

# CONFERENCE CALL 1Q23

**PEDRO TADEU LOURENÇO:**

Good morning, ladies and gentlemen, and welcome to this video conference to discuss the results of 1Q23 of EZTec.

I am Pedro Lourenco, Head of IR in the Company, and today with us, Silvio Ernesto Zarzur, Board member, CEO, Chief Development and Commercial Officer; Flavio Ernesto Zarzur, Vice Executive President and Chairman of the Board, Mr. Marcos Ernesto Zarzur, Member of the Board; Marcelo Ernesto Zarzur, Vice Executive President; and Emílio Fugazza, our CFO and IRO.

This event is being recorded and all participants will be connected in listen-only mode during the Company's presentation. Later, we will begin the Q&A session, when further instructions will be given. Should you require the assistance of an operator, please use the chat. Should there be a failure in the connection, use the links available on our IR site. Also on our site, you may find the slides for this presentation in the download section. Information is available in BRL and in BR GAAP and IRFS.

Before proceeding, we would like to mention that any forward-looking statements that may be made here relative to EZTec's business outlook such as projections, operational and financial targets is based on beliefs and assumptions on the Company's management and on information currently available. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they refer to future events, which depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future performance of EZTec thus conducting to results which differ materially from those expressed in such forward-looking statements.

I now turn the floor over to Mr. Fugazza, to begin the presentation. The floor is yours, sir.

**EMÍLIO FUGAZZA:**

Good morning to all. It's always a pleasure and honor to be here to discuss the results of the 1Q23.

And we start on a slide with launches in the quarter, and we are pleased to announce the first launch in partnership with Lindenberg.

We created this partnership in 2022. After 13 years working together, we have a very strong relationship with Lindenberg. So we start with Jota by Lindenberg at Gregorio Serrão Street in the region of Vila Mariana in Sao Paulo with a PSV, our share of R\$127 million, and the launch took place in February. 32% of it has been sold.

This launch gives us a lot of strength to move on. We have been gearing our best efforts to launch Lindenberg Ibirapuera in the region of 23 de Maio, in Paraiso, where the IBM building used to be very close to the Ibirapuera Park and our share is practically R\$600 million. The sales suite is open, and we should start selling this flat in 2Q23.

Speaking of our operational performance, we saw sales grow in 2023, in this 1Q. If we compare with the whole of the average of 2022. We sold R\$414 million, and this was after a convention that we held, a sales convention attended by over 1,800 sales professionals, and that helped us kickoff 2023.

It's also important to say that net sales were R\$366 million, but remember that part of the cancellations, more than R\$20 million, were upgrades and downgrades. And therefore, there were cancellations on one side, but we sold, on the other side. The cancellations were only for R\$26 million, and this places us in a uniquely position in terms of cancellations.

On the next slide, I would like to mention the deliveries, which is a very important topic in 2023. It will be a year for the Company where we will have the most deliveries ever. We have a table here and in 1Q23 we delivered the Z Ibirapuera project, which was so 100% fully sold. In 2Q, we should deliver Meu Mundo Estação Mooca where we are developing a project under the Minha Casa Minha Vida program, and then Jardins do Brasil. Our share is over R\$200 million, and this is being held in Osasco.

In 3Q, we have Parque da Cidade and some other projects in Guarulhos, such as Giardino, Piazza and Internacional under the Minha Casa Minha Vida program, which is being delivered and all the costs have been accounted for. And then in 4Q, we are going to deliver Air Brooklin, R\$400 million, 84% has been sold, and then Eredita Mooca also, with sales going very well.

Then we mention the inventory. The inventory at the end of 1Q23 was R\$2.5 billion. I would like to mention that we have approximately R\$120 million in apartments that are being rented out. This is a strategy that we adopted in the last few years, and it makes it easier to sell those apartments, those units at higher prices. And this has worked well for us.

Then we mention the inventory of residential projects, and here, properties under construction, which are an important part of our assets, and they will be ready to generate value for the Company once we start selling them.

On the left-hand side, Esther Tower in the Parque da Cidade region, 54% of which has been sold and we have invested more than R\$600 million, which includes the land, the permits, the construction and so on.

And on the right-hand side, Air Brooklin Comercial, you see the glass there, metallic structures on the roof, and this is beside our Air Brooklin Residential, which will be ready by the end of this year. This commercial project will be ready for sale. Obviously, we had the finishing phase and so on, but these units will be sold as we have people interested in purchasing or renting it. The potential for generating value for the Company in the midterm is very good.

Then in our land bank. Our land bank is for R\$8.3 billion in the last valuations we had in the 1Q23. We launched Jota, which is a residential launch for over R\$10 billion, and then there were some variations in price, which have to do with a deduction of the launch we did in the final of 2023. So we have R\$8.3 billion and this may be added by R\$2.6 billion in those projects that we have on the Resolutive Clauses, which may be ratified by the Company by the end of 2024.

Then we have our financial indicators and we start on the left-hand side with our net revenue, which at the end of 1Q was R\$251 million. And here, I highlight the variation relative to 4Q22 where the net revenue was R\$311 million. This variation can be explained by the fact that in 1Q23, we had no external factor affecting our accounting in terms of revenue. That is in 4Q22, we sold land. We recognized launches.

In 4Q, we recognized Hub and Hub Brooklin. And we also had something that affected us positively and that was commercial floor sold. So what we see in terms of recognition of revenue here has to do with sales in 1Q. No doubt 1Q has an impact is a bit weaker because of holidays, Carnival. So it is a slower quarter in terms of executing the projects. The 2Q, the 3Q are less affected by this type of events. Then moving on to gross income and gross margin, we see an impact here. At the end of 1Q, it was R\$71 million, with a gross margin of 28.4%. Below that, we will see the unrecognized margin and income and that is 36%.

So what we expect is for the gross margin to as was the case in the last 15 years is for the gross margin to be reflected in terms of the rep margin of the Company, the unrecognized margin. So the difference between 28% and 36% has the impact of the effects of that quarter. And because there are no external factors, this impact has to do with the projects and the execution of the projects, and this is practically 75% to 80% linked to increase of costs relative to our projects. We have been taking questions about the types of impact that may be felt in other projects but what we see is that 80% of this impact has to do exclusively with Parque da Cidade.

The other 20% may be seen in extremely large projects that should be delivered in 2023, but we have not seen any potential future impact for those projects that will be delivered in 2024 and 2025. And this is the reason why the gross or rather wide rep margin has been flat between 37% and 36%. So why 36% and 37% rather than 40%, which we had in the 1Q22? And this has to do with something that we have been saying for 2.5 years. This has to do with the fact that the

costs are above the average INCC. It is easy to see this in the 1Q23. INCC was 0.8 or 0.9 throughout the quarter. And of course, the costs that we really saw, for instance, in terms of installations were above the costs reported by INCC.

Therefore, the projects that we have underway, 90% of all of our reps has this gross margin of 36%, which should be the de facto margin of the project. So when we look at the impact of 4Q and 1Q, this has to do with what we see in the Parque da Cidade project. Then the pickup method applied, and it gives us R\$17 million and that accounts for 1/3 of our income. And if you see at the final results, the pickup method demonstrates that the projects that we carry out on our own are consistent with a margin of 36%. This is just to highlight that the problems that we see in our gross margin have to do with a single project.

And then on page 11, you see the financial results of the Company. We had a positive result, R\$24 million, which is mostly the result from our investments. The Company has a net cash position in the region of R\$118 million, and our receivables portfolio, which is also important in terms of our financial results, had an impact of contained IGP.

On the right-hand side, you see good news relative to our direct receivables portfolio. And after a long time, we finally saw a slight increase, and we had R\$385 million, which we have been receiving from our direct clients. So in terms of net income, it was R\$42 million, which is a recovery relative to 4Q. And in the next few quarters, we should have a better net margin.

On the following slide, you see our balance sheet and capital structure. On the left-hand side, you see the net equity, which is about R\$4.5 billion and third-party capital, R\$1 million and R\$609 million comes from loans and financing of production and the debentures as well for working capital in the Company. And also, we have R\$80 million of land to pay.

On the right-hand side, you see our assets, the more liquid assets, cash and investments, which account for R\$790 million, then the performing receivables our direct clients and the clients which are being transferred to bank, and that is R\$509 million. The nonperforming receivables, R\$562 million.

The receivables are recognized in the balance sheet under the equity method and in our consolidated balance sheet, and we have over R\$1.5 billion receivables to be recognized. The inventory, which is being built amount to approximately R\$1.4 billion. The land bank, R\$8 billion to R\$9 billion in PSV. So we have a cost of R\$1,140,000 which includes also the permits. And then as we have said before, we always disclose the dividends, and we are going to pay out 25% of the net income of 1Q on May 31, 2023. Ex-dividend date will be the 19th of May.

Having made the general presentation. I now turn the floor over first to our CEO, Silvio Zarzur for his comments and then to the VP of the Company and Board member. Silvio, the floor is yours, please.

**SILVIO ERNESTO ZARZUR:**

I would like to say good morning to all. Thanks for attending this video conference. And I would like to say that we are not very happy with the results, as you can imagine. This has to do with two things, and these summarize what is happening to us.

First, an adverse economic scenario, interest rates of 13.75%, an economic scenario that is not good for the economy. It's been difficult to sell our units because of the increasing costs as well. And we think this is part of the business. We will be able to reverse that situation.

Once the interest rate goes down and the interest rate of mortgages, we believe we will be able to sell more in a better macroeconomic scenario. And we believe this is going to happen. A few things will help us. The interest rate has to improve slightly to enable us to sell more. And this is what my experience tells me. On the other hand, there is a problem in terms of the rocketing costs in building and construction. We have been working hard to sort it out, and we are going to solve it. So we are concerned, but we are confident the Company, the technical directors, all the other directors and the Company as a whole are gearing efforts to solve these problems.

We believe that there will be a few things ahead of us that will cause us problem but we are working hard to work in the engineering industry as we used to. We are working hard to do it fast. So I think that very quickly, we will be able to bring things back to normal. We have very good land plots that we have bought. When we talk about inventory these are goods that have to be sold, and these are great flats in the best possible neighborhoods, and they are very well built. We do not want to sell them at any price. We try to sell them at a good price. But let me make one thing clear.

The prices of sale place us in a situation where we can have better margins and better profit, much better than you see in the balance sheet. So we are going to solve the cost problem and this will put us back on track to have a better balance sheet in this economic scenario. If the scenario improves, then we are going to take off.

This is our expectation. Our sales force is great. We have the best land in town. We have bold designs and projects. So we are very well positioned to bring better results in the next year.

That's what I had to say. Thank you.

**FLÁVIO ERNESTO ZARZUR:**

Good morning to all. Thank you for attending. I think there is very little that I can add to what Silvio said. What I can say is that what Silvio said is something that we all live with. So there is discomfort, but there is also strong alignment. It's in our nature not to accept cost overrun. We have never seen it so we feel uncomfortable with that. But all the teams, managers, we are all working towards changing this situation and not having costs overrun anymore.

So this is what I had to add. What Silvio said translates our feeling.

**MARCOS ERNESTO ZARZUR:**

Good morning to all. I am going to stress what my brothers have said. This is Silvio Flavio speaking. We have been working hard. We have come a long way. Parque da Cidade was responsible for the cost overrun. The project is coming to an end. In the new projects, we are not going to see the same kind of problem. And surely, if we all work together, we are going to see the kind of results that we were used to.

**FLÁVIO ERNESTO ZARZUR:**

I would like to thank you all for attending. All the brothers are here together with the shareholders, and we are all working to bring the Company back to the levels that it has always worked at.

We will now begin the Q&A session.

**BRUNO MENDONÇA, BRADESCO:**

Good morning. Thank you for the presentation and for taking my questions. I would like to explore your commercial strategy. You have been talking a lot about it. You have talked about events and about improving service in the stores. And my feeling is that you have a strategy to try and bring customers to the stores or to the sales suite. So first of all, have you seen more customers coming to the stores? And what is the conversion rate that is once customers are within the store or within the sales suite, what are the levers? Is it the difficulty in getting financing? What about discounts? What can we expect for 2Q?

And the second one, looking ahead and thinking about the new launches in the Company, the level of inventories has been dropping, 8% in this quarter. So are you going to resume launches because the inventory is going down? Are you going to resume launches because you are repositioning your land bank according to different segments?

**SILVIO ERNESTO ZARZUR:**

I would like to answer and then ask my other colleagues to add to what I am going to say. The stores play two functions. The first one is to reduce commercial costs. Whenever we have people on the plot and then we have the launch, then we start building and then there is nobody else on the plot. We can do the launches from our sales center.

But our projects, they are really big. Our main projects are not projects that we are going to sell in six months, and that's not what we want to do. There is a maturation time there. We want to sell as we build. And to do that, I mean, having a store without having to take out the sales suite from the land and continue to sell from the center.

That makes sense in terms of efficiency of the brokers. So as well, it makes sense. So once the customer gets into a store, they have a choice between six, seven projects, and they can choose to find the best match. So this sales centers, they are a very strong sales tool. We should open at least another one this year.

And in terms of the customer, customers have understood that prices are good. But sometimes they do not feel secure. The interest rate is the highest in the last four, five years. So customers have the option of investing in a CDI and earn 13.75%. So that's the kind of competition that we face. We have good prices. Obviously, customers always ask for a discount. We give them what we can, but they also need appropriate conditions for the financing. And we have very good products.

In terms of launches, we have seen this small reduction in the level of inventories. The cost of money is 13.75%. So you know how it works. I am going to preach to the converted. Emilio reported on the deliveries that we made and that we are going to make. And so we are going to have a lot of cash in the Company. We received the transfers from banks. We have the installments that the client pays. We have the money received from the direct financing. So we get a lot of money.

The cost of money is 13.75%. So the faster we launch and the faster this money comes back to the Company, that's perfect. Of course, we have to think in terms of security. We do not want to have a massive inventory. We have to launch the right products. But we launch when the product is feasible, the cost is right.

The sales price is right. We have to move forward because this money comes back to the Company faster, and we can then even enjoy the benefits of this interest rate. When the interest rate was 2%, it was different. Now it's very unfavorable for us if we decide to carry the land.

I do not know how long it has been since we last bought land. We have the land there because the interest rate is extremely high. We want the money to come back to the Company to increase our profitability. And we have to pay for the plot of Extra. That is an excellent plot, but paying for that plot, I think it's R\$300 million, isn't it?

**EMÍLIO FUGAZZA:**

Yes, it is slightly above R\$300 million, R\$315 million, including the construction of the store that we are going to deliver to Extra.

**SILVIO ERNESTO ZARZUR:**

So we need money to do that. So we are working to bring money back to the Company because we need to make that payment. And that plot will be part of one of our major launches. The PSV is lower than we are going to receive the one

that you have estimated in the release. But once we go to the market, we look at our competitors. I think the price is a lot higher than we estimated. It's a favorable situation. The outlook is good.

**MARCOS ERNESTO ZARZUR:**

I would like to just add something. The stores, they attract customers, they attract new customers and with everything that is happening in the market, we sell 1 flat to every 10 clients. When the interest rate is a bit lower, we sell 1 flat to 10.5 clients. So that is what we want to continue to do to sell more.

**FLÁVIO ERNESTO ZARZUR:**

I have just one thing to add despite the political scenario, which can be very uncertain. And sometimes, we are unable to have visibility in the long term. What we have seen is that we have a good level of sales given the situation.

Silvio said something that I would like to clarify. Customers know that what they are buying today, they are buying at a good price and they are going to make money. So we established prices to ensure we have a certain volume of sales, and we got the response we wanted. They could be better. And you see in the beginning of January, I had a figure in mind, but the performance of sales was a lot better than I had envisaged.

**GUSTAVO CAMBAÚVA, BTG PACTUAL:**

Good morning. I have two questions. The first has to do with the gross margin. In terms of new projects, what is your view now? The cost of construction is more stable now, but the macroeconomic scenario is not the best. So when we look at your pipeline and the launches for this year, is the margin going to go back to 40%, you think?

And the second question has to do with something that Silvio said, about the capital return into the Company. We always talk about Esther Tower. But could you talk about all the projects? EZ Inc, Verbo Divino, Air Brooklin, EZ Mark? A very substantial amount of capital has been allocated to these projects. Is there a different strategy relative to Esther Tower in terms of sales? What about leases and how fast can the capital of EZ Inc be recycled within the Company?

**EMÍLIO FUGAZZA:**

Gustavo, I am going to start by talking about the margin, and then I will turn it over to Flavio. What we are seeing is that the cost of construction has rocketed to unimaginable levels. We were talking between 2017 to 2018 about R\$3,000 to R\$4,000 per m<sup>2</sup> depending on the type of projects, today, between R\$4,500 up to R\$8,000 per m<sup>2</sup>. So they have practically doubled in some places, especially upscale neighborhoods.

We have the ability to deliver higher margins and this is what you are going to see. For example, with Park Avenue when we begin to recognize this REF margin under the equity pickup will go to the historic levels of the Company. For middle class projects or for Minha Casa Minha Vida projects, they will be in line with the REF that we expect and this specifically for 2023. I will now turn the floor to Silvio.

**SILVIO ERNESTO ZARZUR:**

Emilio has looked at the construction costs, but we also have demand, the demand side. There is pent-up demand because of the interest rate. And it's obvious that the interest rate depresses prices. Our land has been bought in very good

condition. We have cost increases. But when I look at the margin, I think the margins are going to be 2 or 3 points below the historic levels because of the low demand because of the interest rate, maybe 36%, 37%.

But at any time, if the sales pick up, this margin can grow very strongly. And I see that the sales price is depressed. We bought the land in very good conditions, and we have good products. I am counting on something that might not happen.

This is why we are conservative. More than the cost, this interest rate is depressing our margins. Once the interest rate goes down, I think the margin will go up very strongly. I do not think we will be able to bring costs back to where they were. But, yes, the interest rate can go down.

And then I am going to talk a little bit about the commercial side, and then I will turn the room over to Flavio. We have shifted the land bank of EZ Inc to residential. We cannot wait forever. So part of what was designed to be commercial will no longer be commercial.

We can transfer assets from EZ Inc to EZTec Residential, and there's no problem there. The Roque Petroni land had a commercial part on it, but it's not going to happen. It's going to be residential, and this is a very good plot as well. We are going to finish those projects that are underway.

And now I turn the floor over to Flavio to talk about the commercial part of the business, but we are shifting part of the land bank to residential. Would you like to add anything, Flávio?

**FLÁVIO ERNESTO ZARZUR:**

I have very little to add. In December, we sold close to 25% of the inventory from EZ Mark. And in EZ Mark and Air Brooklin, we have some customers, some possibilities at an average temperature, I would say, that would allow us to rent those units. So this is what we see happening in the shorter term. But in terms of the reallocation of products from commercial to residential, this is what we have been doing.

And in Ester Towers, we are going to have an iconic project. We plan to take the project to a certain stage in the case of Esther, and wait until we find an anchor to build the first tower and then the other towers. So we need time and patience to have the best possible results.

**SILVIO ERNESTO ZARZUR:**

I just want to add something. Esther is an extraordinary building. There is nothing similar in Brazil. There might be two or three similar ones. But what I wanted to add is that this is a real pearl and we are going to sell it as such. After working so hard, investing so much and waiting for so much, we are not going to sell it at any price. We are going to wait, we might rent it out. And if we have a good offer, we might sell it. But we are not going to sell it at any price, for no profit.

We remind you that at EZ Inc, we have R\$1 billion. And when we look at the land bank, such as this one at Roque Petroni, it was bought very well given the potential that it has. It's going to be residential. The Moema land is going to be residential, and so is the one in Chácara Santo Antônio. This R\$1 billion is EZ Inc or EZTec, and we will do what we need to.

Have I answered your question?

**GUSTAVO CAMBAÚVA:**

Yes, it has been answered.

**ANTÔNIO CASTRUCCI, SANTANDER:**

Thanks for taking my question. I actually have two points. The first one is about the revenue you reported in the quarter, which was a bit weaker. Was this because of Parque da Cidade? What can we expect in terms of revenue recognition going forward?

And then, what was the impact on the margin because of the difficulty in passing through the INCC rate to your sales price?

**EMÍLIO FUGAZZA:**

I am going to take your question and then I will turn it over to Silvio. There is some impact coming from the fact that we have not recognized as much revenue from Parque da Cidade. Undoubtedly, there is something coming from Parque da Cidade. But when you look at our REF result, as unrecognized income, we have R\$1.118 billion Parque da Cidade accounts for R\$70 million of this R\$1.118 billion. So it does not really hit the REF margin. We have more revenue, we will have more revenue as we sell the remainder inventory, which we are selling now.

Also, in terms of revenue, as I said before, there was nothing external there. What happened was that we had three projects that we are going to recognize in 2Q, and then we have recognized the sales all at once in proportion of the POC. Park Avenue, which is going to come through equity pickup and 40% has been sold for a good price, and then the project we launched in 4Q. All of this will be extraordinary revenue in 2Q. Then we also have the recognition of POC throughout the quarter, and we will not have the impact of blanket holidays and Carnival.

Would you like to make any comments, Silvio?

**SILVIO ERNESTO ZARZUR:**

There is no direct link between the INCC and the sales price. It's not that we have not been able to pass-through the price. But the problem is that costs were rising higher than the INCC index. So if we look back in our history, there is no drop in prices in INCC.

The price has been increasing if we take into account the INCC index. But the cost of construction in the last year increased faster than the INCC, and this is where we were hit. You also have to think that when we launch a project, for example, Park Avenue, it's like round numbers, just for example, R\$400 million in PSV. The cost of construction is R\$120 million, R\$130 million. And then when you sell, you adjust everything according to the INCC, and you also adjust the PSV of R\$400 million.

So when the INCC goes up, it improves our margin. But when INCC is flat, our margin is a bit more flattened.

**EMÍLIO FUGAZZA:**

And just to stress that information, we have this graph, and you see that we were able to link the inventory to INCC, but the INCC was 0.8 or 0.9, which was the variation of price in our inventory.

Have we answered your question?



**ANTÔNIO CASTRUCCI:**

Yes, that was very clear, Emílio.

**ANDRÉ MAZINI, CITIBANK:**

Good morning. My first question has to do with the partnership with Lindenberg. It's gaining traction. You now have many important projects. But in three years, if this subscription option is exercised, you would be sharing the control of Lindenberg. So what can we expect in three years, in terms of this capitalization?

And then the second one is about cancellations in Parque da Cidade. So whoever wants to cancel the contract and do that in May. Is that correct? And those who do not cancel, do they prefer to sell the unit in the secondary market or to keep the unit? So how are cancellations going in Parque da Cidade?

**SILVIO ERNESTO ZARZUR:**

In Parque da Cidade, it's obvious, you always have some cancellations, especially when you give back the full amount. So you open a better door for the cancellation. But those who bought, they had a very good deal.

So there are going to be cancellations. We are seeing cancellations at a moderate level, because those who bought got a good deal. But regardless, people go through changes, they either do not want to use the flat or they want to invest the money somewhere else. And we are giving these people an opportunity to receive a full refund.

So yes, there will be cancellations at a moderate level, but it is a huge building, and this is going to have an impact on our balance sheet. However, when we receive the units back, we are going to sell them at a very good price. We sold one, I think, R\$23,000, R\$24,000. I do not know, if everybody is aware of this sale, but we did. So this shows that we might see a problem at first, but the cancellations should not be a problem in time.

I forgot about the second question.

**EMÍLIO FUGAZZA:**

About Lindenberg, and the ratification of the co-control, lean them back.

**SILVIO ERNESTO ZARZUR:**

Buazar, the shareholder of Lindenberg, we have been friends forever, and we have also been good friends with Adolpho. We have been working together for nearly 15 years, and this was very profitable for us and for them. We never had a relationship problem. When you have a deal like that, we did not do it because the Company was good only. The Company was good, and we know we are used to dealing with them. We know them. I think it's going to be very successful for us and for them.

We will be able to do the financial and strategic management, and they have a very strong brand. Lindenberg has a huge value, it allows us to make investments or spend to build up a scale buildings and that pays off, because the brand is really strong. So I think three years, I am not going to talk about the timeline, but we are moving, and we are probably heading towards acquiring half of the control.

**EMÍLIO FUGAZZA:**

Just to complement what Silvio said, our partnership was established. And of course, this can be changed, but our partnership was established for the option of control to happen between the beginning of 2026 or the beginning of 2028. So we have between four and six years to exercise our option.

**FLÁVIO ERNESTO ZARZUR:**

When we have a partnership, and Silvio said it really well. It's not only a commercial partnership, it has to do with values, it has to do with trust. So we are very comfortable with this partnership. We have a history together with them, and we have a good future ahead of us. This should be a long-lasting partnership, and we all feel comfortable with this partnership. Something else that is important to me is that, as has been said in terms of PDC, I think that there might be less constellations than Silvio thinks.

This project, because of its bold architecture, and we have been very careful in the execution, it is going to be very difficult to be replicated. Those who are buying the units are buying a piece of jewelry. And its value is going to go up. And it's really not easy to replicate something like that.

I think Marcos wants to add something.

**MARCOS ERNESTO ZARZUR:**

With respect to PDC, I have been working closely with the sales team. And PDC is actually a piece of jewelry, it's a very special product. I think the price is going to go up always, especially after the delivery. There's nothing like it, nothing like it. And we will be able to ask for higher prices.

And as regards Lindenberg, also on behalf of the sales team, I think Lindenberg has a strong history in the market. When customers sit to talk to us, their parents or someone in their family had Lindenberg, owned Lindenberg. So it's a brand that adds to EZTec. And we have to use Lindenberg in the best possible way. It is a partner, who is going to contribute a lot for us to sell more, especially in upscale market products.

**PEDRO HAJNAL, CREDIT SUISSE:**

Good morning to all. Thank you very much for the presentation and for taking my question. I have two. The first one is about the deliveries this year, the potential for cash generation. So what about the leverage of the Company by year end?

The second question has to do with the credit portfolio of EZTec. Last year, we saw that the financial result was supported by a higher level, but the rates at the banks became slightly more competitive. Now we see data on inflation and inflation is lower. So our customers now migrating to your own financing facilities, has this been an argument, has this been a tool for converting sales.

**SILVIO ERNESTO ZARZUR:**

It's like a bridge loan. Our direct financing facility is quite easy. So sometimes customers have to wait to get financing from the banks. So they take our financing facility. But at the end of the day, for most of the sales today customers prefer financing with banks. And the low IGP index does not make me think that financing directly is not a good thing, this is financing for 10, 15 years, even more.

So the fact that IGP is low now, does not discourage me, does not lead me to say that direct financing is not good for us. I think it will be beneficial for us, and customers know that. Customers think in the long-term. Sometimes they go for our direct financing facility until they have their own funds or they can get funding from the bank. Our portfolio is very dynamic, R\$500 million, but R\$100 million comes in, R\$100 million goes out, so there is a turnover there.

**EMÍLIO FUGAZZA:**

Thank you, Silvio. Pedro, just to give you a bit about our expectations relative to leverage. As you can see in our balance sheet, a lot of the generation of debt has to do with financing production. And at this moment in time, half of what we have is linked to stat hours.

So of everything that we are going to deliver in 2023, there is very little financing, because of the period between 2020 and 2022, when we received a lot of advanced money from the customers, but this is not what we expect going forward, especially with this interest rate. This is not what's going to happen for those projects that will be delivered in 2024, 2025.

So we expect to consume more production financing and our net debt will continue to grow for all of these projects that we have to deliver. So you can look at the end of the year and think that instead of R\$600 million in borrowings, we may have R\$1 billion, which means that we should consider situations relating to net debt.

What Silvio said in terms of cash generation is true. We might have a different situation by year end. Nothing that would change the soundness of our balance sheet. I mean, we have R\$4.5 billion in equity in our balance sheet.

**VICTOR TAPIA, UBS:**

Good morning to all. I would like to approach two aspects. The first is the commercial strategy in a scenario that puts pressure on your gross margin. As far as we can tell, you say that the commercial strategy is not to give discounts on your inventory. And sales would be driven by the good conditions offered in the direct sales price. What is the rationale? What is the trade-off? Why not have a more aggressive price policy to monetize the inventory faster during this challenging scenario? So this is the first point.

And the second point, may be a little bit of a far-fetched idea, but what about artificial intelligence? There has been a lot of talk about it. It may be early to understand the impact of AI in construction and development, where the impact may be lower than in other sectors. This is clear to me, but are you looking into AI? And what impact you might see in terms of processes and management, not necessarily in the construction side, in terms also of finding land or developing projects and products and understanding demand? So if you allow me, if you indulge.

**SILVIO ERNESTO ZARZUR:**

I would like to talk about the price. We give discounts. Just to give you an idea, we do studies about the effect of the discounts on our balance sheet. So if you imagine that we give no discount, you are wrong, because we do. And we run simulations to see the effect of that on our balance sheet. If you give discounts without thinking about the finances, this might have a negative impact on the balance sheet.

What hurt our balance sheet was the cost runoff in our projects. There has to be a threshold between the discount and liquidity. There has to be a balance. We need liquidity, and we also need to give discounts, but we have to balance one against the other, so we have the best possible results in the long-term.

So we are extremely aggressive in terms of discounts. When you look at the level of prices that we sell at, it is equal or lower than the competition. So our flats at a certain standard x, y, z, they are priced at the same level as the competitors. And more than our ability to finance, we use our ability to sell to turn over the inventory. So we use our name, we use

our marketing, and this works better even than the financing, which helps. But it's yet one more component within a chain of things that we do to have liquidity.

As for artificial intelligence, I will let somebody else answer. We have worked a little bit with that in sales. In terms of talking to the customers, we have worked with Watson. But for sales, that's what I know. I do not know if Emilio or Flavio have other information about it.

**EMÍLIO FUGAZZA:**

Thank you, Silvio. So Victor, just to add to what Silvio said, I would like to remind you that when we do a campaign, a sales campaign and when that sales campaign includes the offering of credit on our part, which is differential. And we offer rates that start at 799 plus IPCA or another index. The rate offered by the banks would be less competitive than ours, and we are able to do that. So this is extremely important from a commercial point of view.

I would like to mention three topics relating to AI. First of all, AI is in its infancy in our industry. The development of AI in customer services, some retailers have difficulties, but they are very different from the difficulties we face in civil construction. Customers are buying from us a much, much bigger goods, it's not a fridge that cost R\$2,000, R\$3,000, R\$4,000. It is goods that customers are going to pay in 30 years, so they need personalized services. The customer needs to talk about his concerns, about his difficulties, so it's a very different business.

And then we support Cubo, an initiative by Itaú, and we have put money, and we have been working with Cubo.

Flavio is in charge here for innovation at EZTec. Would you like to add anything, Flávio?

**FLÁVIO ERNESTO ZARZUR:**

One of the old directors looking into innovation is me. We look into employing innovation where we can add value and make things easier for the Company. During the pandemic, this worked really well. DocuSign, Agilitas, we employed those tools.

And just to add to what Emilio said, we are part of Cubo. Construliving, which is hub, it was launched in the month of April and there are five companies participating in addition to Itaú BBA, which sponsors the hub. This should become bigger, and it's always good to be there in that environment of innovation, it's going to be close to Itaú, who has been a very good partner to us.

And as Emilio said, we have been investing. We have our own platform for customer relationship, and we are investing more there. We have a CX project, a customer experience project, which should improve the experience of our customers. EZTec has something special about it. We relate to different types of clients. So we are segmenting these customers. We have low income, middle income, high income. So we are segmenting the customers, and this is going to be automated.

And then we will have data to continue to improve. We sell a lot to our former clients, and they also bring new customers or they buy a second unit from us, because of this long-term relationship that we have. We are not retailers. We build relationships with customers. And we have three years to build that relationship from the first contact to the delivery and then we have the maintenance as well.

I will turn the floor over to Marcos, because an important part that does not have to do with AI, but we also have accesses on the Internet to generate leads, and this is converted into sales.

**MARCOS ERNESTO ZARZUR:**

In terms of artificial intelligence, we have an internal program for our brokers in our internal sales system called SIVEZ, and we interact with the brokers, we show which customers they should call, what happened. So we have all the history. We have the profile of the customers normally by the flats 90 days to 120 days after the first contact.

So we work hard on that. IT and artificial intelligence will be able to add value relative to future customers. So it's important for us to be close to Cubo. And in terms of our brokers and the customers we already have a contract with, we have been working in that sense.

**VICTOR TAPIA:**

Thank you very much. That was very clear.

**JONATHAN KOUTRAS, JP MORGAN:**

Thank you very much. I just want to ask a question about the sales performance in the beginning of April and May, if there is an improvement. Can you give us a little bit more color about it?

**SILVIO ERNESTO ZARZUR:**

Three public holidays and Mother's Day. Given this scenario, we are doing well. Given these three public holidays plus Mother's Day, as Emilio said, we opened the sales suite at Lindenberg, Ibirapuera, and that is a magnet. So customers are driving clients to the sales suite. And we had these three public holidays, and then we have Mother's Day, day after tomorrow. It's a good result, in excess of R\$100 million in a month. But if you look at the result itself, it does not look so good.

But we believe that we will be able to perform much better this quarter. It should be better than 1Q, when we look at the quarter as a whole. But the three public holidays, they really hurt our sales, and three holidays with sun, and then Mother's Day.

But now that it's going to get a bit cooler, there are not going to be so many holidays. We will have two other launches, Lindenberg and another launch in Tatuape. So I think we are going to perform better than 1Q. And God willing, it's going to be a lot better.

**EMÍLIO FUGAZZA:**

I would now like to turn the floor over to Silvio and to the other participants for their final remarks.

**SILVIO ERNESTO ZARZUR:**

The Company has been working really hard. And we are going to get it right. We have to make some adjustments. The Company is now huge. We have many initiatives underway. Things that Emilio and Flavio brought in from an organizational point of view in terms of improving systems.

These initiatives entail costs at first, but we are going to reap the fruit. It's a great company. I have to say that we have to get better results, and we are going to get them. We are putting a lot of effort into it, and we are very well positioned to achieve it.

**FLÁVIO ERNESTO ZARZUR:**

I would like to thank you all very much for attending. And I would like to say that the same discomfort that you feel is the discomfort that we feel. Again, we are all working together to change the results and to improve the results. The results fell short of our expectations, but we are very well positioned. The financial structure is comfortable, and we are going to continue to work hard. That's it

**MARCELO ERNESTO ZARZUR:**

We have been working really hard. We are sure, we are going to present better numbers in the near future, and let's go back on track.

**MARCOS ERNESTO ZARZUR:**

Yes, I agree with my brothers. Let's work, and we will achieve the results.

**PEDRO TADEU LOURENÇO:**

And with this, we finish this video conference. Thank you all so much for attending. Have a lovely weekend. Thank you very much.

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