment by moment OK? In terms of cashflow the bank strike really harm us. We had a cash generation below the previous quarters. Part of this volume will be repassed on the 4Q making it better cash than in the 3Q. We've been facing specially with Banco do Brasil a difficulty to repass but we hope to have a better generation in the 4Q and then we will include this in the 1Q2017, OK?

**CAPARELLI** – Thank you very much.

**OPERATOR** – Once again, to ask a question please press \*1. Please hold while we pull the questions.

Mr. Alex Ferraz from Itaú BBA would like to ask a question.

**FERRAZ** – Thank you for the presentation. I have two questions. The first was a follow-up. How are you seeing this 4Q to reach this higher volume. Is it possible to see new launchings, new developments? And the second question: the scenario is still growing, do you see the profit decreasing or it will continue to increase as you expand your base?

**LEO** – Good morning. I will talk about the launch and developments. We'll have a big development in Pirituba, something will be launched in the full quarter but it's still small volume in the context of the whole development. In the 4Q we'll have the 1.5 range, what is happening. It's a serious project, we are working hard in several cities and this will help us for the entire market.

And we are well advanced in all our agreements with Caixa. As for pro-soluto, pro-soluto has ongoing situation that is taking a volume after the keys delivery and since the speed of the works is going rapidly we don't have enough time for the clients to pay. In terms of credit policy in our company we have even more restrictive credit policies, specially for pro-soluto, since we had a decrease of the volume given by the banks so we decided to do more pro-soluto than we would like. We have to balance the sales volumes when we want to grant credit, we have to grant credit for those who have capacity to pay so I don't see growth for pro-soluto, we are very close to the level we expected. As we sell more, of course in terms of amount of money you have to increase pro-soluto because this is always a percentage of sales.

**FERRAZ** – OK. Thank you very much for your answer.

**OPERATOR** – Mr. Luiz Stachinni, from Credit Suisse, would like to ask a question.

**STACHINNI** – Two questions, one is a follow-up concerning your planning for the next year. Is it possible to have a convergence for the rithm, or the pace of new launches? And the second question relates to your inventory. Over the total of interest in stock how much reffers to ongoing units and how much reffers to funding?

**RAFAEL** – As for launchings in 2017, we will not disclose anything. The company invested almost R\$ 700.0 million in landbank in high quality land in strategic cities. And we have a very balanced porfolio. We have a proper inventory to meet the demand. Our inventory available to sales is not so balanced so for 2017 is to have a higher number of land that we recently acquired and with this have more developments. Is quite possible that we'll have a more active year in terms of launches with a commercial inventory much

more coherent with the cities where we operate. And with this we'll have better sales next year. This is the midterm project of the company. We invested in landbank, IT, backoffice, so the company today is ready to operate in higher level than the 40.0 thousand units we have yearly. As for interest in inventory Leonardo will answer this question.

**LEONARDO** – I don't have with me, we will, we have a note in the note 11 of the balance sheet. Of this R\$ 34.0 million that were for the [19:03] what was capitalized in land and what was capitalized in works, ongoing works. I can send you the number later on.

**STACHINNI** – OK, thank you.

**OPERATOR** – Once again, to ask a question please press \*1. Please hold while we pull the questions.

Mr. Renan Manda from Santander.

**MANDA** – Good morning. My question has been already answered. But you mentioned your intention to restructure the capital, the ROI, can you give more details on the level of return you are looking for? And how long it will take to reach this level?

**RICARDO** – Well, with the dividends, we announced the extraordinary dividends, it's not novelty, we mentioned this when we have better macroeconomic security we would start to have his higher distribution of dividends. This money will go back to the shareholders. We have a very low leverage level so cash generation from now on will be dedicated to dividends or a payback, a buyback program. Our capital structure still needs some

decrease and this impacts the ROI but we are also having an improvement and both gross and net margin, this will also impact ROI.

**MANDA** – Thank you.

**OPERATOR** – Mr. Marcelo Mota, from JPMorgan is asking a question.

**MOTA** – Good morning. Can you comment on the gross margin? It reached a peak in the 1Q of this year and it is still better than in 2015 but it had a slight drop. What can we expect for this project in the range of 1.5. Can you comment on this?

**FISCHER** – I mentioned this last month. The margin behavior in the last two years was exactly this: we had some operational gains and in two points, one is because we're able to get the benefits of this crisis in our country so we can have better negotiations, better agreements. But again, which is more representative is the operational evolution. We are mature in our cities we operate and we have very representative operational gains. So when we see this margin evolution in the last 18 months because this comes from our operational gain and very small part from the price. So we expected that for 2017 and 2018 we'll have a margin gain from the price and improving our operational efficiency. We believe that in spite of what you mentioned in the variations of this year the mid term horizon points to evolution of gross margin based in this assumption. Now talking about 1.5. Well we had two new contracts yesterday, this 1.5 range has lower prices than the range 2 but we feel quite comfortable because the speed of sales is faster so you collect this faster, it's a very important complement to the operation of the company. We want to participate even more and this is a complement of the operation, it does not conflict with what we do today, it's a new front for us. And this does

not represent any drop in margin. Well done operation in adequate cities, we will deliver this in a very shorter term, which is a greater advantage.

**MOTA** – Thank you.

**OPERATOR** – Mr. Vitor Tappia, from Bradesco BBI, would like to ask a question.

**TAPPIA** – Good morning. I'd like you to update us on your work to improve the landbank in cities that you have inventory below the minimum inventory. I don't know if it was asked but the Gran Reserva that is doing well we'd like to know what other large projects can be launched soon?

**RAFAEL** – As for the landbank we mentioned this some quarters ago. The company is investing lots of resources, we have high quality negotiations. So we did our homework. Now for 2017 it will be a year with an investment level in landbank above launchings and it will increase in cities where land inventory is not adequate to the market potential. So it's a very assertive investment. And it's important that one in the more conservative environment, we are in a very comfortable position and we took a very strategic approach looking to the long term horizon. We are certain that the investment we made in landbank in the last 6 years brought a good position to the company and for 2017 we still need to adjust the landbank, because we want to have a robust landbank in the more than 140 cities we operate. We want to buy land with very advantaged conditions and we should also look, always look ahead and the company is in good position, different from the competitors. And about the large developments, we have this in Sao Paulo, in Pirituba, we will launch the first phase, a small phase in the 4Q, but most of it will be launched during 2017. And in addition to Pirituba we have great launchings in Rio de Janeiro; in Belo Horizonte, we have a very good piece of land; in the city of Salvador as well.



So the efforts we did in the past will start to pay in 2017, 2018 and so on. Specially in the metropolitan areas we've been very conservative in the past but from now on with this high quality project with good pricing and margin we will start to harvest the benefit in the metropolitan areas, OK?

**TAPPIA** – OK, thank you.

**OPERATOR** – Once again, to ask a question please press \*1. Please hold while we pull the questions.

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Thank you. The Q&A session is now closed. I will turn over to Mr. Eduardo Fischer for his final considerations.

**FISCHER** – Thank you very much for your participation. I'd like to highlight two important items quite relevant in this 3Q. We will start a new phase. We now have a greater focus in the capital distribution in our company. This is very important for our shareholders and we are proud of it. The second point which is operational but is very important is growth. We have positive perspectives for 2017-2018, the markets we operate do have potential so we can capture this in a very efficient way, we have great focus towards growth and what was quite relevant in our strategy was the 1.5 range. As I mentioned we signed two projects yesterday, and the government perspective is to sign 40.0 thousand units and this will be reached and looking into 2017-2018 this project will continue and increase. So it's a good opportunity with a complementary product to our operation. And this feed customer that is hardly served. So this is very important for us, this can be taken to 2017-2018. I thank you again and have a nice day.



**OPERATOR** – Thank you. This concludes today's MRV's 3Q2016 closing conference.