CONFERENCE CALL 3Q22

PEDRO TADEU LOURENÇO:

Good morning, ladies and gentlemen. Welcome to our EZTec's 3Q22 earnings conference call.

We inform you that this event is being recorded, and that during the Company's presentation, all participants will be temporarily muted. We will then begin the Q&A session, at which point further instructions will be provided.

If anyone needs assistance during the conference, please ask for help from support in the chat. In case of a connection issue, please reuse the same link or ID available on ir.eztec.com.br, and that will bring you back to the presentation.

Also on our website, you can find the slides for this presentation in the download center. Information is available in BRL and in BR GAAP and IFRS, applicable to real estate development entities in Brazil. Otherwise, it will be indicated as follows.

Before starting, we would like to mention that any statements made during this conference call regarding EZTec's business prospects, projections and operational and financial goals and figure beliefs and assumptions of the Company's management as well as information that is currently available. Forward considerations are not guarantees of performance. They involve risks, uncertainties and assumptions, as they refer to future events and therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could affect EZTec's future performance and could lead to results that differ materially from those expressed in such forward-looking statements.

Now I would like to pass the floor to Mr. Emilio Fugazza, Financial and IR Director, who will start the presentation. Please, Mr. Emilio, you can begin.

EMÍLIO FUGAZZA:

Thank you, Pedro. Good morning, everyone. It's a pleasure, as always, to start our earnings calls for this, our 3Q22. I am honored to be here, along with the President of the Board, Flavio Ernesto Zarzur; our Vice-President of the Board, Samir El Tayar; and Vice-President of New Business, Silvio Ernesto as well.

I will now begin the presentation. I will begin talking about launches during this quarter. We start with Unique Green. We had the second phase launched here in August. We have R$410 million. And that, when added to the R$367 million already launched in 2021, make up a total of over $800 million. This is our long-running pack to build up the west end of São Paulo.

You can also see down into the right some other launches in Vila Mariana and Vila Clementino, we have sold 55% of these launches. Also near Santo Amaro and Chácara Santo Antônio, we have sold 33% of our launches there. And so in total, that may talk R$1,314,000.

Now moving on to our next slide. We see our operational performance. On the top left, we see R$470 million in growth sales. That's the largest sale in the Company's history. And now, when we remove downgrades or transfers, we see that these results are absolutely in line with the last few quarters, nearing R$30 million. It also bears highlighting that the middle high-end sales were absolutely outstanding compared to the rest.

Our upcoming launches add up to a total of R$580 million. This is forecast for the 4Q22. Starting with Park Avenue. This is a joint venture. We have 50% of that launch. This is in Avenida República do Libano. It's a very high-end construction which is worth R$235 million in terms of construction, that is our part.

We also have Jota Vila Mariana. This is the first launch to be implemented in our joint venture with Lindenberg. This includes the apartments with sizes up to 120 m^3. This is also very high-end construction.

Next, we have Chanés Street. This is one street block away from Avenida Dos Bandeirantes, R$170 million of our part of construction. We have a number of different unit sizes from small studios to 75 m^3.

And lastly, we have another joint venture in PIN Osasco. This is now the third joint venture that we have with that company. This is in the Rodoanel region in the Osasco municipality. EZTec has invested R$43 million, and it has already started being sold.

Moving now to the next slide. We are now on slide 6, talking about deliveries. You can see on the left, on image of our launch Fit Casa Alto do Ipiranga. There are a number of different units. We have sold 75% of them. Everything has been delivered strictly on time and on cost.

And so we have completed practically everything that we promised to deliver in 2022. That leaves Haute Ibirapuera, adding up to a total of R$768 million in delivery. It should also be highlighted that we have sold 82% of units. So we have practically all but sold out that unit.

On our next slide, we see our land bank. This adds up to R$11 billion, which means it has remained absolutely stable since the part of the year. Despite some acquisitions we have made, some properties that we have purchased with our incorporation partner and also some paving the way for some constructions in the south end of São Paulo.

On our next slide, you see some details about our inventory. We spent in the 3Q with R$2.8 billion. We have sold all but R$1.1 billion. So our inventory is very well controlled. We have approximately R$338 million in residential, and much more in commercial.

And now talking about our financial performance. On the top left, you see our net revenue, and we finished the 3Q at R$281 million. That's a gain of R$40 million compared to the 2Q. We have record sales for this quarter, one example of which is Unique Green. This means essentially we are improving our results, but we still have a lot of room to cover because construction has not yet progressed, but we have already sold many units.

You will also see that we have recovered 5p.p. of our margin compared to the 2Q, a technical effect widely commented on in our material regarding the correction of the INCC, but it does not mean a loss for the Company.

The past few months really tell us what we can expect for the quarters to come. Just to complete this slide, on the bottom left, when we see our equity income going, we have R$33 million. That's a result of our many partnerships, which have been increasing over time, not just in the city of São Paulo, but in the Metropolitan São Paulo area as well, which includes Osasco and Guarulhos. We have low-end and high-end construction ventures there. So we will have a R$33 million result or almost 40% gross margin, 37.2%.

Moving on to the next slide. Here, we see our financial results. Our financial result is R$30 million, which is an important result for the Company. This does seal the impact of the current inflationary situation that we have been seeing over the past few months. This movement does not end in the 3Q. It will persist into the 4Q. But I should remind everyone, we have a very comfortable cash flow status. And that is still resulting from our many partnerships.

On the top right, we see the development of our receivable portfolio, and we see that since the start of 2021, it has remained quite stable. We are now at R$367 million. This means that we do have a lot of expectations of course and that's also a result of many of the campaigns we have been running and our financing offers as well. And we expect to see a lot of good development over the next few months.

On the bottom left, we see our net profit of R$105 million, which is a great result and our margin is even better than in the past, where we are now at 37.6%. We will talk more about those R$105 million in just a bit. And our quarterly outlook has also been approved by the Board. I would like to remind you that these numbers are effectively linked to a stronger growth, stronger investments by the Company in terms of share buyback, for instance, that adds up to over R$200 million that we have invested. We also have a considerable portion, over $700 million that were invested in property, real estate. So that puts us at R$412 million in net cash.

We will talk more about that in the next slide, and here, we see our capital structure. We have finished the quarter at just over R$4.5 billion. Our third-party capital is approximately R$969 million at the moment that includes some investment, financing and debentures, construction and land purchases. Those had up to just under R$500 million and land payable being R$139 million.

Our 2 greatest assets at the moment are land bank, R$1.194 billion. That is a historic level of land bank. And also one of the major highlights in this total are commercial investments that adds up to R$5.519 billion in assets owned by the Company.

Here on slide 12, we see the development of some of our commercial ventures. This is the most recent phase of Air Brooklin Corporate on the left and Esther Towers on the right. These two developments will bring EZTec a great financial return over the years to come in terms of rent.

We have some other relevant topics to discuss as well. Dividend payment is valued at R$25 million, approximately R$0.11 per share. And so that puts us at R$172 million in dividends paid. So that is the highest number in the past 5 years. These dividends will be paid on November 30, 2022.

And now we will move on to the Q&A session.

SILVIO ERNESTO ZARZUR:

I would like to mention that we are thriving in a very challenging scenario. Our B2B last year was R$1.8 billion. This year, we are looking to reach R$1.9 billion. We will very soon have a new level of revenue that we will attain. Our revenue is going to increase considerably. So the Company is growing and it is accelerating its growth as well. So this will bring us to a new level of revenue.

When we were at 2%, we were working in a certain manner. We are reacting to that to present interest. And now our interest is much higher. So we are launching new ventures more quickly, more aggressively. We are also controlling our costs. We have recently balanced our cost over the past 9 months. So we are no longer technically accelerating, but our investments are very well controlled, as this is our margin.

We have increased our sales volume considerably to really own those sales volumes. I also want to mention that our properties, we have very large properties, and they were bought almost 100% in cash. So there was no financial loss involved. The prices we paid were very competitive. We have everything needed to build up those properties.

So now looking forward, our inventory is very well located. So this is inventory that is perfectly ready to be sold. Each product within its own region of the city is very competitively priced. So our scenario that we are in is quite challenging, but the Company's situation is very good. Our prognosis is very good.

MARCOS ERNESTO ZARZUR:

The EZTec showroom sales, we now have 2 of them. They are going to be very important in helping us to sell off all of these products that we have.

ANDRÉ DIB, ITAÚ:

Good morning. Thanks for the presentation, and thanks for answering my question. Could you please talk a little bit about what you are seeing in terms of labor and materials cost? You mentioned that concrete and cement were pressures that you held, although other inputs have been dropping in price. Have you felt that impact? Or what can we expect looking forward in terms of costs?

SILVIO ERNESTO ZARZUR:

Marcelo will respond, but as a whole, during the past 9 months, we have been cost stable compared to the INCC. This cost has been growing, but there are some specific particulars that Marcelo will talk about.

MARCELO ZARZUR:

Good morning. We are currently at a time in our economy and in the engineering and construction field, where materials have stabilized and some are actually seeing correction, but cement is one of the few inputs whose price continued to rise.

We do have information CSN purchased Lafarge-Holcim, so they are going to come into the São Paulo market very strongly. So we expect that prices, including cement prices, will be contained moving forward, especially when CSN starts operating in strength here.

Other products have either dropped slightly in price or are stabilizing. When we look at the USD exchange rate, we also need to remember that whether there is a sudden high in USD to BRL exchange rate, that affects all commodities. And labor prices, I think, have reached the limit. So I believe that now, looking for the INCC will cover any potential high prices that we see.

BRUNO MENDONÇA, BRADESCO:

Good morning. Thank you for the presentation. I have two questions. The first is about the REF margin. You were very clear in the release showing that the REF margin is a little bit lower than the reported margin. So could you talk a little bit about the margin levels you are working in, especially with regard to future projects? And also on that topic, do you think sales of existing inventory and launch inventory, do you think you are working towards selling those at a higher margin than the REF margin?

And the second question is specifically about EZ Infinity. I have been hearing that there is a discussion going on with regard to zoning changes in that region. So could you update us about that situation, please? The zoning change? And would that have an impact on the project?

SILVIO ERNESTO ZARZUR:

The older ventures that you asked about, they are being sold well above the margin. So some of these ventures are older ventures. They were built during a better time, and so that means that their margin is higher.

So when we look at a launch being sold right now a contemporary current launch, those margins are a little bit tighter. But when we look at the total net results for the Company, we see some higher costs. We were able to raise prices slightly. We increased sales speed as well a little bit. We also have some costs linked directly to sales. So overall, we were able to keep our margin quite stable as a whole.

And as for your second question, the Infinity, which has been renamed to Sense, we were very careful when working out the details of this launch. This is a partnership with Lindenberg. You know that this is the Company we have been looking at for quite some time now. And we brought the Lindenberg brand into our fold, and we really updated that project. We improved it. We reduced costs, we inserted it into the market in a better way. And so honestly, I do not have any news about zoning changes. So that was about the Infinity.

Your question specifically is about zoning change. We have 500 different speculative questions about zoning changes but in practice, nothing has affectively happened. So I should mention that this launch is in the Paraiso district, and there are no properties there. So I do not know if any zoning change is there will have any impact at all because there are no green ground properties in that region.

And the thing about Infinity is it is a very large property in a location where you do not have any green ground properties. So the zoning changes will not have an impact on existing properties. So if the zoning changes, okay, well, that does not mean anything for ventures that are already approved.

EZTEC:

And our venture has been approved. It has been recorded and archived at the notary office. So there are no changes applied to our venture.

SILVIO ERNESTO ZARZUR:

And I can tell you that our sales for that venture are going to be spectacular. This is a very distinguished launch in that region. Lindenberg is also helping us in that regard. You know that pricing can become really premium if we so choose, and that is what we are doing. So rest assured.

Gustavo Cambauva, BTG Pactual:

Good morning. I have two questions. The first is about your forecast for the next year to come. You mentioned the 4Q22, and so the Company is looking to round out the year with R$2 billion in launches. I would like to know about next year, do you have a pipeline already in place? Do you expect to grow or shrink in the face of our challenging scenario? Do you have any idea what the Company size is going to be next year?

And my next question is about inventory sales. We see some good results in the 3Q. I would like to understand a little bit, could you explain the reasoning behind that perhaps? Were there any specific sales event? Was it the home store, some policies perhaps, more aggressive policies, discount or just statistic results from the market? I would like to understand a little bit about what you found during the 3Q and your forecast looking forward?

SILVIO ERNESTO ZARZUR:

Our inventory sales are linked to a change in the Company's policies. So we respond to the scenarios. So we came from a 2% interest rate and it very quickly hit 3.75% and we keep searching for better prices and better liquidity. We have a good margin, as I mentioned, but we decided to speed up sales.

So we worked with an accelerator. We increased our marketing budget. We gave real estate brokers better incentives and so on, many such similar investments and incentives. We worked with clients more directly as well.

So all that added up to give us better results. So I should mention that the market scenario has not improved. So we actually ran some tests. I wanted to see results in practice. And at the end of the day, the discounts and marketing we ran were diluted among the sales volume. So even though the sales volume was sold with some discount, we did get better margins and better results.

So all of us, the Board, we decided to persist, let's call it, the more intensive sales, more aggressive. We know that we were going to have better results. I do not know what our scenario will be until the end of the year, every month something different happens. So it's all surprising. But our idea is that we are going to have sales similar to what we saw during the 3Q. So the 4Q is going to be similar to the third.

And let me put it to you like this. Sometimes people require answers from us because we change the Company's heading. A company as large as ours needs to be compared to a ship, a transatlantic but we have been changing our heading, and now I am talking about next year's forecast.

So we have pipeline that's very strategic. Approximately R$3.5 billion has been approved. So if our pipeline for next year is R$3.5 billion this was meant for us to select some properties and launch something like R$2 billion, or just over R$2 billion.

We have approved R$3.5 billion, and we are probably going to launch a little bit less in that, but how much lapse is yet to be decided, depending on how the economy evolves. So our pipeline is very large. When we have the conditions to have results even better than this year, but we will decide that as each launch develops. Emilio and everyone has an opinion and everyone gives their opinion. We were probably going to be quite stable, but we still need to see what lies before us.

JOREL GUILLOTY, GOLDMAN SACHS:

Good morning, everyone. I have two questions. First, you said there was an increase in gross margin looking forward. I would like to know what the drivers are. Is it a price increase? Is it the drop in inputs? Is it more about the change in the mix? Could you quantify a little bit what the drivers were for these forecasts? And also is your margin going to be sustained looking forward?

And the next question is what are the plans for marketing buildings? I know there's still a long road ahead of us before delivery, but I would like to know if there's any news in that sense.

EMILIO FUGAZZA:

Thank you for your question. Let me talk first about margins, Jorel. What we have today in practice, in fact, is what we have shown on our results presentation. So what we have sold and what we are building is something like 37.2%. In our release, we actually have more openings.

But when we talk about finished inventory, ready inventory, we see a better margin because we have R$500 million that is ready. Our gross margin is very near to 50%. So that helps us a lot. Each percentage point helps us to get a better margin than our REF margin.

On the other hand, the gross and REF margins are the margins you see on our consolidated results. So we also resell and transfer the margin and our equivalent margin as part of the product mix that we have, we see that margin slightly closer to 40%.

And a launch like this one, that we are going to undertake right now in República do Libano that has a margin that's better than our mean margin or average margin. So some specific components bring our margin closer to what we want to see.

I would now like to ask you to please continue answering.

FLAVIO ERNESTO ZARZUR:

For Esther Towers, we are moving forward in construction. Construction is probably going to persist until 2023. And we are currently in a waiting phase and we are open to new opportunities that make themselves known to us. We are placing it in the market. We are identifying the best position on the market.

So we are probably going to rent it. That's what we are looking at.

EMILIO FUGAZZA:

And our focus is on finishing just one tower so that we can start renting out the unit.

FLAVIO ERNESTO ZARZUR:

And the second tower will be on hold, waiting for a more appropriate moment.

Silvio Ernesto Zarzur:

We are open to sales, yes. If we find a good proposal, a good offer, then we are open to selling a unit or 2.

YGOR ALTERO, XP:

Good morning. Thanks for answering my question, and congratulations on your results. Going back to the outlook for 2023, I would like to know what you think about the mix in other segments? You are probably more predisposed to the high end of things, especially when working with Lindenberg, but I would like to know what you think about the low end. We have seen many updates from the Green and Yellow House Program, and I think, at the end of the day, that could improve the status of many constructions.

And on the sales side, I would like to ask you if you see your inventory performing better than recent launches? Thank you.

SILVIO ERNESTO ZARZUR:

Our launch mix, it's what we mentioned, our pipeline is currently almost double with what we have before. So we are going to respond to that according to the market and according to our sales development. And that's the ideal solution because if you issue a forecast too far ahead of time, when it comes time to see the results, you might be caught off guard. So when it comes time to decide whether they or not to launch a given product, that allows us to be more assertive working like this.

We work very closely with Fit Casa, but as it turned out, in order for us to really come back strongly, we are going to need to take a little bit more time. So you are probably going to see something like 25%. I am going to just call it My House, My Life, that's 25% or a little bit more, but our margin has always been very good. And I should manage that in My house, My Life, EZTec something like 38% of gross margin. So that's the type of venture we are looking at. But if we want to really dive into this business, we probably need to wait another year.

FLAVIO ERNESTO ZARZUR:

And just to remind you, we also have a partnership with BP8 and that works very well in that sales range. And we have partnerships with Lindenberg for the high end, but we also have important partnerships in the low end.

EMILIO FUGAZZA:

BP8 has 4 ventures, very successful venture at the moment, and we also have 2 properties we purchased.

SILVIO ERNESTO ZARZUR:

There are going to be some important launches this year as well. That will add up to integrate our mix.

So it's difficult to maneuver what we have right now. But by the year 2024, we expect to have much more.

And what about discounts and sales? For gross inventory, we are selling very well. The construction, launches, everything is selling quite well within their own lane. When we look at launch inventory, construction inventory and finished construction, so each lane, so to speak, has their own development.

And our margins improved because once the venture is finished, it can obviously sell for higher cost. But our costs are the same for all types of properties. Our financing on finished ventures is very good. We have some very good options there, which we can't offer on properties that are currently under construction. We have easy access to credit approval. Actually, we can offer very good interest rates. We can also offer indirect financing for finished projects.

So when you see a giant construction project, a year from now, our inventory is going to be a little bit lower necessarily. And that happens for every venture and margins go up, as the portfolio is sold because you keep readjusting prices, of course, as your inventory goes down.

ANTONIO CASTRUCCI, SANTANDER:

Good morning, everyone. Thanks for answering my questions. Actually, I have two questions. What are the sales like for Arkadio? Especially because Cyrela has a very large venture, very close to that one.

And I would also like to understand, can you detect that the store launches have had a good impact on remaining inventory?

MARCOS ERNESTO ZARZUR:

The sales percentage is something around 30%, but our home store sells all sorts of products. Our home store is actually near this Cyrela venture, but we have roughly 5 products in 1 kilometer radius from the home store. So we have all the different models there, all of our ventures. So we sell all sorts of products.

I have a large breadth of products you can offer there. And we are located on Roque Petroni, which is a very large avenue, there a huge traffic. So we have 1 or 2 years of that home store, but this was a very important location for VGV, and for EZTec as a whole. So we have very good results in that region.

SILVIO ERNESTO ZARZUR:

Arkadio is doing well in terms of sales, it’s within the forecast. We have Arkadio, we have Haute, we have the Brooklin venture, we have PDC, we have Sky. So we have a number of different products there.

So to answer your first question, yes, the home store, yes, we have seen a broad uptick in sales, thanks to the home store. So the home store is operating very well. And we are learning very quickly how to receive customers, how to sell products. So we are actually at a very good sales position at that store. So the results there are quite positive.

In terms of competition, in São Paulo, yes, it exists as it does anywhere. And I am not worried. It's just one more competitor. We have competitors all around São Paulo, in Moema and the East zone. We are no strangers to working with competitors, and it does not just have a negative impact. There's a positive impact, too, because when you release, when you launch a venture in a region, you start moving that region around so you can sell more, customers become more aware of that region.

We have many regions where we have competitors close by, and our ventures are spectacular. So Cyrela’s venture does not worry me at all. And our sales results are very good. The results were good before the Cyrela venture, and they are good now.

EZTEC:

We are positioned at a location where we have a giant VGV. We understand that that VGV is over R$1 billion. So there is still going to happen in that region.

HUGO GRASSI, CITIBANK:

Good morning. Congratulations for your results. I have two questions. The first has to do with the land bank. I noticed that you actually acquired some properties, which you have not done in a long time. And that seems to me to be a rotation profile. You purchased the first property in EZCAL and sold some old properties, one in Praia Grande and another in Guarulhos. So my question about the land bank is, what is the rotation like in your land bank? Have you been adapting it? Are you going to launch anything in particular, maybe out of those R$3.5 billion?

And the next question perhaps is more specifically for Emilio in terms of credit. This week, we saw some quite uncomfortable news, especially from Bradesco with regard to defaults. I would like to know what the bank's appetite is like. And have you felt anything like that in your portfolio, perhaps in the AF portfolio? So land bank rotation, defaults and appetite for credit.

EZTEC:

I think the land bank rotation is a strategy that the Company has been adopting. And when we replace, when we exchange something that's not very good or something that's better, it's always going to be good.

SILVIO ERNESTO ZARZUR:

We are strongly linked to certain sectors. When we sell a property, these properties didn't go to other construction company; one went to a church, the other one went to a retail store and money is money. You do the math and you see what gives you the best result.

Now as for purchases, these purchases are the fruits of our increase in speed. We have been improving our inventory. We have been seeing that property prices have been rising. It's quite surprising, but when we find a great opportunity and it fits our pockets and so on and so forth, and we see that it fits our timeline as well. It's all very dynamic. So we can make different decisions as long as they are in the Company's best interest and they give us financial profit and good returns, ROI, cash flow and so on.

So if it's worth it for the Company, then we will follow through. So we are looking into all possible options. Everything is inspected many times.

When we talk about nonoperational results, there's a lot going on that we need to follow through on to improve the Company's results. So there are specific crucial event going on that we need to capitalize on. And it's also possible that it could be a risk mitigation in certain locations, which is also part of the business and part of our strategy.

EMILIO FUGAZZA:

Hugo, moving on to the second question you asked, about credit, over the year 2022, with regard to customer financing, we see that credit for our customers is becoming more expensive. So we see the growth in credit prices. So that does have an impact on the Company. And we see the decrease in poupança savings as well.

So we have been offering our customers a number of different options to help them with financing and we try to avoid passing those customers on to the bank. We try to do the best we can to ensure the best rate that we see in the real estate industry, something around 8.9% to 9%, 9.5% at the highest.

So we have published that on our release. We are at 3.5% default rates. This is actually quite a lot lower. You know that these numbers have developed over the past few years. We see a lot of credit customers being transferred to the bank and default rates are still quite relevant. So they are quite low as a whole.

And that is what has led us to offer credit at the 7.99% rate. For instance, for our finished ventures in Guarulhos because we know that this is a long-term financing, we know that these rates in the long term are very logical for the Company. So for the time being, it does not bother us, but we are observing it. We have our eye on it.

ANDRÉ BAHIA, CONSTRUTORA ESTRELA DA MANHÃ:

Good morning. It's always good to see such good results in a country so uncertain, and seeing your results is certainly spectacular. My question is also about lines of credit. Looking at the year 2020, 2021, EZTec's gross cash was approximately R$1 billion, and debt was almost zero, something like R$30 million, R$50 million. It was very low compared to growth. And I understand that that was only possible because you were probably selling great numbers on the blueprint page. You had up to 40% by the delivery, the property was ready. I am not stating all of this, I am just hypothesizing.

But when we look at 2022, EZTec's growth path was approximately stable but debt was up to something like R$400 million. So my question is, why did this phenomenon occur? I am just thinking, since the Selic rate was very low, instead of leaving the money in the bank, they have started paying. But now the phenomenon we see is inflationary, but the INCC was higher than the poupança. So if that's the reason, it would be better for someone to withdraw money from poupança and pay their debt. But I am just conjecturing here.

My question really is, why did debt ratios go up when the construction volume is nearing R$1 billion? Comparing 2020, 2021 and 2022, my question is, if Selic is 3.75% and you had even lower debt, would not the profits be representative of that? I hope you understand my question and my hypothesis.

SILVIO ERNESTO ZARZUR:

I am going to start answering, and then Emilio will continue. But you see an increase in sales, launch volumes, it represents an increase in the Company's size with the same level of capital. So if you want to grow the Company, as we have mentioned, we are going to reach R$2 billion in operations per year. When you look at our net revenue, that's going to be something like R$1 billion a year, and we are going to move it up to R$2 billion. But when you start investing more heavily, you start using your capital more. And that is the greatest reason for reducing your cash flow, when you use it to grow the Company.

In the past, we did business more slowly. And now we understand that we need to do business. We need to work with our cash flow, our working cash flow more intensely. So at the end of the day, our goal is to improve our results, improve our ROI. We have good liquidity. We have a giant assets. The Company has a gigantic asset base. And so we are now working to improve ROI. And I will let Emilio explain the technical aspects, but I wanted to mention the increase in volume because that eats up cash.

EMILIO FUGAZZA:

Andre, when you compare all this, there's one thing you need to consider. When you look at the end of 2019 into 2020, I had just finished a follow-on. So we raised R$800 million from the market, specifically to invest into increasing the Company's operations. So at that moment, I had money from shareholders here and that was used to conduct those investments. And that was 150% higher land bank.

And the second answer, Andre, differently from traditional work with the Brazilian CEF. Let's say, we launched R$2 billion per year, the return time for that capital is at least 4 years, but let's say it's 3. So we have R$6 billion that we launched and out of R$6 billion, we had to invest at least 25%. So 25% of R$6 billion is already R$1.5 billion. So I had to consume that. So to bring the Company to this point, I had to consume R$1.5 billion.

So Andre, of course, what you mentioned was an effect it did happen. Many customers did anticipate the results. But now that I no longer have those reasons for our customers to anticipate, I need to consume that cash and actually, that eats up a little bit. We have R$600 million in cash that had to be used for the land bank, and this will bring us results in the years to come.

EZTEC:

And Emilio, just to mention two more things, part of the financing we used for Infinity. This is representative. And there was also purchase of R$200 million in share purchases, R$200 million in Infinity and R$200 million in share buyback, and the Air Brooklin and another venture as well.

ANDRÉ BAHIA:

I understand. I am curious to see what happens as time passes to see whether Air Brooklin and Esther Towers and Infinity are good bets. I am very curious. I know you are giants in the capital allocation business. I did understand your reasoning quite well, and I am curious.

EZTEC:

Andre, we are going to settle your curiosity with good results. So rest assured, Andre, we are going to see good results very quickly.

EZTEC:

And there is something else that's important to mention. In the case of Infinity, the capital allocation that we did was basically to pay for the property.

ANDRÉ BAHIA:

It is part of the property, I understand.

EZTEC:

And in the corporate side of things, do you understand that we do have our eye on it, and we are going to have great results?

ANDRÉ BAHIA:

Yes, I know.

JOÃO BOSCO, BASTTER:

Congratulations for your results. I would like to understand what you think about sales over the next quarters. I am going to tell you what I think, and please tell me if you agree, interest rates were quite high at 3.75% so that leaves a lower population of potential customers. But the predictability of the interest rate could increase the appetite for sales and a more political stability, customers can now do the numbers and they will see better sales.

Even in regard to sales speed, if we look at the capital even in spite of lower margins, perhaps, some ventures that are less able to be repeated and cannot be replenished. I know that you are going to improve margins, perhaps at the cost of a lower sales speed. Do I read things correctly?

SILVIO ERNESTO ZARZUR:

That's a complicated question. When we talk about discounts, discounts were lower than cost dilution. So it's important to mention that the discounts we offered increased our margin. Our results were better, thanks to the discounts. We were able to dilute fixed costs and increase our margins.

Now curiously, with the 3.5% interest rates, we thought the sales scenario was going to work, but it did not, it remains stable. So now looking forward, it's quite difficult to make forecasts about the future. I can't see the whole yet. We need to follow day every day. We have weekly meetings. We are trying to make sure we move in the right direction all of time.

So I did mention that we have not had significant impact yet from the interest rate. I do not know, I need an economist or a psychologist, but we expect things to continue stable to remain stable. So we expect that everything will remain as is.

And it's important for me to mention that we are used to doing the business. We have been on the market for 44 years. We have had many different types of capital structures and all were very solid. We are extremely committed to our business. So if we have a difficult sales moment or something like that, we know how to respond to that in the best possible way.

So we are optimistic about the future, but if things do not pan out as we expect them to, we will know how to respond.

EMILIO FUGAZZA:

And Silvio, if you will allow me, just a comment. Your question was also important because the margin we want to remain at was thoroughly compensated by our expenses. So when we look at gross margin, we have increases in net margin. So that's what we saw in this quarter, and that's what pleases us, and that's what we are going to continue to do in the 4Q.

JOÃO BOSCO:

Thank you very much, and congratulations once again on your results.

PEDRO TADEU:

And if we do not have any more questions and also since we have run out of time, I would like to give the mic to our directors for final consideration.

SILVIO ERNESTO ZARZUR:

I would like to thank all of you for being here. And also to make it clear to everyone that everything we mentioned as forecast and expectations, they all depend on everything beating as normal. We know we are in a transition phase. We are all on the lookout. And we expect that the transition will be handled responsibly. But whatever happens, whatever scenario may occur, we will very quickly adapt to the scenario.

So everyone else can comment as well.

EZTEC:

As we mentioned, we are in a very challenging scenario. We have our eye on all possible stages of the process and all the market opportunities as well as challenges. As Silvio mentioned, we intended to make R$2 billion next year. And if we can earn more then, we are going to earn more. But if we need to earn less, then we are going to do the best we can market permitting to always keep the Company healthy.

Thank you so much, everyone, and we are excited to get to work.

PEDRO TADEU:

Gentlemen, thank you for being here with us in this conference call. And so the EZTec earnings conference call is now complete. I wish you all a great day and a great holiday.