Q20 Conference Call – EZTec

Hugo Grassi:

As a brief synthesis of the year's figures: launches were curtailed due to the results, yet net sales outpaced launches, landbank landed R$11 billion, net gross profits at R$105 million, net income at R$140 million, net cash at R$1.072 billion, and portfolio of receivables at R$504 million.

Now, in a detailed fashion, going ahead towards the operational session, we will add more detail, and more nuance to the to the year's results.

Looking at the landbank, I would like to bring your attention to the graph above, where we look at the evolution from 2019 to 2020, 2020, which is basically the time where EZTec fulfilled its mandate that it was given at the time of the follow-on in September 2019, where we injected as much as R$940 million in cash, and over the course of the year, up until right now, we have effectively fulfilled that mandate with acquisitions, which is what why you see the volume of landbank reaching all the way up to R$11 billion by the 2020 carveout.

But if you were to actually include acquisitions that happen by the 1Q, and that by this point are already definitive acquisitions, we have mentioned, for example, Extra Marginal, where we actually already had the first installment already paid, which adds an additional R$1.6 billion to that 2020 carveout. And on top of optioned acquisitions, where we still have the capacity to move on with the acquisition or not if we so choose, we landed at R$13.3 billion in available landbank as we speak today.

Please note that if we were to exclude from this figure, the R$3.4 billion in commercial landbank, basically what we would be saying is that we have enough landbank for as much as four years, launching at a base level of R$2.5 billion per year, which constitutes a very robust, very comfortable operational base for us to think of this cycle going ahead.

Moving to the bottom left corner of that slide, you notice that the composition from that landbank is very well distributed, healthy diet between all types of segments. Basically, when you look at the mid and economic segments, there is even some room for maneuver here from projects that we may choose to adapt from one side to the other. But by and large, that is enough material for us to have a very strong start.

Mostly, you have been noticing that the cash burns we have registered over the past quarters have been basically in the back of these acquisitions. But as of now, we are still spending as much as a little bit over R$650 million in disbursements still to be made referring to these acquisitions. Much of it is still happening 2021 and 2022.

Moving on to slide number five, where we talk about both sales as well as launches, you notice that we naturally were hampered by the pandemic in 2020, and you notice the list of projects on the bottom left, you realize that much of the launches that took place in 2020 actually happened by the very end of the year, by December. That has to do with the pandemic shock, naturally, but it also mounts with a bottleneck that we faced over the course of the year in admitting approvals for projects upon the Secretariat of Licensing from the municipality. It was an issue that we struggled with over the course of the 3Q and 4Q. Yet, we will touch on how we are doing that. As a spoiler, that is just as much as R$550 million in projects already approved.

Even so, that took a hit on the sales performance in the 4Q, which did not really take the edge off of the overall year of a surprisingly good performance. Here, I would like to call your attention on the top right graph, to the fact that we had net sales of ready inventory surprisingly large, R$314 million of gross sales, basically in line with what we delivered in 2018, despite the fact that the underlying availability of that inventory is shrinking significantly. So very good news across the board.

And when you look at cancelations on the mid right, you may notice that there was a perceptible spike in the 3Q, as well as in the 4Q, but here, on a more qualitative note, we tried to mitigate any concerns that you may have on that subject, because in the 3Q specifically, you naturally had some scare from the shock of the pandemic. Yet, as much as 50% of those cancelations on the 3Q were actually upgrades, downgrades and transfers.

In other words, there were cancelations that were registered, but they were immediately accompanied by a subsequent sale. So in any way it reflects a proactive stance from the internal team.

When we look at the 4Q, you still have a lingering cancelation. But as much as 60% of the 4Q cancelations are actually on the high, as well as smart living segments, which really reflect in any way a more malleable approach to cancelations in projects where you actually have significant increases in prices, and it really makes sense for the Company to take those units back and be able to resell them with not much added effort, and with increasing margins.

With that, I will move ahead to slide number six, inventory. I think the result from these trends that we just mentioned will had limited launches in the face of sales that actually drew a V shaped return as early as July, and that has actually worked quite well up until now and naturally takes a hit because of the red phase of the pandemic. But it really led to a contraction of the available inventory to R$1.8 billion. And if you were to look up until today, you would probably see something short of R$1.6 billion in available inventory, because of what has been sold thus far.

Naturally, you also notice on the bottom graph that it is a very young inventory, it is a very fresh inventory for projects that were recently launched and that are currently in construction. There is not much more of that symptomatic ready inventory that is lingering in the balance sheet. The remainder of the ready inventory is mainly concentrated in Guarulhos, which, in its own term, has been selling at a gross margin north of 50% consistently over the past quarters.

Overall, the fact that the inventory levels are very much contained, very much under control, really give an additional confidence in our capacity to fulfill the launching guidance going ahead with the tranquility that you may have some additional gross inventory formation, but it is still very much under control, given where the starting point will begin at.

Moving ahead to slide number seven, I will actually start introducing the launches that we made over the course of 2020, a very strong start in the 1Q20, especially marked by the Air Brooklin launch that was the centerpiece of the quarter. Naturally, prior to the pandemic, you saw sales really outperforming, and Air Brooklin, as of now, is already at 70% of the project sold, but generally, with sales performance across the board.

Over the course of the 2Q, we were major hit by the pandemic, but in the 3Q, we actually would have desired to launch more than we actually did. Here, the approval bottleneck kicked in. Yet we managed to the launch products to the extent that we were getting those approvals. We see Gran Maia, especially Piazza, with an outstanding 59% sales performance.

And especially in the 4Q, where, again, launches were concentrated in the very end of the year by the month of December, so no individual project had much more than a few weeks to be sold over the course of the 4Q before we had the holiday recess, both for the administrative staff as well as for the commercial staff, but when you look at the current picture of where they are standing as of February, 2021, the figures you are looking at, you realize that you have generally two positive trends: you have Fit Casa projects, the low income projects, Fit Casa Estação José Bonifácio and Meu Mundo Estação Mooca delivering something like 20% of sales within the very first months.

It is very compatible, very adequate for the profile of Fit Casa projects, of low income projects. If you look at the average of the first three launches we made in Fit Casa, they all have the same pattern where you sell something like 20%, 25% in the first quarter, but you follow up with a full year where you sell an additional 45% on average.

So Fit Casa generally has a flatter sales curve, mostly due to the bureaucracy that is added to the process at the very early stage of sale, when you have to arrange the financing for the client prior to the construction. That introduces a bottleneck, but that does not really hamper the fact that you have an underlying demand that is very deep for Fit Casa projects, for low income projects within the city of São Paulo, exactly where EZTec's business model plays in.

And when you look at the other two launches, Signature by Ott and Ereditá Parque da Mooca, you really have a much brighter note where you have a sales performance where, over the course of a little more than two months, you have had as much as 39% and 35% of the projects sold. And here we are talking about mid-high income projects mostly, in regions like Aclimação and Mooca, which are actually very much consolidated neighborhoods, but they are really not on the on the very inner core of the prime regions of São Paulo, that up until now have been the center of price gains in the city.

When you look at the performance for these projects, it was in a way a first that we actually managed to sell at a very quick speed of sales, while at the same time picking up in prices. So Signature by Ott, for example, is a project that its original feasibility analysis by April 2018 would tend to something like R$8,500 to R$9,000 per m², while we are actually selling it at an average of R$12,500 right now.

And Ereditá Parque da Mooca is a similar trend. Mooca is a place where we have a large landbank exposure. So this is a very promising site. We managed to also sell the most recent units at a price of R$10,000 per m², a very surprising figure.

And also, moving ahead, it is also important to point two launches that we have scheduled for the following months. And here, I emphasize the fact that these projects on the screen right now are actually already approved by the municipality, by licensing officials.

So basically, here is the first important sign of breaking through that bottleneck that we were faced with the worst in the past quarters. Naturally, it is an awkward moment to make launches in the face of sales stands that are closed through the red phase of the pandemic. So it is more likely that these projects may happen in effect subsequent to the red phase, where we actually get to bring the client in a very organized and adhering to the sanitary protocols, bring that clients to the sales stand, accompanied by a broker, where you feel the enthusiasm of visiting the decorated stand and committing with a long-term purchase.

Still, these products are available and the commercial team is lining up their commercial strategy so that we can execute a quick deployment as soon as possible. On top of these projects, we are also having additional projects on track to be launched for as soon as those approvals are admitted. So you have Arkadio and Altta Vista resident resorts also lined up, and inspire more confidence in our capacity to fulfill the two-year term guidance that we submitted one year ago, which basically implies that going ahead, we still have something like R$2.8 billion to R$3.3 billion of additional launches to be made up until the end of the year. Here, start with some cues of how this should happen.

Moving ahead, I will pass the word to Emílio, who will start addressing the financial performance.

Emílio Fugazza:

Thanks, Hugo. Let us talk about slide number 12, financial performance. Let us start with net revenues, gross profits and gross margin. So volatile subjects that we can see one complement in each other.

It is important to mention that when you look deeply at the results of the 4Q20, you can understand what happened in Brazil in terms of the construction costs, in terms of the national inflation index for the construction costs.

First of all, it is important to understand that 2020 was a year that we saw INCC bringing something around 9% year over year, and 12 months by now, we have something around 12%. So inflation is in a clear order to ramp up, especially in the construction materials. Materials that are tradable, materials that are completely connected with the current price and the cost of the steel, for instance, the copper, plastic and all of the materials that are tradable and can be exported from Brazil to abroad.

So first of all, the inflation was high, it was something around 3.5% in the 4Q20. And by the methodology we have been you seem to recognize revenues, you have to recognize by the percentage of completion, PoC. So with PoC, you have a base of costs. When you expand this base of cost by 3% to 4% in just one quarter, obviously you are getting down, you are diminishing the total amount of the percentage of completion for that same site.

And that is why in order to see, for instance, one set amount of construction recognized, our revenues recognized, you can see a little bit less than we thought before. First of all.

Second of all, let me remind you that the tax methodology to recognize costs is of paramount importance to recognize all the incremental costs by INCC, all by the negotiations we have with our supply chain at once in the 4Q20 to have a clear status of the current situation in the construction cost.

And that we have done. That is why you can see gross margin coming down from 44% in the 3Q20 to 40% in the 4Q20. That is our proxy that you are going to see in the next few quarters, because if you will be deeply attention at the backlog margin of our Company, as we are going to see on the next slide, you are going to see something around 45% backlog. Less some taxes, we are going to see something around 43% of gross margin in the coming quarters.

Apart from that, it is important to mention that part of our operation is to sell back to the market the units recovered from the prospect of providing financing to our clients. Some kind of units, instead of bringing the units to the banks in order to get mortgages and receiving the money all at once, we can provide financing to them. As you know very well, that has been holding something around 16,000 clients, which we are providing financing to them.

From those clients, we have recovered some units because of delinquency, we are going to talk a little bit furthers, and obviously we have to sell back to the market. In the last four quarters, all the units sold back to the market were something around R$13 million, fully recognize in the results of 2020. But the margin, obviously, is not the same margin of a fresh unit provided by the Company. So a unit launched and sold by the Company. It is a unit that the cost is the current debt of the unit provided by the client. That is why the gross margin on average got from those units sold back is something around 6% all over the year, but 13% on the 4Q20. That is important to mention.

Another factor that it is important to keep in mind is about our Fit Casa segment, our Fit Casa company of launches in the Minha Casa Minha Vida, the low income segment here in the city of

São Paulo and Metropolitan Region of São Paulo. Those units, we bring the contracts to Caixa Econômica Federal as soon as we start the construction, which means that, when you think about adjusting those contracts for INCC, it is not true, because the total amount of the value is going to be paid by Caixa Econômica Federal without any kind of adjustment. That is the regular work from companies working with Minha Casa Minha Vida projects like Direcional, MRV, Cury, among others.

In these specific segments, without watching the receivables adjusted by INCC and the costs adjusted by INCC, in this specific segment, obviously, there is much more pressure over gross margins, and this pressure can be seen exactly in the 4Q20.

Moving on to selling expenses, it is worth to bear in mind that it was one of the better rates, talking about setting expenses over gross profits since ever for this Company, specifically because selling apartments online can be a little more rational than the way we had traditionally done, specifically because we have the same amount of publicity, we have another kind of sales stand, we have that kind of tools to sell, which are less expensive than we used before. That is why when you look deeply at the 4Q20, we can see the ratio at a level of 3% since the 3Q20.

Talking about G&A expenses, specifically on the 4Q20, there was an adjust over R$5 million in the 4Q specifically because of the IPO, expenses with lawyers and auditing companies for the IPO of EZ Inc that we have cancelled in the 1Q21. So we recognized as expenses in the 4Q20, without moving this expense to be recognized in 2021. Apart from that, you can see the volume of our G&A expenses can be a little bit flat at a level of R$26 million all over 2020.

Moving on to slide number 13, let us talk about, on the top left, financial results. Obviously, one of the highlights from the 4Q20, which was something around R$76 million, mostly because of the adjustments in IGP. So IGP, exclusively in the 4Q, recognized in this result was something around 11%. All in all, IGP last year was something 26%, but only in the 4Q20, something around 11%.

Apart from these receivables adjusted by IGP + 10 on average, we have to bear in mind the volume of cash and equivalency we have in our Company, which is something around R$1 billion, rewarded at a rate of 2% on average in the 4Q20, getting up a little bit by this end of the 1Q21 because the Selic rate was moved by the Central Bank last year.

Talking about equity income, let me remind you that this equity income is the proportionate net income derived from projects in which we have joint control with our partners, and the most expressive project in the 4Q was Reserva JB, a residential project in the city of Osasco, very well sold, a project with something close to 40% of gross margin. And in the next coming quarters, as Hugo mentioned a little bit earlier, you are going to see projects like Signature by Ott, Ereditá Parque da Mooca, Meu Mundo Mooca, all of them projects launched in the 4Q20, but without any revenue recognition so far, because they have not achieved six months or 50% total PoC.

In the coming quarters, we are going to see those projects improving equity income results in a very profitable way, because all of them, we are talking about projects that are having gross margin better than 40%.

Talking about the bottom left, the net income of this Company, R$140 million in the 4Q20, the bigger result for one single 4Q since 2015. And even talking about the full year, R$405 million and net margin of 43% is the biggest result since 2015, excluding the fact of the sale of EZ Towers Tower A. Exclusively in the 4Q20, two net margin reached something around 53%.

Important to bear in mind that not only because of the operational results, not only because of financial results, but even because when you look deeply at the other revenues, other expenses, other revenues in 2020, again, were positive, and positive because we sold one project to

Direcional, one project of Minha Casa Minha Vida, in level 2 branch, much more specialized on doing that, and the goodwill we could see from this sale was something around R$8 million.

And we bought one very big project in 2020, in the neighborhood of Mooca in the city of São Paulo. And even buying this project, we have paid less than the value of the project. And that is why we have to recognize, because of CPC 18, again, something around R$8 million, too. That is important to bear in mind.

And finally, backlog margin came flat, 45%. 45% in the coming quarters are going to turn into something around 43% because of the taxes, but remains stead, which is very good compared to the current gross margin of 40%, and in a level of R$421 million to be recognized. So, so far, no threats of gross margins in the coming quarters.

Moving on to slide number 14, our receivables that we have been providing financing to our clients. That is interesting because, looking deeply at the chart you can see that in 2018 we had something around 1,700 clients, in 2019 we ended up the year close to 1,900 clients, and 2020, we ended up this year at a level of 1,600 clients. So there was an acquaintance of 475 compared to the origination of 162 clients, especially because, obviously, the inflation index we have been using for this portfolio is something around 26% all over the year, which is the IGP. But the good news coming from this slide is the foreclosure. The foreclosure is about seven units only.

Talking about the worth of this portfolio, it ended up 2020 at R$409 million, with only R$3 million of foreclosure. The highlight is a total amount of payments around R$180 million, or around R$200 million of cash received within 2020.

That is important because you can see, because of the chart below, people paying in advance their obligations. So we can see it reducing the number of clients we are providing financing, without experiencing a greater default on this portfolio. So the same units on the default situation, at the beginning of this year, the beginning of 2020, are the same at the end of 2020.

Obviously, because of it, we are going to see improving the numbers of foreclosure in the coming quarters, but nothing that, in my personal opinion, is creating a trend for this portfolio. And let me remind you that all the units under foreclosure, we can sell back, providing a gross margin of, on average, 13%.

Moving on to page 15, an important subject, which is Fit Casa. As you can see on the top left, you can see R$42 million of net income contribution to EZTec in 2020. All in all, 10% of the total amount of net income for EZTec, and gross margin of almost 44%.

What is important within that, you can see on the top right side of this is slide, is the return on equity of 20%. So thinking that in the coming quarters we are going to recognize under these numbers Fit Casa José Bonifácio, a gross margin of 40%, and Meu Mundo Estação Mooca, a gross margin of 50%, there will be a possibility to likely see the return on equity coming at the same level for 2021, because of the project's coming to be recognized in the next coming quarters. So very profitable units under EZTec's management.

On slide number 16, we can talk a little bit about EZ Inc. It is important to understand that the 4Q20 brought assets value at R$865 million, and shareholders' equity around R$716 million. So the remaining R$148 million of liabilities, R$134 million from this number, mainly because one piece of land, the piece of land of Verbo Divino, one tower we bought in south side of São Paulo, very close to Marginal Pinheiros, that we have to pay installments each six months adjusted by Selic plus 150 bps.

So the great news coming in the 1Q21 over EZ Inc is he is the approval by the municipality of Fernandes Moreira tower, Fernandes Moreira project, a gross area of around 8,000 m², despite the fact that nowadays there was an after waiver, which means that we are not looking for capital increments at this momentum for this Company due to the status of the capital markets and our economy indeed.

On slide number 17, the value generation is a very common slide you have been viewing, which means that in 2020, a whole shareholders equity in this Company ended up this year of around R$4.1 billion, which means that the controlling shareholders group have got something around R$4 billion in this amount.

The breakdown for this amount is, in terms of assets, cash and equivalents can represent something around 25% of this equity, the receivables coming from finished units, performed receivables, we are talking about 16% of the equity, R$471 million, the cost of the ready inventory is something around 8% of our equity, R$281 million.

And more important than that, when Mr. Hugo mentioned earlier the landbank acquired of around R$10 billion, it means in our accounting that this amount of land is booked by a cost of R$1.077 billion, which means less than 11% ratio cost over PSV.

Let me remind you that, when you see these figures in terms of landbank, including all the grants, all the Cepacs we have already booked to launch the project, or the to build the project, like, for instance, an EZ Inc project, Esther Towers. Esther Towers is a project that we can understand, something around R$90 million of land, and another R$90 million of Cepacs of grants, all of them booked inside R$1 billion landbank cost.

So, in terms of liabilities, there are only two worth mentioning. First of all, R$184 million of land to be paid in the next coming quarters, mostly because of R$134 million coming from the project of Verbo Divino. And finally, R$96 million of dividends to be paid, dividends that we are making the management proposal in the next coming days to the annual meeting of shareholders to be held and at the end of the next month.

So that is our conference call for today. We are completely open to receive any further questions you may have. Thank you very much, guys.

Hugo:

Thank you, Emilio. For logistical reasons, I will invite the sell side analysts on the room to raise their hands and maintain their hands raised while we give the responses, so we can have back and forth responses.

Nicole Inui, Bank of America:

Thank you for the call. It was great. Can you talk a little bit about the impact of these renewed lockdowns in São Paulo on your business? You mentioned perhaps some of the launches may be delayed until we get out of this red phase, but how do you see it impacting sales, and also your pace of construction, and also approvals for additional projects, additional launches down the road? Thank you very much.

Emílio Fugazza:

Nicole, thank you so much for the questions. Obviously, it is a kind of subject that brings a lot of concerns to a company like us, specifically because we have been working not only in the city of São Paulo, in some products in the metropolitan region of São Paulo, and the whole sector, the real estate sector, the government has a consideration to keep the sites under construction working so far.

So the news we have so far are about to bring earlier the holidays to São Paulo. In the next few weeks, we are going to see for one whole week the entire city closed because of those holidays, those anticipated holidays.

So let us talk about two kinds of things, two kinds of different impacts. First of all, in terms of sites under construction. Sites under construction so far, let me remind you that, since June, July last year, we have been working with some impacts, specifically in the supply chain, not because of the workers, not because of the workforce, but because of the supply chain. So it is hard to see the same amount of materials, the same amount of services provided to the constructions in the right time, and that is why we saw less advance in the construction than we thought before.

The 1Q21 is not different than that. We have some sites under construction bringing to an end much safer than the sites under construction in the beginning of the construction, specifically because in the beginning of the construction you depend much more on the raw material over the others.

So, on the mix, in the 1Q, we do not expect a much greater improvement in terms of their revenue recognition because of it. And obviously, we are also going to see also this impact in the 2Q21.

But in terms of in terms of sales, it is a little bit different. So far, we have achieved something around R$240 million of gross sales. It is a very good number, especially because we have not launched any project yet, and we were expecting to launch the very first project at the end of March, at the end of this quarter, specifically because we have got approvals of R$400 million in the east side of São Paulo.

We do not know for sure because what is going to happen with the sales stands. Obviously, by March, we know that the sales stands are not going to be open, specifically because of those new measures to be taken.

So we expect this project specifically, in Vila Prudente neighborhood of São Paulo, we have a kind of warmup in this project since January, and we think that we can sell something because of this warmup, even online.

Mr. Silvio Zarzur, in the Portuguese conference call, mentioned the project ID Paraíso, which is a very small project, R$26 million our stake in the potential sales value, he thinks that he can sell it only for current clients of EZTec. He thinks that we have a way out, very interesting. But that it. It is not much more than that, we are talking about R$200 million. So to launch another R$300 million of approved projects, we have to see sales stands open again.

In terms of taking approval, taking licenses, it is a little bit complicated, because obviously, we can see nowadays the municipality getting all the employees from those offices releasing the approvals, working home office, and we know that the pace of releasing licenses is going to be slower than we saw in the last four to six months.

All in all, we have a mindset to launch something around R$1 million in the next coming months, specifically to part of it we have already approved, and part of it are in the point to get the licenses. It is only missing someone to sign this approval.

So we only need someone to sign this approval. We are going to take, which means something around 1/3 of the whole guidance for this year. And that is it. That is the whole perspective we can get to you today, Nicole.

Nicole Inui:

Very clear, Emílio. Thank you.

Hugo Grassi:

Thank you, Nicole. In the absence of any hands up, I will take a chance at the opportunity here to make use of some questions that we got from personal investors, from noninstitutional investors over the Portuguese call. I will do a quick translation.

We had a question from João Paulo Araújo, who asked for more for more details as far as what happened as far as construction inflation, how that affects the budget for the quarter. And I will combine that with Rafael's question, who asked about how we are dealing as far as prices, if we are able to pass through the construction cost inflation to prices. He is asking specifically about Minha Casa Minha Vida.

Emílio Fugazza:

Thank you very much for the question. It is important to understand that we have been dealing with the cost of construction the same way we have been dealing for 15 years. So we are trying to take advantage of a very good position of cash, a very safe position of cash. Let me use as an example, lifts, elevators.

We have major contract to buy lifts with Atlas Schindler, one of the biggest suppliers for this chain in Brazil. This contract that is adjusted by IGP in the 12 months from now. And now, IGP is very close to 30%. So we have some discussions with Atlas Schindler to pay in advance all the bills open for lifts that we have in all the construction sites under construction right now, which means that we are going to avoid something around 30% increment in the prices in the lifts in sites under construction. So it is a way to avoid.

In terms of steel, for instance, everyone knows that Brazil is one of the major producers of iron all over the world. But obviously, iron is tradeable. So a company selling steel for the construction sites here in the city of São Paulo, they have to practice the common world prices on this. We have a great push to buy iron from China, for instance, and there is a lack in the supply chain because in a lot of countries we can see closures in those factories, in those mining companies.

That is why in the beginning of January this year, there is still increase for us, something about 40%, and next April, 1st of April, we are going to see another 30% incremental prices on steel. And that is why last year we bought 100% of the steel we need for that year, and it was January. This year, unfortunately, the companies are not allowing us to do the same, but at least we are buying six months in advance of steel, avoiding 30% incremental prices in April, which means that a lot of pieces of land, a pieces of land that we are not increasing the construction or doing the construction right now, have nowadays, storage of steel for construction coming in the next quarters.

We are trying to make an inventory of steel in order to avoid these those incremental prices. But obviously, it is another thing that we are doing for now, taking advantage of our cash and equivalents position, but that is not sustainable in the long way, in the long term.

Nowadays, we can sell the units with a little gain, or no gain, but in the same pace of the INCC. And we know for sure that the INCC is not adjusting the real crisis we are facing in a city like São Paulo.

So thinking about a project that we have launched two years ago and trying to make the budgets for now, so the adjustment is something around 150% of the INCC. So the INCC in projects that we are going to see the timeline of the construction ending two years from now, three years from now, there is no doubt that the INCC is going to get to the point to show us all the incremental prices we are facing today.

And the moment the INCC has done that, we are going to see an incremental gross margin, specifically because the price we sell the units, all around the 40%, 45% is the cost of the construction.

So incremental prices over 10% means that from the price I am incrementing something around 10%, which means, in the base 100, I am incrementing from 100 to 110, and the cost from 40 to 44, which means an incremental gasp of gross margin of around 6% to 5%. But now, currently, we can see some constraints to improve the margin so far. That is the explanation.

In terms of Fit Casa, it is important to bear in mind that the way we have to practice is not only bringing the contracts to Caixa Econômica Federal without any kind of adjustment of inflation. The only way to practice, to sell, is to sell as we have been selling all of the units in this Company, without bringing the contracts to Caixa Econômica Federal.

So we make the major contracts with the bank, but we provide to the bank only half of those units we need to provide, keeping 15% of those remaining units under the management of our company, adjusting those units to INCC, adjusting those units to the inflation costs, which means that we are going to try to take an insurance off of these incremental costs using a tool that we have the most, which is our position of cash.

Hugo Grassi:

Given the time, that concludes our conference call for the 4Q and for 2020. Thank you, Emilio. And thus far the Investor Relations team will remain available for whatever questions, whatever concerns. Feel free to get in touch.

Emílio Fugazza:

Thank you very much. Have a wonderful day, and keep safe. Thank you.