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PRESENTATION

Operator

Ladies and gentlemen, good morning. Thank you for holding, and welcome to MRV's Second Quarter of 2023 Results Conference Call. For analysts and investors, today, with us, we have: the CEOs of the company, Rafael Menin and Eduardo Fischer; and the Chief Financial and IR Officer, Ricardo Paixao. (Operator Instruction]

Now I would like to turn the floor over to the CEO, Rafael Menin. Mr. Menin, you may proceed.

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Good morning, everyone. I thank you all for attending another earnings release conference call for MRV & Co. Let's go back a while and talk about how we were 1 year ago, and then we can talk about the present as well as what we expect for the future of the company. One year ago, we saw a cycle that was difficult. We had a cost increase of approximately 40% in sales prices didn't go up that much. As a result of that, we had the worst seasons of sales in the history of MRV since the half of 2020 and 2021 until the first half of '22, they had a gross margin of 16%, 17% after a price -- a cost increase of 40%, which is very poor, and that's a very poor result. It's also important to remember that after 2 strong years in sales in 2021 with bad margins and high sales. Last year, we had a decrease in the volume, when the price recovery that started strongly, and that caused, at first, the sales volume to decrease for the company. So given all these facts that happened in 2021 and 2022, we had an important deterioration in our income statement as well as a long period of cash burn.

I'd say that this is also unheard of in the recent history of the company because we were generating cash steadily and consistently for many years. And finally, the subsidiaries in Brazil, Luggo and Urba also had cash burns and Resia given the sudden change in the capital markets in the United States, also sold some of its properties at a much higher cap rate with a sales timing much slower than in previous years. So all these factors together caused us to have a very tough year in 2022, in all work fronts, in the subsidiaries, looking at the income statement, sales volume, cash flow. So in fact, it was a year to be forgotten. Well, we can never forget it. Of course, we have to remember what happened and learn from the difficulties and from our mistakes. But it's also very important, that we started more than 1 year ago, important changes, as I mentioned recently, the quick price increases at MRV.

We started last year selling an apartment unit at BRL 170,000, and we closed the last quarter selling a similar product at almost BRL 230,000. It's an important gain in price. And that has had and will continue to have an important impact in the income -- net income of the company. We are now delivering a growing sales volume quarter-on-quarter and I'd say that in the first half of the year, we reached the sales volume, the sales -- the company saying that we want to have a sales volume of 40,000 units per BRL 40 million net sales in the quarter in the semester. And since the sales price from now on will grow above inflation until the end of the year, and starting next year, prices probably will go up in line with inflation and with the new MCMV Housing program that correct in which many distortions were corrected. So we believe that we'll have 40,000 net sales per year at a very healthy margins.

Also very importantly, with this price increase that happened in the past, it was very quick. We had to increase pro-soluto at a level we had not done previously. And as the evaluation by the banks and especially at Caixa, it started to increase, not only at MRV, but for the market as a whole, we have tools to resume a healthy pro-soluto at historical levels at MRV, we once gave pro-soluto at 20%. We want to reach around 13%, which we believe is the ceiling of pro-soluto that we consider to be healthy for this operation. And with this recovery of volume, margin of new sales that came because of price increases, also construction costs are now stable. It has been stable for now the last 3 quarters and pro-soluto going down and investments in land that has decreased since last year. But the purchase of land last year, this year and probably next year and in 2025, a lower volume of purchase of land and these 40,000 units that will cost the CapEx of the land to go down. So all these lower pro-soluto, lower CapEx investment in land and an increase in sales for us will cause us to have a cash generation dynamics that's much different from now on.

Looking at the subsidiaries, we're able to stabilize the cash burn of Urba. And from now on, the business plan, we don't go into invest capital in Luggo or Urba anymore. So the company has to grow with the capital they have already available in each subsidiary, and there will be a high growth, but a reasonable growth in an interesting level with a neutral cash flow.

Now looking at Resia, we see that the worst phase in the capital markets is behind us now. We see an increase demand for our properties still with a high cap rate. We once sold properties in the very beginning of the rental phase. Now the market requires a stabilized property to sell, but the U.S. market margins are improving. So we believe that sometime in the second half of the year, we may have a cap rate going down, and that will cause us to be more confident and to sell the property and maybe postpone sales of the property for the next quarter, so we can sell it at a higher profitable, more profitable level.

The gross margin from operations that we -- the gross margin from new sales will certainly will go through the cash operation. We have a much healthier top line. In terms of net operating revenue as well as gross margin. We have seen, said in the MRV Day, a target of more than 33%. And today, I even believe that we can exceed this figure of 33% given the factors previously mentioned. This higher top line will certainly provide for the dilution of expense line, SG&A and other expenses and certainly, financial expenses. And the follow-on had, will have a very good important result in the financial expenses. SELIC interest rate is going down and future cash generation will cause us to have financial and revenues and expenses offsetting each other.

And I said Urba and Luggo will grow with no further need for capital. And they have their accountability, their representativeness in the income statement, but they will contribute to the income statement. Also, we have Resia with organic growth. There's a capital stake demands little equity from Resia in new projects. So growth, as mentioned several times, it does not need any new capital coming from Brazil for Resia. Resia is able to grow with its own capital. And we expect cap rates to go down, and therefore, Resia profitability for projects will continue to grow with a gross margin close to 30% as forecast in the business plan. So with this set of actions and the new dynamics of subsidiaries, including MRV in the future, will certainly cause MRV & Co. to be a company that will present in pretty impressive results 2 to 3 years from now.

We are very comfortable and confident on what we planned and how we are delivering on that plan, and what will happen in the short and medium term. And we are absolutely sure that we'll have MRV & Co. with a very strong income statement. And this dynamic of cash generation in the future will be very different. From now on, we have a lower leverage. MRV has always had leverage close to 0, and that's the level we want to reach. That's the level we have committed to, to the Board of Directors of the company. And I am sure that within 1.5 years or 2 years, we'll have leverage close to 0.

Now I turn the floor over to Kaka, for him to talk about some financial indicators.

Ricardo Paixao Pinto Rodrigues - *MRV Engenharia e Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

Thank you, Rafa. Good morning, everyone. I'll start highlighting some important goals of MRV. Gross margin reached 21%, 1 point -- 3.2 points. Gross margin of new sales has also gone up 31.7% with a growth of 120 bps and almost 7 percentage points higher when considered compared to second quarter '22. This has been the best net sales with a PSV of 9,826 units sold, an increase of 24% compared to the first quarter and 50% over 2Q '22. The VSO reached 29% in the quarter. In addition to the record sales volume, MRV has an increase in the average ticket of units sold 227,000, an increase of 3.9%. Cash burn had a reduction of 34% when compared to the previous quarter, with an increase of -- with a mark of BRL 80 million.

When we compare how we are when compared to the data presented on Investment Day in February, we see that the year-to-date BRL 3.4 billion reaching 51.8%. The gross margin has an increase of 2.1% with an average of 21.4, and that places it at the bottom of the guidance that we predicted for the year -- end of the year. So we are on the right track to reach it.

Cash burn in the quarter is also within plan. So we reaffirm the path of recovery of the company to reach the guidance mentioned at Investors Day now talking about covenants and debt, net debt plus it continues to improve. It has closed at 0.55 against 0.59 with an increase for the limit, which is 0.65. We have a follow-on effect on June, we completed a follow-on totally BRL 1 billion with the purpose of decreasing -- accelerated deleveraging of the company. Considering the follow-on effects, the net debt over equity had a reduction of 64% to 40%, a drop of 24 percentage points.

Now going back to some important points about the subsidiaries talking about Resia. We completed the sale of Pine Ridge with a PSV of $77 million. Gross income was $77 million, gross margin of 22%, cap rate of 5.6%, yield on cost of 7.1%. The sale of Pine Ridge helped to reduce the operational cash burn that was limited to $15 million, reaffirmed the company's strategy to maintain the recurrence of sales of assets at good prices despite the most complicated macroeconomic scenario. Luggo in the second quarter carried out the sale of Porto Aruba developing the City of Porto Alegre with value of BRL 21 million. The sale took place within the investment agreement with Brookfield, and that resulted in a cash generation of BRL 7.4 million. Like Resia, Luggo has a plan to a recurrence in the sale of its assets.

Urba reached the breakeven this quarter, reporting a cash burn close to 0, reflecting our discipline and commitment to the leverage plan in all subsidiaries. Urba has been pursuing recurring sales of receivables, ensuring operational liquidity and a way to fund itself. Now we can move on to the Q&A session.

QUESTIONS AND ANSWERS

Operator

Okay. So now we'll start the Q&A session. (Operator Instructions) The first question comes from Gustavo from BTG Pactual. Mr. Gustavo your microphone is open.

Gustavo Cambauva - *Banco BTG Pactual S.A., Research Division - Research Analyst*

I have 2 questions. First, Rafael mentioned in the opening remarks about prices, sales prices. I would like to understand whether you think there's still room to continue to increase sales prices or if you believe that this level, given the revenue of the families after this, My House, My Life or MCMV, prices will not go up again. And thinking about margins, do you believe the leverage to increase margins is still price or considering that costs are now more favorable, how do you see that?

And the second question is as for cash generation, do you expect cash generation in this third quarter coming to cash flow or is it expected for the end of the year?

Eduardo Fischer Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

This is Fischer speaking, Gustavo. Rafael mentioned this in the opening, about your first question. We have been able to price better and better. This is something we started in the beginning of 2020. And the dynamics has a delay because we depended on the assessments made by Caixa. So, throughout 2022 that happened. And the market in general repriced the units, and we led that process, and today, this is more stabilized. So, we have now a condition to continue to raise prices. Of course, this won't happen at the same level of 2022, but it will continue.

We have disclosed our average prices and you can see that the movement continues. When we look at the beginning of the third quarter, we are still able to increase prices and we'll continue to do that because our main goal is to call -- cause that to revert to margins as quick as possible. Of course, it won't be at the same pace of 2022, but it will continue until the end of the year. So, this is our strategy. And more than that, the price is absorbing it, which is an important point.

We haven't reached the cap yet. On top of that, there are some additional leverages that you also mentioned, that are the improvements are MCMV, a part of them have not yet happened, which is the future, RGPS, and that will allow us to continue to increase prices, to price better because our main strategy is to convert all those benefits to price and margin, and reduce pro-soluto. And so that will allow us to continue to raise prices. This is our pricing strategy.

As to margin, we do not believe that -- we do not consider cost gains in our margins. We talked about that in the last call. This would be an upside. We have protections that we considered reasonable given what has happened in the past. So, we do not take into account this upside. So, what we see in terms of margin growth comes from re-pricings. And with time, we have been able to pay less for land. In terms of average prices for Brazil, we have been able to do better deals, more swaps, swaps that are cheaper. And that will help us in the future. Looking at the short and medium-term, the growth of margin comes from prices. If we can get better efficiency in prices of construction on costs, we will see better increases in margins.

As for cash generation, quarter-on-quarter, we've been closing the gap and we'll continue to deliver this reduction of the gap. It's hard to say exactly that will have generation in the third quarter, but it will certainly have better results than in the second quarter. And this continues as we leave best projects behind, and continue with new ones. The movement is slow because of revenue calculations and this quarter will be -- the third quarter will be better than the first and second and so on.

Have I clarified all your doubts?

Gustavo Cambauva - *Banco BTG Pactual S.A., Research Division - Research Analyst*

Yes. That's very clear.

Operator

The next question comes from Pedro Lobato from Bradesco BBI.

Pedro Lobato Garcia Fernandes - *Banco Bradesco BBI S.A., Research Division - Research Analyst*

We would like to explore a little bit more. You've made it clear that the intention is to improve, but could you talk more about sales and the impact that you expect in the margin of new sales. Given this clear reduction of pro-soluto.

And the second point is now that covenant is much more comfortable, how is the plan of reducing the places in which you operate? Are you keeping the same accelerated pace?

Ricardo Paixao Pinto Rodrigues - *MRV Engenharia e Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

This is Ricardo speaking. Pedro, as per reduction of pro-soluto, with the new parameters of the program have cause subsidies to increase, interest rates to go down and the ceiling has gone up. So in inventory of [SBPE], units are now part of MCMV program. All of that increase is the purchasing power of customers. If we could to some variables to accelerate, one of them would be to increase volume or to increase margin or to reduce pro-soluto. So the sales of a supply remains the same. We will continue to increase prices above inflation as we've done so far, not as abruptly as in the past, but we expect all this gain of affordability that we see will partially goes to the gross margin and an important part of it, I would say, the largest part will go increase -- will reduce pro-soluto that is in a way that we don't have a drop in margins or drop in sales. So we talk about margins going up, pro-soluto maintained and -- pro-soluto going down and margins -- prices increasing.

So we're not going to leave places suddenly. This leaving of 40 units, 40 cities makes sense according to the purpose of the company. We won't change plans abruptly. We'll -- it's going to phase out. In some places where we no longer have new land, we won't buy further land or properties. In others, we're selling or sometimes we'll develop the land and we will always respect customers, respecting maintenance plan, everything by the book. So, there's no abrupt leaving town or interruption of operations anywhere.

Operator

The next question comes from Aline Caldeira from Bank of America.

Aline Caldeira - *BofA Securities, Research Division - Research Analyst*

Rafael, Kaka, Eduardo, I have 2 questions. First, I would like to talk about the sales of portfolio. You've been selling your portfolio units on a recurrent basis. After the follow-on, you have a cash level that's more comfortable, so what is the strategy from now on?

And the second question is about the recovery of the reported margin. You show that part of it has been done with the margin of new sales at a healthier level, and the second phase is about the effects of '21. How much is still left from the weakest sales of '21 to complete?

Ricardo Paixao Pinto Rodrigues - *MRV Engenharia e Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

So, this is Kaka speaking. As for the sales of units in the portfolio, we understand that from now on, we have less need to sell those units because our credit facilities will also go down, but the optimum level is the one that doesn't allow my accounts receivable to go up. But yes, it's still part of the strategy of the company. What may happen from now on is to see rates flattening more. With the drop of SELIC rates, we'll be able to see the spread of sales of our portfolio units going down or sales linked to IPCA, that makes more sense, financially speaking.

As for the recovery of margins, usually we can say putting it simply, the gross margin of new sales for a certain period of 1.5 to 2 years later, we see that's the booking margin. When we make projections, we see that the year of 2020 is now in the past. We don't see much of the season. And we now see the season of 2021. In the half of 2024, we'll have a margin gets free from those seasons. So the margin of '22 is much better at around 20%, 25%. So the recovery continues. We will close the year close to 25%, 26% of gross margin. And next year we'll start at that level and closing the year at levels much higher than that.

Operator

Our next question comes from Hugo Grassi from Citi.

Hugo Grassi B. Soares - *Citigroup Inc., Research Division - Research Analyst*

I would like to learn more in depth about your pricing strategy, trying to understand how do you distinguish different cities with different demographics. Of course, you're -- there was a bottleneck of pricing power. But there are other variables, the location, the competition and also the income, the purchasing power of demographics and regions.

What is the most important factor? If the purchasing or the pricing power should be higher in places like as Sao Paulo, where you are now with a greater strategic focus, with higher demand, higher competition, or in interior where you're playing alone, but there is a higher delta for these price cap? That's the first question.

And then for second question, if you allow me, if you could comment on other revenues, operating revenues and expenses such as the Resia winning of $13 million, the lawsuit, as well as a penalty on canceled projects. If you could comment on those 2 factors, I would

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Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Hugo, this is Rafael Menin speaking. Well, as for the price dynamics, there is no absolute truth, and answer is not binary. Of course, Sao Paulo naturally has more income available. It's a gigantic real estate market. However, it's the most competitive market of Brazil. So margin dynamics comes from several factors, price of the land, competition, available income. And we see that in several places we operate with lower income rates, we've been able to attain higher margins. It's also important to highlight that MRV, differently from other companies, is mature in all market -- in all markets that it operates in.

Last market we entered was Manaus, maybe 6 or 7 years ago. So mostly we continue to grow in the post-IPO cycle. We started to grow 15 years ago. That causes us to have a very homogeneous operation all over the country. In these towns, in the interior or in capitals with a lower average income, such as in the northeast. Despite that, the land is cheaper, competition is lower and that allows us to sell very -- in very good terms. The Northeast is the area with the highest volume of the company, with a gross margin that is among the best for the company. So this myth of total cost -- the total construction cost plus land compared to sales price, and it includes supply demand and combined factors, causes us to have areas in which -- with a lower per capita income of Brazil to be among the first quartile of gross margins for new sales.

And the new program did address an important point that is the cap. Several smaller capitals had a cap limited BRL 209,000, now it's BRL 245,000 or BRL 255,000 depending on the size of the town or city. That allowed the company to leave SBPE funding and go to MCMV funding and unlock more units. So we're very comfortable with our price dynamics. And we do expect prices to go up 4% to 5% above inflation, and starting next year, growing with inflation. So we do not have any region with a poor margin and another one with a very high margin. I'd say that the variance in the company is not so high. Of course some regional offices are better than others, but all of them have a capacity to deliver good gross margins.

Hugo Grassi B. Soares - *Citigroup Inc., Research Division - Research Analyst*

All right.

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

I'll let Kaka answer about the Other Expenses line.

Ricardo Paixao Pinto Rodrigues - *MRV Engenharia e Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

Okay, Hugo. Referring the Other Expenses line, it's on note 23. The amount of BRL 43 million is the sum of many things, including also the intended to purchase land. All this land means all the land that we make topographic, geologic studies. And for some reason, we decided not to go on with that land. Since we had a guideline to sell, cancel agreements with land, we had a difference in this line. And the difference from the last quarter to this one was a poor performance of our Luggo project. We sold the Luggo project that was priced in a scenario that did not consider inflation.

When we started construction, inflation went up and the construction performance of this project was not so good. We sold it now and recognized the negative result from the sale of this project. That's the delta we can observe when compared to the first quarter to the second quarter is based on the sales of Luggo rather than on any other dynamics.

You also asked about the legal lawsuit of Resia. Making a long story very short here, we had purchase land for Resia. We had a problem with that purchase. The case went to court, and we thought we were going to lose, and we made a provision for loss, and the decision was favorable to us. So this figure is the reversal of provision for losses, plus a compensation that we won. It was completely nonrecurring effect. It was a very specific case.

Operator

Our next question comes from Tainan Costa from UBS.

Tainan Costa - *UBS Investment Bank, Research Division - Associate Analyst*

I'd like to talk about Resia. Initially, what have you seen in the transactions market internationally? What is the expected cap rate and how is the dynamic of rentals in your project? I know it's accelerated, but have you been able to transfer prices? And finally, if you could give us some color on your sales pipeline to 2023 and '24, it would be very nice.

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Tainan, this is Rafael Menin speaking. As for cap, the cap is highly correlated with interest rates. The U.S. capital markets at the end of last year was the highest point of stress. They were very averse to transactions looking at the low prices. We were able to complete a transaction in the fourth quarter in the Miami project, but it was a difficult transaction. Initially there were many competitors. Competitors gave up on the purchase as the market decreased, went worse, but we closed at a cap close to 6%. And this project had a margin of 24%, which was okay given the increase in the cap.

And what we noticed, Tainan, is that sales have not dropped. It consider -- it continues at 5.7%, 5.8%, which is bad for the profitability of sales. But the interest for projects has increased slowly, but at the margin, it has improved, it has been better. And interest rate is what will turn the key. The inflation rate is much lower now in the U.S., there's some still dubious signs from the Central Bank. It may be that they won't increase interest rates in some moment now until the end of the year, maybe next year, beginning of next year, they will start to reduce interest rates slowly. So, each quarter we'll see the capital markets not so scared and more of a bullish market, and as future interest rates go down, we see the cap going down as well. Nothing significant, but any movement is important.

And another important point is the timing for sales, we reached the 2021 -- until the beginning of '22, we sold several projects in the beginning of location ramp or at the house, at the permit when the permit was awarded. Now, it has to be stabilized in order to start. So the sales pipeline is linked to stabilization.

Today, there is a project that will be stabilized at the end of this quarter. So sales will happen in the fourth quarter, most likely. There are other 3 projects in rental that started to rent units in the last 2 or 3 months, dynamic for them is very good. So, starting now, we'll have sales in the first quarter and second quarter of next year. So the dynamics continues to flow correctly, the rentals at good prices, some markets -- the rental prices in Miami have gone up a lot. From now on probably won't go up more, because it's a very good level now.

In Texas, we see that the price dynamics will go up still. There is an upward trend given that the market for generating new product has dropped a bit, capital cost increased a lot the real estate developers are developing less products. So the supply goes lower, than the demand for projects in those markets, we believe that rental prices will go up a bit more. But we are very excited with Resia. We know that the current moment is tougher operationally speaking.

Inflation is doing fine, yield on cost for Resia will be preserved. There is still room to increase efficiency in Resia, either by improving production techniques, there's still some things that we're putting in place to improve efficiency. Naturally, the first season in new states, Georgia and Texas had a performance, slightly below the same season in Florida because Florida is a mature market for us. So the second season in Georgia and Texas will have a better performance. So we're very confident.

Resia has a very unique verticalized model that will lead to yield on cost above the average for the market. And as cap rates go down, we will certainly have a very profitable operation that will have more -- be more representative within MRV & Co. towards the future. In the future, Resia, because property prices are much higher there, we sell by BRL 1.5 million. So Resia, quarter-on-quarter will certainly grow. And in the middle to long run, will be an operation of the same size of that, the one we have in Brazil.

Is that clear? Did I answer everything?

Tainan Costa - *UBS Investment Bank, Research Division - Associate Analyst*

Yes

Operator

Our next question we will be asked by Pedro Hajnal from Credit Suisse.

Pedro Hajnal - *Crédit Suisse AG, Research Division - Research Analyst*

I have 2 questions. First, regarding Brazil operation. I know you are in the long-term recovery process in controlling cash still. What are the next stage -- steps for MRV once profitability is recovered? You're focused on volume now, you took a step back in its strategy, the diversified operations. So, once the profitability in the development area has been recoevered, what's the next step?

The second question is about the United States. We had the idea from capitalization of Resia in the past, and so far as I understood, this capitalization depended on the company reaching a certain size. So I'd like to understand that now that we won't see capital increases coming from Brazil, will Resia reach by -- on its own a size that it's feasible, maybe in the long run without setting a specific date. Is it still one of the goals of the company?

Eduardo Fischer Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

This is Fischer speaking. I'll answer the first one and then Rafa will answer the second question. As for the next step, there is no next step. Our total focus is on recovering the company as quick as possible to the historical margins we have always had. We have some ambitions to go beyond that, but this is our main focus. We have no other.

What we did last year with creation of Luggo, Resia, Urba these are important vehicles for MRV & Co., and that's where the value will be created for MRV, including our operational excellence in the Brazil operation. What we want now and for years to come is until 2025 is MRV concentrated in 40,000 units in the places we decided to operate. excluding those 40 we mentioned earlier, generating cash with good margins. This is our main goal for '23, '24 and '25.

In parallel, that's the only step for MRV's real estate developer. Now looking at MRV&Co, you can expect Urba, Luggo and Resia generating lot of value for the company in time. Now, let's have Rafa talk about Resia.

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Pedro, Resia has a growth capacity of 15% to 20% a year. Of course, the cap defines the level of growth. Given that there is no new capital coming from Brazil to the U.S., it must grow with the results generated from each business. But that's the amount, 15% to 20% a year.

We have a land bank in place that allows this growth for the next 3 years. We are now operating in 4 cities, larger Miami, larger Atlanta, Houston and Dallas with an added population of 28 million inhabitants, considering the 4 of them. It's an enormous market. We have a small share of this market now. And as I said, MRV U.S. Resia can have a size which is similar to MRV Brazil, which means an operation of 6,000 units per year, which would give us 1,500 apartments per year in all these 4 markets which is very feasible, considering the size of the market in each of these cities.

Of course, it takes time for us to grow at the rate of 15% per year. At the current level, this would mean 1,500 units per year. This will take some years. But as the capital markets improves and if we understand that the price is the price that generates value for shareholders, we could study a private placement. There will be appetite from the market at some point, and there is always a discussion about price, the lower the interest rate, then naturally prices go up. And if there is a capital injection in Resia, this plan to reach 5,000 or 6,000 units per year will be accelerated.

Of course, the choice will take all that into account, accelerating or not, Resia plan, and at what price we will be willing to inject more capital. So, this is not in our radar now. We're just looking at the operation, how could we improve yield on cost and waiting for the market to mature, interest rates go down, and we can start the discussion again in '24, '25. But we are in no hurry. We are conscious about the size of the market, we know that we are in the right geographic area with -- at the right income bracket.

We have a very standardized product in the 4 cities, very industrialized and we can even increase processing to gain efficiency. So, we want to do our homework better and better, and then find the right timing for some capital injection at the right valuation for Resia.

Operator

Our next question comes from Fanny Oreng from Santander. Fanny, your mic is open, you may continue.

Our next question comes from Daniel Gasparete from Itau BBA. Danielle, you may ask your question.

Daniel Gasparete - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

I have 2 questions. First, trying to get your point of view about potential new changes in the MCMV. Do you see any discussion of a potential creation of Level 4, any ideas there could be coming?

And the second question is more of a confirmation of my understanding of the previous question. So you don't expect sales of Resia from the third quarter, just one sale in the fourth quarter and then would be towards 2024. Did I get it correctly?

Eduardo Fischer Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

This is Fischer speaking, Gasperate. Minha Casa, Minha Vida, MCMV, My House, My Life, there are positive changes made in this last year, and some important ones that haven't yet been become operational. There's 2 things going on. 35 years, 420 months is important. It wasn't fully working.

In the last weeks, this has been growing a lot and it's happening -- helping us. There is a huge change with this using future severance fund, FGTS, and that's very impactful. And that will probably happen towards the end of the year, October, November. But when it becomes valid, it will be very important. So we have the tools we need to attain the results we want.

Now, looking at what is being discussed, there is a discussion about the extended level that you called Level 4 up to BRL 500,000 or income up to BRL 12,000.. There is an agenda to see what fits in the fund. This is always strategic, and this is something we look into as an industry. We must see what fits in and what looking at this extended level, Level 4. It is, yes, it's interesting. There is other discussions. There is nothing defined about it, but we must also respect the budget of the severance fund. This is something will always be discussed.

There is also a question about the increase in prices. For properties that could -- individuals could use their severance fund, but there is nothing consolidated no agreement on that. So in my mind, the tools looking at MRV and the economy all the tools are given. We have in our hands that we want to make operation in terms of affordability. And we will use them in full as soon as everything is implemented. We don't need any further tools. But we have to see what fits in the fund. We've always looked with taking into account the governance, worried about the future. So I don't see many extra tools coming soon.

As for Resia, I will turn the floor over to Kaka.

Ricardo Paixao Pinto Rodrigues - *MRV Engenharia e Participações S.A. - Chief Financial & IR Officer and Member of Executive Board*

Gasparete, the Biscayne Drive is already being marketed for 90 days. There are people, investors interested in acquiring it within the third quarter of this year, but recently some new proposals came up better with a better sales value that we see for the third quarter, but this would be a sale that would be completed 60 and 90 days later.

So according to the proposals, according to the profitability level, sometimes it may make more sense to wait 60 to 90 days and sell at a better price than selling now. So there are people interested in buying now and next quarter. So, we are analyzing to see what's the most profitable proposal.

Operator

Our next question comes from Marcelo Motta from JPMorgan.

Marcelo Garaldi Motta - *JPMorgan Chase & Co, Research Division - Research Analyst*

Two quick questions. The first one is about the launch phase. Of course, what matters is to attain the PSV of 40,000 units. When we look at inventory, there are BRL 12 billion at market price, and there is no need to launch. So could we interpret that launches will be in line with the level of the first half of the year to sell those inventory units? And the second question is about FGTS -- with today's year revised up, it's good for the industry. But for next year, there's a discussion to get the budget at the same level, but competition will be higher. So is there any discussion about that?

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

It's a pleasure talking to you again. Well, with regard to launches. Last year, we have launched around 40,000 units, and we sold 32,000 units net. So the company started the year with higher inventory than ideal. This year, the company will launch less than it will sell. We have said 40,000 sales -- net sales. So this doubt of 2022 must be offset in 2023. So launches would be around 35,000, 34,000 units. But that's not a KPI that we pay so much attention to -- what really matters is the sales volume. There is a huge land bank. There are several projects with permits. So launches are no longer a problem.

I mean, we'll launch in places that have the adequate profitability. So that's not the metric that we would consider an operational bottleneck. Of course, we have to look at that. But we have all the tools to launch them in the right place to have 40,000 net units of net sales. As for the second question, the program was readjusted after some time. There were two minor adjustments in August last year. And the second one at the end of the year, two small adjustments compared to the inflation that we had between 2019 and 2022.

And after a good discussion with the industry, with the fund and Caixa, the government announced 40 days ago, the new program that's now very strong. I think that the good side is that there has been a very harmonious high-level discussion among all stakeholders of the industry, government, Caixa, FGTS and some adjustments may be made from now on. The government has been very vocal in saying that it wants 1.6 million units on Groups 2 and 3. So Eduardo said, there's nothing new coming to increase the number of units even further.

There may be some correction in the higher price levels to decrease it a bit. So there won't be a lack of funds for the lower income brackets. So the government has signaled that for the change in the budget for 2023, saying how important this is for the current administration as an important public policy. So we believe that the budget will be reviewed again with the government, Caixa and the fund so that there's no shortage of funds next year or in 2025. It's a mature debate and we're trying to find the right size of the program and for it to be sustainable in the short- and medium-term.

Operator

The next question comes from Jorel Guilloty from Goldman Sachs.

Jorel Guilloty

I have two questions. The first is about Resia. I'd like to know whether you could provide some detail about the new type of potential purchases, other family offices, private equity, high net worth asset managers. What would be the trigger for them to complete sales? The second question is, if you could remind us about the composition of seasons for MRV inventory, BRL 12 billion currently? And what's the average margin that you foresee for the inventory units?

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Okay. I'll answer the first one, Jorel, about Resia. The purchaser profile, we have a nice dynamics with some purchases that are recurring, purchases in real estate investors. So these are specialized people specialized in the properties market. Many of them have a nice multifamily portfolio, like REITs, but not in states, players that have BRL 10 billion, BRL 15 billion in assets under management. The second question again.

Jorel Guilloty

It's about the composition of seasons in inventory -- more '22, '21, what's the composition of this inventory? And what's the average margin that you expect?

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Well, the average margin for these projects is around 32%, 33%, slightly above of what we have now, mainly driven by a better margin of new launches. As for the inventory, there's nothing -- virtually nothing to be so lower than 2021. So it's highly concentrated in products launched last year in the first half of this year.

Operator

Next question comes from Fanny Oreng from Santander.

Fanny Oreng Avino - *Santander Investment Securities Inc., Research Division - Research Analyst*

I'm sorry, I had a technical issue. I have a question regarding the value of inventory. You had a certain amount of units in stock in the Northeast. The cap was very short. And now with the cap adjustment, they are now part of the program again. So could you tell us about the sales of those units because they accounted for an important percentage of inventory units? As for the second question is for Resia. Could you talk about cost a bit? How is the cost of construction in the United States?

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

This is Rafael Menin speaking. Well, the inventory that was not in the program. In the Northeast, yes, Midwest, some smaller towns in the south of Brazil. So what was the snapshot before the program? 62% of the inventory was included in the program. So 30% was not. After the adjustment and the cap of Group 2 we're able to include close to 80% in Group 2 and 3, 92% of the inventories part of MCMV. Group 3 goes up to 350,000. Group 2 depends on the City of Sao Paulo (inaudible) that it's 245 to 254. In the interior of the state it's a bit lower. So a product created to be MCMV is a 100% -- close to a 100% included in the program.

What's not included is Resia that's much more expensive. Resia, Sensia -- correcting Sensia product that is an average ticket above BRL 500,000. So that's far from being part, it was created for a different market. And these customers either funded SBPE or is a direct funding. And we are selling more with our direct financing. The customers that have funding sends a customer from SBPE 20%, 25% and 75%, we are selling directly through IPCA during construction, IPCA plus one after the keys are delivered. And we have securities issued for this from time to time. The costs increased highly and we had to remove some products from MCMV, but this is no longer the case now with the adjustment made to the program. As for Resia, the cost of construction went up above inflation a lot.

Our average cost increased above 20% after COVID pandemic. In the last 6 months, the construction costs are flat. They're not going down, but they're not going up either. We believe that Resia may have a cost reduction coming from two important tools. First, there's still technological gains from processes to be included in the Resia construction process. And second, in the cities we entered recently, Dallas, Houston and Atlanta, the efficiency level is slightly lower than we have in Florida. Naturally, the second season that will improve and in the third season, it will reach the same efficiency level. So the cost will -- the gain will have -- will be from technology process and as the operations become more mature in cities we entered recently.

Fanny Oreng Avino - *Santander Investment Securities Inc., Research Division - Research Analyst*

The gain from processes would be (inaudible) you thought about creating a plant?

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Yes, this plant is already in execution. It's located close to Atlanta. It's a very cool project that will bring efficiency (inaudible). But in addition to that, there are several other small things that will bring incremental gains. So Resia still has room to present a healthier level. And as the cap goes down, the business plan of 30% is very feasible.

Fanny Oreng Avino - *Santander Investment Securities Inc., Research Division - Research Analyst*

The second question regarding inventory. You are accelerating sales. Since there's less competition in the Northeast, do you see an acceleration in sales of these inventory units?

Rafael Nazareth Menin Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Fanny, the new program, but the market dynamics, the market as a whole has increased prices in the last 12 months. The valuation of Caixa was out of balance considering this new cost matrix for the market and Caixa takes long to reach the right valuation. So we were running around our own tail, trying to bite our tails -- last year until we got to the right price. But now with the adjustments of the new program that is a very important tool, as said by program that is a very important tool as said by Kaka, we've used it in three leverages. First, to correct the sales over supply in a few markets where the sales over supply is not correct, although there are very few having a price gain above inflation in the second semester, 4% to

5% above inflation to increase the gross margin of new sales above the guidance of MRV Day and pro soluto. Pro soluto is the main leverage that we will use from now on, going -- having the pro soluto back to our historical average close to 13%. Was that clear?

Operator

This ends the Q&A session. For the final remarks, I would like to turn the floor over to Mr. Eduardo Fischer, the CEO of the company. Mr. Fischer, you may continue.

Eduardo Fischer Teixeira de Souza - *MRV Engenharia e Participações S.A. - CEO & Member of Executive Board*

Just to wrap up, we have discussed in last hour-and-a-half that we are on track. This is the main message we are delivering what we designed or even higher than that as discussed in MRV Day. We've been able to deliver, and we've done that regardless of these new incentives we discussed now regarding MCMV, and they have the potential to accelerate this process even further. So the operation is doing very well in the new seasons according to our historical levels and in some situations, even above that. So I'm very optimistic that we are on the right track. We are delivering what we proposed to do.

In the next quarters, we can expect an improvement of our indicators. We'll continue to do that. This is what moves us. This is our goal and our focus. As I answered to Pedro regarding the next steps, our next step is to deliver on our promise -- to have the company back to its historical levels of cash generation, leverage and sales. And we are on track and from now on, we can expect to be closer and closer to our historical levels. So we -- just to complement, we discuss costs. We see the good behavior of construction material prices, even some prices being reduced, which makes us even more comfortable in this recovery path. The industry is stable.

The demand is available. Competition is pretty much the same. Funding, which is a concern now is available. So we had a very strong imbalance in the last three years because of the disruption of the production chain. But now this is no longer the case. So we are on the right track and MRV will soon be back to its historical levels. And something to be mentioned is that in addition to the incentives from the federal government, My House, My Life, MCMV program, there is another important movement that's going on that's very important, which is the engagement of municipalities and state in housing programs in addition to the federal government's program.

So there are some states that are fully engaged with very important tools that help us not only to price but as Rafael said, to reduce the portfolio. There are different states and municipalities doing that more and more. And we see this engagement very well. They use few public funds (inaudible) in Sao Paulo that -- and that's another example of municipality engaged with the housing program. So we do have tools to deliver on what we designed even faster, okay? So thank you again and thank you for participation for attending, and we'll see you on the next call.

Operator

Have a good day. The conference call of MRV has now ended. We thank you all for attending, and have a nice day.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]
