

4Q21 Conference Call – EZTEC

Pedro Lourenço:

Good morning, one and all, and welcome to EZTec's results presentation for 4Q21.

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Now I would like to present myself. I am Pedro Lourenço, IR Coordinator, and here with me in the room, it is Mr. Emilio Fugazza, our CFO and Investor Relations Officer, who will further talk about the financial figures in this presentation.

Now, moving forward, I would like to start on the third slide, where we are going to start talking about the launches of 2021. And here we will be able to see that we launched something close to R\$1.9 billion in PSV.

Talking about the more recent launches, the main spotlight is on Unique Green. Our first phase that we launched in the last quarter, a project that is something close to R\$367 million, 100% stake EZTec's in where you will be able to see that he is already 52% sold.

Along with, we launched another project that is split in several phases, that is Pin Osasco's, project is only R\$41 million stake EZTec's 60% stake EZTec's and it is 18% sold. On the bottom of the slide you will be able to see all the other launches that we made in the previous year.

Moving forward to slide number four to our operational performance. I would like to highlight the chart that is on our left, that is showing you the launches and the sales in terms of PSV. And then you will be able to see the majority of our sales, the majority of our launches that we made that 1,9 billion we just talked about. We made it, we only sold 400 million of them. This is the main challenge that we are carrying with this new year of 2022 to be able to address all of these inventory under consideration that has been made in the last year.

Now going to the right part of the slide, I would like to emphasize about the reconciliations. In 2021, we had R\$127 million in terms of consolation, on average, something close to R\$ 30 and 40 million per quarter. This volume of consolation is very close, very near to 126 million in consolation that we saw in 2020. So the Company was able to maintain the same amount of consolation, despite all the challenges and errors that occurred in the last year.

And even when we talk about the net sales, you will be able to see that we kind of maintained the same amount that we have done in 2020, now in 2021, made something close to R\$1,2 billion in net sales.

Moving to the slide number five, let's start talking about the landbank, and here you will be able to see how our landbank changed across the last quarter, and you will see that it kind maintained the same amount that we had in the 3Q, despite for almost R\$500 million that we had in launcher's. We had some changes and brought it here specifically and addressed the situation by INCC that is correcting our landbank that made us finish the 4Q21 in R\$11 billion in our landbank.

Alongside of it, we have options with consolation calls that are in something close to R\$2.6 billion. So our landbank for further is something close to R\$14 billion. In the bottom part of the slide, you will see that the majority of this land is well located in the South Zone of Sao Paulo. Something close to R\$7 billion, of these R\$11 billion in the bank is located here in this normal part of the City, where we focus the majority of our recent launches.

In the chart on your left, you'll be able to see that something close to R\$5 billion is medium and high end project with the brand EZTec, 2,6 inside our low end project, our economic project that is attached to our brand Fit Casa and 3,8, something close to R\$4 billion inside our EZ bank our bank for commercial segment.

Now talking about the inventory. You can see in the chart on your left the dispersion, the regional dispersion of our inventory, and then you see that the majority is focused, it's concentrated in the South Zone of Sao Paulo, 72% of it, and in Guarulhos, in the Sao Paulo metropolitan region, 11% of it.

And talking about the segment and dispersion by it, we can see that the region in the red part of the chart corresponds to the commercial inventory that the Company is currently carrying. It's important to point, that the majority of this commercial inventory is already rented. So it's giving some rental revenue for the Company and in the charts a bit below is where we will be able to see more clearly our inventory under construction and how we made this challenge to go across this 2022 year.

The majority of our inventory is not ready, so only 12% of it is ready units under our inventory and something close to 60% of it is inventory that corresponds to projects that were launched or are under construction inside the city of Sao Paulo. So those are operational figures. I would like to pass now to Mr Emilio Fugazza. We will start to talk about the financial performance of the Company. Mr. Emilio.

Emílio Fugazza:

Peter, thank you so much. Let's go to page number seven, financial performance net revenue. On top left of this slide, we started with R\$958 million in 2021. Was a little increment compared to 2020, although within the quarters, in the 1Q, 2Q and 3Q, was a growth compared to the same quarter 2020. 4Q21 was not good enough to improve or to keep the idea of net revenues growing this quarter, specifically because we have been suffering a lot of implement costs.

Only to bear in mind, when we talk about cost, It is important to understand that for five quarters in a row, we have been adjusting our costs in our accountancy, over 50% above the INCC index here in Brazil, which means that the cost the Company have been facing,

specifically in the city of Sao Paulo, the projects, with this shapes, with this designs, we have been developed here in the city of Sao Paulo it is a little bit different than the average projects from the INCC.

Which means that the gross margin of our Company is specifically impacted from this increment in costs above INCC, and plus the volume of sales from units, not performance so far, which means that when you think about the first three quarters of 2020 we saw coming from revenues, an amount of unions put forward with gross margins above 50%, specifically because they are from projects we believed within 2019, 2020 or earlier than that.

Apart from that, it's important to mention that we have been facing a kind of thing in terms of construction costs that is completely different from what we saw in 2010, a year that we saw a spike in construction costs, less than almost one year at that time. Nowadays, it is a little bit different. The first impact from this cost was the mismatch we have been watching in the supply chain here in Brazil specifically.

Apart from that, the commodity costs, mainly steel. The spike in steel's cost was something around 200% in the last two years. But apart from that, nowadays that news coming from Europe, the war between Russia and Ukraine means that the supply chain is disorganized again and we do not know for sure what kind of impact it can provide.

But the way we have been dealing with our accountancy in terms of booking costs is something like that. We have been watching the exposure. We can see it. We have it, we got it from some kind of suppliers, some kind of materials. And as we have got something around the sites under construction in the city of Sao Paulo we can understand what is happening in one of them, and trying to understand what that kind of specific impact can be seen in the other sites of construction. And then we can book an adjustment over those costs.

And that is why, although we have been watching an increment in gross margin from 43% in 2020 to 46% in 2021. The specific margin of the 4Q21, it is below what we saw in the 3Q21.

Saying next, talking about selling expenses. Selling expenses is pretty much in line with what we saw in the past four years, so the ratio between publicity and stance or the more we have been doing, over gross sales, it's pretty much 4%, which means in line with our main targets for those expenses.

In terms of G&A expenses, 2021 was R\$113 million, compared to R\$105 million one year earlier, which means something around 7% increments, which is less than IPCA. IPCA last year was about 10%, so we could manage those expenses in order to keep those in line.

Moving on to the slide on page number eight. Page number eight can provide a quick glance about the financial results. Financial results was R\$168 million, which means almost 40% of the total amount of net profit gained by this Company in 2021, which was pretty much the same result of 2020. But the composition, the breakdown of those are completely different.

2021 obviously the key factor for these amounts of positive financial result is our assets coming from, our results, coming from the portfolio of performing the receivables. But now, specifically in the second half of 2021, we saw great increments in terms of compensations over the cash this Company has as the basic risk taking in Brazil is coming from 2% at the beginning of this year to almost something around 11%, nowadays it is about 11.75%, which means that almost R\$1 billion is impacted by this amount of interest rate gaining ground here in Brazil.

Another key factor for good results in 2021 was the equity income projects, which means that our projects we have been doing in partnerships, both in the middle income segments, in low income segments and high income segments.

2021 was something around R\$7,7 million, and I would say that the highlights from this are the projects coming from the branch, *minha casa minha vida*, *Fit Casa*, the low income programme of our government with the branch in EZTec, is *Fit Casa*.

We have already delivered two projects from this branch. In both the two projects we see a lot of our budgets incrementing the margins, the gross margins of the projects, coming in from the equity income brackets. Let me highlight that the gross margin on the project in the 4Q21 was about 44% above the general and the average gross margin of our income.

Net profit came at R\$430 million, an increment of 25 million compared to 2020. Net margin of 45% an increment of 2p.p., which is good enough given this scenario we have been passing through. And in terms of backlog results in the bottom right side of the charts you can see R\$324 million of results to be recognized and a backlog margin of 42%.

It is important to highlight here that this increment of 3p.p. in margin means that some projects offer very good margins above 45% were delivered up to the 4Q21, which means that all the revenues we recognize so far, and obviously the average wave of those projects it is partially responsible for this increment in margins.

Apart from that, the projects recognized from launches in 2021 are projects that we can see margins coming, I would say below the average 45% we saw in 2020. Projects like *Arkadio*, for instance, are projects in the middle high income segment in the South Zone of Sao Paulo, you are going to see coming in line with the average gross margin of EZTec at 45%.

On the other hand, you can see *Dream View Vila Prudente*, as Pedro mentioned before, is a project in the East Zone of Sao Paulo, a very good project, but so far the recognition of revenues are coming at 38% gross margin. On average, it is something to expect 42% gross margin. Apart from this fact, I would like to highlight another key factor in terms of gross margin and backlog margin, which means it is a proxy of gross margin in the next coming quarters.

We have payments in advancement for the supply chain here in EZTec, coming from R\$20 million in 2020 to R\$100 hundred million in 2021, which means that the Company has been doing a very good management in terms of trying to deal with this increment in costs, buying in advance a lot of materials, especially some kind of commodity materials, in order to, I would say, to avoid incremental costs.

All those materials are stored within four, five pieces of land. We have spread all over the city of Sao Paulo. And as we are a very great player here, big player here and holding more than 40 pieces of land, we have plenty of space to do something like that, which means that R\$100 million means something around one or two months of percentage of completion, not recognized so far.

Because when we pay materials in advance means that we have this disbursement of cash and I am recognizing in my accountancy as payment in advance to the supply chain, but we are not recognizing costs under construction, actually costs under construction to fulfill the percentage of completion in terms of recognizing revenues.

So our, I think, our mindset is to deal with these costs in order to keep the margins at historical levels for EZTec, which means above 40%.

Coming to slide number nine, the portfolio of performed receivables, I would like to highlight here that we ended up that year at R\$384 million. In terms of total of clients declined from 600 clients in 2020 to almost 1000 clients in 2021, meaning that R\$622 million were payment in advance for them, acquaintances specifically, trying to migrate from EZTec's financing project to the banks, to take commercial, borrowing mortgages from the commercial banks, specifically because we had on average 10,3% plus IGP, which was almost 33% the full year of 2021 to the clients and the majority of the commercial banks on average provided something around 7 to 8% all in interest rate to his clients.

So the clients with enough capability could bring those contracts to the bank in order to save these increments of spreads. That's not the kind of thing that we have been watching, we have been facing, in the first two months of 2022, on the other hand we have been facing some incremental contracts coming to our portfolios specifically because the commercial conditions to those clients are, I would say, getting a little bit worse for them.

So it's highly expected to see the portfolio of performed receivables increasing by the end of this year, 2022.

On page number 10, the highlight is the financial performance on Fit Casa. Fit Casa, as I said before, is our branch for Casa Verde e Amarela, a low end product coming from the government, highly managed by Caixa Economica Federal here in Brazil.

Fit Casa was responsible for 56,3% of gross margin at the 4Q21. On average, the full year, 2021, was 51,7% gross margin and net profit of R\$68 million, which means that almost 15% of the whole amount of net profit coming from EZTec, 15% belongs to this branch.

We have nowadays, five projects under construction. on this branch, three of them in partnership. One in the city of Sao Paulo, one in the city of Osasco, the other in Guarulhos in partnership with Cyrella and BP8.

And two projects completely managed by EZTec, one is called Fit Casa Alto do Ipiranga to be delivered by the end of this year providing savings in our budgets. And the second one, we are beginning the construction of this project, which means Fit Casa Jose Bonifacio in the far East Zone of the city of Sao Paulo.

The big highlight of this slide is the return on equity of Fit Casa's branch which means 21,2% return on equity. The shareholders equity of this branch is about R\$400 million.

Moving on to page number 11. Talking about assets and liabilities coming from EZTec. Let me highlight the assets first. Firstly, in the cash and equivalents coming to R\$900 million almost 23% of the total amount of equity in this Company. The performed receivables from finished units, R\$579 million.

Let me remind you that I told you before, 380 are completely managed by, in our portfolio of performed receivables, which means that another R\$200 million are receivables coming from projects that we have almost, delivered in the 4Q or in the 3Q21 are the timeline for being sent to the banks, to bring the contracts to the banks to transform this 200 million of receivables into cash for our Company in the next two to three months, so far.

Another kind I would like to highlight is the cost of the ready inventory. As Mr. Pedro mentioned before, the total amount of the portfolio of units, performance is about R\$500 million and so far the cost of this inventory is about R\$242 million, which means that the forecast for gross margin in this inventory, it's about 50%.

Landbank is R\$1.3 billion. R\$1.3 billion is compared to the R\$11 billion Mr. Pedro told you before on the slide of landbank, which means that the ratio between cost and potential sales value can be around 12%, let me add that this 12% includes grants and Cepacs we have been booking in our land in order to increase the potential of the land. So all in all, the finished costs for this landbank at the end of 2021 was R\$1.3 billion.

In terms of liabilities, I would like to highlight that R\$102 millions of dividends to be paid. The table lands that we got so far coming from these R\$11 billion of potential sales value is about R\$200 million so, compared to the assets, 1.3 billion in landbank 200 means something around 15% of the total amount of the landbank to be banked in the next coming quarter.

And only, and let me say again, only R\$23 million of debt, meaning that the total amount of debt that this Company has been carrying the whole year of 2021 is about R\$23 million for a total amount of shareholder's equity of R\$4,2 billion. That is possible specifically because we saw in the last two years, a lot of payments in advancements coming from our clients.

And from these cash and equivalents, you can see on the assets chart of R\$900 million, something of around 40% belongs to the projects, meaning that there are, we have deposits specifically from each project under construction right now. And so I have to use this amount of money before borrowing any kind, any single penny from our finance project. And that's why so far it was not necessary to borrow money from the banks of project finance.

Moving on to slide on page number 12, the subsequent events. Here, I would like to highlight that on this slide is mentioned R\$405 million of PSV around launch. The budget is a little bit more than that because we have acquired a project at the very end of the 4Q21, and the numbers of this project, potential sales value and the units sold we are gonna release within the earliest result of the 1Q22, which means that so far we have already launched something close to R\$5 million.

But from those projects right here, the good news is the speed of sales of those projects. We are open to the clients a little bit earlier than the Carnival here in Sao Paulo, which means one month ago for those projects, in February. And we saw Expression Ibirapuera being sold 42% off potential sale value at almost R\$180 million.

Exalt Ibirapuera, small apartments, something around 40 to 50 square meters, R\$228 million potential sales value, we saw 27% being sold at the beginning of this launch. Exactly as we saw in the 4Q21 the speed of sales of projects to be launched is so good.

So it means that we have in some kind of neighborhoods, and some kind of zones here specifically in the city of Sao Paulo, no matter what kind of apartment it is, we have been watching the final users very interested about buying something because they know for sure that with these amount of inflation we have been facing, the amount of problems and severities that the world is facing right now, a good place to be is real estate. This is the kind of a Brazilian mindset. And we saw and we have been seeing a very good pace of sales in the launches of EZTec.

Finally, I would like to mention two kinds of subsequent events very important to our shareholders. First of all, the partnership between EZTec and Consultora Adolpho Linderberg.

Consultora Adolpho Linderberg is a very old friend of EZTec specifically, because since we have been public, 2007, together we launched something around R\$4 billion in project, so an average of 44% of gross margin and that we have got so far something around R\$1.3 billion in net profit coming from this project, which means it is in that state, was something close to R\$1 billion coming from the partnership in the specific projects we have been doing so far.

Meaning, that from the total amount of net profit EZTec provided in the last 15 years, Consultora Adolpho Linderberg was responsible in partnership to provide something around 20% of this, which means that they are an old friend. And here the management and controlling shareholders of EZTec pay high respect to the management of Construtora Adolpho Linderberg.

Apart from that, Construtora Adolpho Linderberg has been public since the 1970s. is one of the oldest names on the city of Sao Paulo, and they were truly responsible and fully responsible for the development of a lot of very good projects, very high end projects in the South and West Zone of the city of Sao Paulo specifically, in Jardins neighborhoods, which is a kind of neighborhood very close to Paulista Avenue. So a lot of the high end developments coming from that area are coming with the brand, Adolpho Linderberg.

In the last five to six years they were truly responsible for very high end projects nearby, specifically in Itaim, very close to the investment banks headquarters, projects that have been sold for R\$30, R\$40 thousand per square meters in a very good gross margins in line with the gross margins developed by EZTec through these years.

This partnership, there is a kind of approval that we have passed through, but there is or there will be two kinds of both of the steps. First of all, it is only a JV. Six years of this whole JV embarked on a partnership to develop a R\$1,75 billion in launches and which requires something around R\$130 million of investments within the first two years.

So apart from that, Construtora Adolpho Linderberg will propose in a shareholder's agreement that EZTec has the rights to a subscription option within four years, within two years after the first minimum period of four years. So within two years. So in the fifth and sixth year of this partnership, we can exercise this right and share the controlling shareholders group within the current shareholders controlling group of Construtora Adolpho Linderberg.

All the money we are going to provide is a primary offer. We are not going to pay any single penny to the current controlling shareholders group in order to buy this amount of stake. So all we are going to provide is financial support to this development.

The financial, I would say, skills of managing in hard scenarios like this one we have been passing through and they are going to provide their expertise to develop high end projects with very, I would say, cutting edge technology of construction for these specific kinds of public, this low end public with high, or higher quality of construction.

That is the kind of thing that we put a lot of effort into, it was more than one year of discussions with them. And it is a kind of partnership that we are very proud to announce. It is a very big name to be in partnership with EZTec.

So apart from that, the last kind of subject here is the distribution and given the position of cash we got so far, we have so far. The board of directors has approved R\$102 million of minimal legal distribution dividend, which means 46 cents per share, and we are going to pay as soon as possible.

And that's why we are disclosing that the Ex dividend negotiation date will be March 23rd of 2022, which means that three days from now, it is going to be the Ex dividend negotiation day to pay within 10 to 12 days the dividends to our shareholders. Saying that I would like to thank you so far for the audience and we are completely able to answer any further questions. Thank you so much.

Pedro Tadeu Lourenço:

Thank you, Mr. Emilio. We will now open the call for the Q&A session. In case there are any, we will get the question from those who will use the function, raise hands available at this Zoom tool. And then we will let you proceed to pick out of those questions that are in the chat box. So for those who would like to make your questions, please let us know.

So since none of you raised your hands, we understand that there are no questions. So we are going to proceed to the end of our conference call. And we would like to thank you all for your time, for your time listening to us and understanding the Company results. So our conference call for the results presentation is over. We thank you all for the attention and have a nice day and have a nice weekend. Thank you all.

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