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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 2021.

Today with us are Rafael Menin and Eduardo Teixeira, the company's Presidents; and the CFO and IR Officer, Ricardo Paixao. (Operator Instructions)

We'll now turn the call to Mr. Rafael Menin, the company's CEO. Please, Mr. Menin, you may go on.

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

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 potential. 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, it's something that we have it, which is the operation in the American market by means of AHS. We know the American market with family income of \$40,000 to \$70,000 a year. And AHS defined as its scope of operations, cities and states of operation, those that grow the most, the Sun Belt. 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 U.S.

With that, MRV&Co., by means of all its subsidiaries, MRV, Luggo, Urba, Sensia, and 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. 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 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 strata in 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 U.S. have preferred to work at a higher income level market.

Well, to talk about its subsidiary, MRV is a company that runs like a clock. For several years, we have a 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 problems; unfortunately for the country, but fortunately for our industry and for MRV.

So the range [1.5 to 3] have huge demand. 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.

Urba, the second subsidiary, we created the company in 2012, is also a market niche with huge demand. What Brazilian most wants is to live in houses, and Urba is there to address the demand. This is a company that will grow in geographies in which we have been present for many years, and Urba will have growth on a well-paved road. We are quite optimistic. We launched a project in the first quarter. We sold it all. We are going to launch another one in 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.

Luggo, the same applies. Today, we have 0 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 are developments with everything that is most modern in terms of housing. We can rent in 5 minutes. We can check out in 5 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 format, a housing format for family income of BRL 3,500 to BRL 4,000, up to BRL 7,000 a month. So vacancy shows that this is a very right model, almost a 0 vacancy.

And we have other projects ongoing that we want to compete in '22 and perhaps follow on our FI and sell the developments. And we have several plots of land under approval. This is going to be a very representative subsidiary.

And AHS, as we mentioned, a 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 strata in which AHS operates.

It has 8 projects now at different levels: 2, a bit more recent; the other 6, already stable. And these 8 projects altogether have a PSV of approximately \$370 million, and we expect to complete the sale of these developments along the year of '21, which 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 a pandemic in Brazil.

We recently went through unexpected inflation in the beginning of last year, perhaps the highest in the industry in the past 5 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 commodity cycle. But perhaps a valuation of the real, 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 incomparable in the Brazilian market. And MRV&Co., the real estate company, is today exposed to the largest market, except for the Chinese companies.

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

Thank you, everyone. 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, BRL 1.6 billion, which is above the results that we had in last year, basically because of net sales of BRL 1.62 billion and the production of 9,000-plus units.

Then [MRV], we had a gross margin with a slight drop, closing at 27.8%, and that reflects pressure on the raw materials that 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.

Commercial expenses showed a drop year-on-year and also quarter-on-quarter. And here, we see room for higher efficiency gains. You know that commercial expenses over total sales are going down.

Admin expenses in the real estate development is at 6% of the overall, and the increase of expenses basically comes from subsidiaries that are growing. The highlight here is Luggo, 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 BRL 137 million. This is 31% higher than last quarter -- I'm sorry, the first quarter last year.

And we had BRL 100 million of dividend payout.

And we have investments in the ramp-up of the (inaudible) 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 rented went from 14.6% to 13.8% year-on-year. All 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

(Operator Instructions) Our first question comes from Alex Ferraz, from Itau BBS.

Alex Ferraz - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

I have 2 questions. The first is with regard to margins. You talked about some of your innovations, replacing parts of the concrete wall by fiberglass, drywall. 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're having on concrete wall prices?

And second, cash generation. Basically, your debt covenants. One specific covenant is net debt to be paid by acquisition. You're very close to your covenants. 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?

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

Alex, this is Fischer speaking. I'm going to answer your first question, and then I'll turn to Kaka to answer the second.

Margins. Well, none of the actions that we took and the changes that we implemented are palliative. We have a very strong and innovative engineering team, and several of the innovations that are being rolled out now were developed along the last years. Fiberglass, as you mentioned, is something that we have been working on for more than 2 years, and we have already performed tests. And when the steel prices went up, we quickly rolled out the decision that was made.

So we have it in the pipeline, and we are already starting off constructions with this mode. And there is no reason for us to go back, only unless the ratio between steel and fiber changes.

And the same applies to drywall. We had several developments of working with drywall. We identified the advantages. And now because of costs, we decided to accelerate in terms of 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 a pressure on margins and an increase in prices that we felt in the turn of the second half of 2020. The first peak did stabilize, but we think there is still more to come, although the current moment does not show that.

And we are addressing those issues somehow. First, with constant innovations. And also with prices. We are increasing our prices. I think that you are monitoring that. The advantage is that we have a product that is better well located, with very good quality, and that translates in good liquidity and capacity and elasticity 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 or Casa Verde e Amarela program. So we have room to increase prices, which we have been doing without affecting demand or the contracted sales volume. So this is important.

I'm going to turn to Kaka for your second.

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

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 2 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 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, 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 pro soluto 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 regard 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.

Operator

Our next question comes from Pedro Hajnal, from Credit Suisse.

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

I have a quick question. It's with regard to AHS. You talked about 1 more project, and you're going to stabilize the number of projects to be sold. If I'm not mistaken, you said that a 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 were thinking is going to be like? Are you going to have a huge income of cash in a lump sum? Is it going to be more spaced? What is it going to be like?

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

Pedro, this is Rafael.

Payment. Generally, it is on site. All the transactions have been on site, and it should be the same for the portfolio. The 8 projects I mentioned are ongoing at different stages. In fact, we have 3 buyers, each looking at part of the portfolio, and it is possible that we have the closing of the sale of some products 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 word, we are convicted that the 8 projects are going to be sold in the year of 2021, perhaps 2 developments in the first half and the other 6 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 8 properties in 2021.

Operator

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

Nicole Inui - *BofA Securities, Research Division - VP*

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 in inventory to understand when you 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 construction? Just to try and understand how the market is being impacted as a whole.

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

Nicole, this is Fischer. Okay. In terms of advancing purchases, well, how do we work? Well, obviously, we have major negotiations because of volume that have defined periods. When the suppliers say that they have to renegotiate prices, we feel that increases will come and we can have a color of numbers for the future. 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. 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 a movement in the fourth quarter last year that extended to the first quarter this year. We are going to see this decelerating because this immediate pressure is lighter. But whenever we think it's fit, we are going to do it again. And that's the rationale.

We always look at suppliers' demand, 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 this 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 higher power of negotiation.

But I do not see a systemic problem, construction is going to delay. I don't see it happening, and I don't think it will. I think MRV, as the largest player in the market, sees 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?

Nicole Inui - *BofA Securities, Research Division - VP*

Yes, you did. Very clear.

Operator

Our next question comes from Andre Mazini, from Citibank.

André Chaves Mazini - *Citigroup Inc., Research Division - Assistant VP*

First question, about covenants once again. So we see the 0.65 covenant (inaudible) 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 3 quarters with this covenant to 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 Terrenos Fund. Could you give us a bit more color on that?

And my second question is the acquisition of MRL, with BRL 63 million, at BRL 24 million of spread a year. So it is a developer. 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.

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

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

If we don't meet the covenants for 3 quarters, we would have a problem, but this is not anything that we are considering. Not 1 quarter, let alone 3 quarters. So this is very much under control, and we'll see the numbers getting better as the year develops.

And the land funds, the Terrenos Fund, or the land bank fund, the idea is to close with an investor, and then we'd buy land with the funds of the investor. It is as if the investor paid on-site to the landowner and the landowner will then sell it cheaper at a longer time, and we pay the investor by means of a financial swap, corrected by interests along the way. So that's the idea of the land bank fund, the land fund.

MRL is a subsidiary of MRV in Rio de Janeiro. Since its inception, the idea was acquisition of this operation. And what we are doing basically is the following. It's almost the Rio de Janeiro regional branch, real estate development, working at the low-end market. It works with Luggo as well. So it is 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, well, 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 the acquisition with lots of comfort in a natural movement because we already knew what we're buying. We are buying -- instead of buying a sharing project, we decided to acquire the remainder of the company. And in 3, 4 years' time, we are going to see the MRL operation fully consolidated inside MRV.

Operator

Our next question comes from Ygor Altero, from Santander.

Ygor Gomes Altero - *Santander Investment Securities Inc., Research Division - Research Analyst*

First question would be a follow-up on gross margin. You talked about the increases in prices. But still, you haven't offset your costs. So how do you see the dynamics along the year? What should we expect for the remainder of the year? In the first quarter, it's likely 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?

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

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 up steeply, especially steel and concrete, which were the most representative in the third, fourth quarter and even 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 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, Urba has a very high gross margin, [above the] Minha Casa Minha Vida program. And it just is not consolidated line by line; the result is in others. 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 Kaka that is going to answer your question on financial results.

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

Ygor, well, you know that we have a receivables portfolio today at about BRL 2.5 billion, half of it before keys and half after keys, all with financial corrections. The first is based on INCC; and the latter, IPCA plus 1% a month. 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 effect, we have a swap that was conducted of a debt in AHS. It was a swap that went to LIBOR (inaudible). The swap also brought us a positive result.

But most of it comes from INCC and IPCA corrections.

Operator

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

Bruno Mendonca - *Banco Bradesco BBI S.A., Research Division - Analyst*

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 the net debt-equity ratio for these developments?

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

Bruno, the AHS project was to get by 2025 with 5,000 units a year. We are working to advance this result. And even more important than that, today 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 a deadline for 2025, but to the end of the decade. But we are sure that AHS is going to have an important weight in our portfolio along this cycle of growth of the company. Certainly, because of the exchange rate difference and the value of the unit. Today we sell the unit at approximately [\$240,000 per unit]. So if you talk about 5,000 units, you're talking about \$1.2 billion. At an exchange rate today, that would be a company of BRL 6 billion. So we think that this company can grow, and beyond that.

MRV, we generate today a business of 50,000 units a year, 22 states, 162 cities. So our know-how of managing a vertical business at a very large geographic footprint will benefit AHS, because this is a subsidiary of 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 excelled by large.

I'm going to let Kaka answer your question on construction funding. Kaka?

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

Bruno, well, it's a pleasure to talk to you once again. What we see is the following, Bruno. AHS development, the sales of these assets, a part of the resources come from the sales of these assets, which is what we're 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, [grow back] and investment funds, to contribute to the funding of construction of the remainder of our properties.

Bruno Mendonca - Banco Bradesco BBI S.A., Research Division - Analyst

If I may, just a follow-up in the previous question. Ygor asked about your receivables in pro soluto. Is it natural to expect this client to have a higher likelihood of delinquency? Do you think these clients can support the kind of readjustments 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.

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

This is 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 payment. So IPCA plus 1% 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 those rates. It's different from rental contracts that were with IGPM on our 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.

Operator

Our next question comes from Morgan Stanley's Jorel Guilloty.

Wilfredo Jorel Guilloty - Morgan Stanley, Research Division - Equity Analyst

I have 2 questions. The first is about the cost of inputs in the U.S., especially with AHS, cement and others. And I would like to know if that affects what you think of the potential yield costs

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 if you can lower those inventories to generate cash and lower also your indebtedness.

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

This is Fischer. Okay. AHS, what we have been observing. We are able to take from Brazil to the U.S. the construction process that is used in Brazil, which does not exist in the U.S. We were able to get permits to be able to work this way. And we have a competitive advantage.

Although steel and concrete prices went up in the U.S., they went up less than wood, which is the main input of construction for our competition in the U.S. So that brought us even greater competitive advantage, in addition to AHS being a vertical company, which is not common in the U.S.

In addition, there was an additional advantage of our process being taken to AHS, which is productivity. Labor is very hard in the U.S. It has always been, and it's getting even harder, especially in civil construction. And the productivity of our process is higher than that, that uses the traditional wood. We have less processes. We use less labor. So we're 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. And that obviously generates huge benefits for us, working with a lower inventory and generating cash faster because we are selling faster.

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 ring levels.

Operator

Our next question comes from Gustavo Cambauva, from BTG Pactual.

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

I have 2 quick questions on my side. The first, if you could please talk a bit about Sensia. You had this first launch in the first quarter. Could you talk about the expectations of growth for this arm, how much you think you can reach in terms of launch volumes, and if next year you can get to BRL 1 billion, BRL 1.5 billion? And also if you could talk about the 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 Sensia?

And my second question is if you estimate any impact in your operation due to the change of the subsidies curve, if you looked into your operation and saw if you can have an impact there.

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

Let's talk about Sensia. Well, the first development did very well. It is located in Campinas. The margin is above the average margin of Minha Casa Minha Vida. It's 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 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; in 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 is probably get to 5%, 5.5%, the cost of funding is the savings account, which still gives the banks a very reasonable spread. So at this level of 7.5% plus TR for the client, we believe the segment is going to be very important and will certainly add to our portfolio. We think we are going to get to 4,000 or 5,000 units a year. This is very reasonable. And we have the second premium line, which is right below Sensia, that also uses the SBPE fund. And these 2 lines will probably account for 10,000 units a year within 3 years' time, approximately. So an average price of BRL 300,000, you might have a company of about BRL 3 billion a year in the future.

As for subsidies, (inaudible) have been discussing with the government the various expectations for changes, but nothing really impactful. And if there is an impact it will probably going to be positive. In recent discussions, we see that we are going to have a slightly positive impact in our business.

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

Just another question. In those discussions, are you talking about an increase in the cap of Minha Casa Minha Vida prices?

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

Well, the cap is not a concern. With this level of interest in SBPE, when the product gets close to the cap, most times, those clients will go to SBPE. In Range 3, which are the clients that buy at the cap, SBPE today 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 from Marcelo Motta, from JPMorgan.

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

I would just like you to talk a bit about guaranteed 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 it a very strong quarter or what are your expectations.

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

Motta, this is Fischer speaking. Well, indeed, we had something that partially is converted into sales in the following quarter. Other parts 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 models so that everybody can see prospects clearly. And the idea is to capture 85%, 90% of the sales in the coming quarters. And the amount that was mentioned is going to continue. Part of it is really turning into concrete sales in the coming quarters.

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 Teixeira. Please, Mr. Teixeira, you may go on.

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

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 going through periods of a compression on margins because of increase of costs, as we can all see. But we can see it 2 ways.

I always say that MRV is addicted to the long term. So today, we were discussing our strategy for the next 5, 8, 9 years, thinking of different segments and capturing a demand for property in Brazil and the U.S. And we are very optimistic. We do not only have the ambition to capture this market, but also the competence to do so. And very few companies can say that.

And along time, and we continue to do so, we invested in gaining efficiency and being innovative. And that is true for our software and hardware. And just what we said, all these investments from steel to fiber, this change of processing to drywall, both that date already 3 years back, different frameworks. So we are always looking into innovation.

At MRV, we developed a technology in-home that will bring us gains in quality and 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, an 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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