



**Conference Call Transcript  
2Q11 Results  
MRV (MRVE3 BZ)  
August 10<sup>th</sup>, 2011**

**Operator:**

Good morning. Welcome everyone to MRV's 2Q11 results conference call. Today with us we have Mr. Rubens Menin Teixeira de Souza, CEO, Mr. Leonardo Guimarães Corrêa, CFO, Mrs. Monica Simão, Chief Investor Relations Officer, and Mr. Gerson Mazer, Investor Relations Executive Manager.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After MRV's remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator. Today's live webcast may be accessed through the Internet, at MRV's Investor Relations website.

Before proceeding, let me mention that 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 therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of MRV and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Rubens Menin Teixeira de Souza, CEO, who will begin the presentation. Mr. Souza, you may begin your conference.

**Rubens Menin Teixeira de Souza:**

Good morning, everyone. I would like to thank you for attending our call today, to release MRV's 2Q results. The main points I would like to highlight about MRV's business strategies are the organic growth strategy, the maintenance of MRV's operational quality, and the focus on cash generation. I have insisted that the organic growth would be the only way to ensure the sustainability of the Company and I believe that the supposed gain obtained by the M&A transactions will not be maintained in the long run.

With a highly qualified and distinguished team, MRV also differentiates itself on the quality of its operations. Proof of this is the consistent delivery of high margins over the past years. Every area is aligned to the Company's key objectives and has adequate structure to support the growing demand.

Finally, I would like to say that MRV is becoming increasingly mature in managing its financial cycle, which enables us to ensure a free cash flow generation in the near future.

I would like to pass the word to Leonardo Corrêa.

**Leonardo Corrêa:**

Good morning all. We present here our 2Q results. The markets have been extremely volatile lately. I would like to start by talking about a debenture we have just finalized. We issued and sold a



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R\$500 million debenture, with a final maturity for 2016. We cashed it in July, therefore it does not show up on our semester balance sheet here presented. On top of our operations, we hold a very strong and very liquid balance sheet that can withstand any market volatility. Our operational fundamentals have not changed. We hold a strong belief on the strength of the Brazilian economy and on the consumer, specially related to low-income housing. The *Minha Casa, Minha Vida* program is progressing at full steam. And if we are going to see any change on this program, it will be expansionary or further supporting the consumer; therefore, positive.

Coming back to our quarterly earnings, we have a consistent operation, building and delivering more units, but mainly maintaining our results and margins. This is the basic message from our slide six. We already have a team and a full structure and systems to support it.

On slide seven we show that the volume of clients financed by the banks grew 35% versus the previous quarter. We are closely working with our main partners, Caixa Econômica, Banco do Brasil, and Santander, to further expand this number. This expansion is the one that will allow the closing of the construction and delivery cycle and will result on cash generation.

Finally, on our slide eight, I want to talk briefly about MRV LOG, our property company subsidiary. Since the 3Q of last year, we mentioned we were aiming at expanding its operations. This July we closed a deal with Starwood Capital, a large and well-known American real estate fund. Starwood is injecting R\$250 million on an accretive valuation for the existing LOG shareholders. The clear and direct message I want to leave is that MRV LOG has a bright and promising future working on a market with a great pent up demand. LOG will explore this opportunity independently, out of its own professional team. We have just funded it appropriately in order to chase its opportunities.

Let us now move to the questions and answers.

**Robert Roell, Pioneer Path Capital:**

Good morning. I have two questions. The first, Leonardo, could you provide us with an update on how the budget assumptions are tracking and the overall gross margins for the year? And also maybe make a comment on, you made a comment in the press release on materials costs versus INCC; could you also comment on labor costs versus INCC? That is my first question, then I have a follow-up.

**Leonardo Corrêa:**

OK. First, on the gross margins, we have made an adjustment in the 4Q10 on some of the budgets, taking into account that we would be seeing some increase on the labor costs. They have increased in line with what we had forecasted. And so far, the execution of the budget has been very much in line with what we had in our numbers, so we are very comfortable in maintaining the margins going forward and keep doing the adjustments each quarter in such a way that we are not going to have the same kind of volatility we had last year. We are very comfortable with the maintenance of the margins and the quality of the operations going forward.

**Robert Roell:**



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OK. And then would you say your labor cost is in line with INCC labor inflation? Is it worse or better?

**Leonardo Corrêa:**

The labor has been growing higher than the INCC. We have seen some labor adjustments on the range these unions are doing in individual cities in different months. We have seen adjustments of around 5% to 7% on top of the consumer price inflation.

**Robert Roell:**

Do you think that gets worse or better going forward?

**Leonardo Corrêa:**

I do not think it is going to get much worse. We have already seen a substantial increase in the real estate workers pay. That was very important for the last years in order to attract people for the real estate sector.

We are seeing this process; in certain places we have already seen a very great attraction of people. Today we have around 28,000 people on our construction site, so we are being able to attract these people exactly because the real estate workers are receiving more money.

And in a way, we are already seeing this movement fading, in the sense that there is already a gap between real estate workers and the other sectors. And that is a big increase that has to occur in order to attract people that are functioning, and we are seeing people coming in.

**Robert Roell:**

OK. Thank you. And my second question, please, is on MRV LOG. You provided a lot more information, I guess, on the operations. One question I have is, for the total investment expected for the entire portfolio, the R\$1.6 billion in total investments, what do you expect the cap rate on the buildings to ultimately be? In other words, what do you think the market value of them would be based on the rent you can charge for the m<sup>2</sup> to be constructed with that R\$1.6 billion?

**Leonardo Corrêa:**

Yes. I will give you some numbers of things that we are doing. We have been executing and getting a cap rate of around 17%. The market is trading, slightly before this very large volatility started, but it was trading at around 11% cap rate. So, we have been able to execute, and come from the green field and to execute and take the benefit of that cap rate compression.

The money that we are injecting on capital, on top of that we are going to be leveraging the Company, so we are going to be able to fund the existing land that we have on the land bank, on MRV LOG.



**Robert Roell:**

Thank you.

**Eduardo Silveira, Espírito Santo Investment Bank:**

Hello. I have just one question. Could you please give us an idea of how much was the cost of the land bank acquired in relation to PSV? Thank you.

**Leonardo Corrêa:**

It is still in line with what has been historical, around 9% of the PSV.

**Eduardo Silveira:**

Thank you.

**Marcello Milman, BTG Pactual:**

Good morning. I want to have a sense on how many units you guys expect to complete delivery in the 2H11?

**Leonardo Corrêa:**

We are going to be finishing the year with approximately 20,000 in total.

**Marcello Milman:**

OK. And just to confirm, what sort of impact on your cash flow do you expect from this completion in the 2H?

**Leonardo Corrêa:**

There should not be any different impact during the completion of these units. As the vast majority of them are on Crédito Associativo, we are cashing those units as we build them.

**Marcello Milman:**

Perfect. Thank you.

**John Smith, Phoenix Investment:**

I just want to know what the strategy of land acquisition is and the size of your land bank, taking into account that your sales are growing at a slower pace right now?

**Leonardo Corrêa:**



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We have been launching much larger developments than what we used to do in the past. We have in the mid to large cities developments with more than 1,000 units. Some of those developments, given the size, they get slightly more complex in order to get the approvals. So, we have been increasing the land bank in order to take that into account.

**John Smith:**

OK. Thank you. Just one other question: what is the impact of the inflation and the higher interest rates for your clients? I want to know if it has been impacting your sales anyhow.

**Leonardo Corrêa:**

Our clients get the financing of TR + in average 6%. The fact that the Selic has been going up does not affect the cost of the funding, so that is also a benefit in the current environment.

**John Smith:**

OK. Thank you.

**Adrian Huerta, JPMorgan:**

Hi, Leonardo. Two quick questions. One is, again, on the units to be delivered. If it is going to be 20,000 or more for this full year, should we expect the number also closer to 50,000 in 2012?

And given that, when should we actually expect a positive cash flow for the Company? Would that be already in 2012, or can we see that already in the 4Q11? Thanks.

**Leonardo Corrêa:**

In relation to the delivery, this next year should be more on the 30,000+; that should be the pace for next year. In relation to cash flow, in individual months we may see positive months already in 2011, but as for the year the positive cash flow should be for 2012.

**Adrian Huerta:**

Thank you so much.

**Marcello Milman, BTG Pactual:**

If I may ask another question, with regard to land acquisitions: do you expect the 2H11 to be heavier or lighter than it was in the 1H11?

**Rubens Menin Teixeira de Souza:**

Marcello, we are thinking of buying land in the 2H, but not so much as in the 1H. We made a very huge increase in our land bank in the 1H, and we do not need to run very fast. But we will buy land,



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but not so fast. We are making more swaps in the 2H than in the 1H. That will be very healthy for us.

**Marcello Milman:**

OK. Thank you.

**Operator:**

Thank you. The Q&A session is now closed. I will turn the conference back over to Mr. Rubens Menin for final considerations. Mr. Rubens, you may give your final considerations now.

**Rubens Menin Teixeira de Souza:**

I would like to thank you very much for staying with us in this call. And I would also like to say that I am very optimistic for the near future, although the world is not playing very well, we have a crisis in the United States and Europe. Our industry in Brazil is very healthy, and we will be one of the anchors of the economy, and the policy of the Government will also help us to grow better in the future.

At this time, I am very optimistic with our business. I hope to see you in the next quarter also with good news, as we usually have done. Thank you very much.

**Operator:**

Thank you. This concludes today's MRV's 2Q11 earnings conference call. You may disconnect your lines at this time, and have a great day.

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