Conference Call 3Q24 – EZTec

Pedro Lourenço:

Good morning, ladies and gentlemen. Welcome to EZTec's 3Q24 earnings conference call.

For those who want to listen to this conference call in English, please use the translation button in your Zoom platform.

Hello. I am Pedro Lourenço, Head of Investor Relations at the Company, and with us for this presentation are Mr. Silvio Ernesto Zarzur, Board Member and CEO of the Company, Flávio Ernesto Zarzur, Director, Vice President, and Chairman of the Board of Directors; Samir Altaiar, Vice Chairman of the Board, Marcos Ernesto Zarzur, Board Member, and Marcelo Ernesto Zarzur, Executive Vice President of the Company, as well as Emílio Fugazza, CFO and IRO at EZTec.

We inform you that this event is being recorded, and all participants will be in listen-only mode during the Company's presentation. Afterwards, we will begin the Q&A session, during which further instructions will be provided. Should any participant require assistance during the conference, please request support through the chat. In case of a connection failure, please use the same link or ID available on our website, ri.eztec.com.br, to rejoin this presentation.

Also available on our website, you can find the slides we are about to present in the Downloads Center. Information will be presented in BRL, under BR GAAP and IFRS applicable to real estate development entities in Brazil. Otherwise, it will be indicated.

Before we begin, I would like to mention that any statements made during this conference regarding EZTec's business outlook, such as projections, operational and financial targets, represent the beliefs and assumptions of the Company’s Management, as well as information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions, as they refer to future events and thus depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operational factors may affect EZTec's future performance and may lead to results that differ materially from those expressed in such statements.

Now, I would like to hand over to Mr. Emílio Fugazza, our CFO and IRO, who will start the presentation. Please, Mr. Emílio, you may proceed.

Emilio Fugazza:

Pedro, thank you. It is always a pleasure and an honor to be here, celebrating with our shareholders, analysts, and listeners, the release of our 3Q24 results. Thank you all for your attention and patience.

I think I’ll start with our launches for this quarter, our 3Q24, beginning with Lindenberg Alto das Nações, a project that is part of the Alto das Nações Complex, located in the Marginal Pinheiros, Chácara Santo Antônio region. This project is part of a group that includes a shopping center, a commercial building, a multi-use tower, and our project, which is a tower of apartments ranging from 110 to 213 square meters. With its launch, we achieved a sales rate of 41% as of this reporting date.

The project has a PSV of R$570 million, and we have already started construction, given its complexity, which has allowed us to recognize revenue, contributing over R$60 million in net revenue for this quarter.

Silvio Ernesto Zarzur:

I want to highlight that EZTec holds a 90% stake in this project.

Emilio Fugazza:

Continuing with our launches, let's now discuss DOT.230. The DOT project is located on Alves Guimarães street in the Pinheiros neighborhood, close to Rebouças Avenue. Originally acquired as a commercial building, it was skillfully converted into a residential project with apartments ranging from 22 to 44 square meters, reaching approximately 46% in sales within less than a month from its launch. This project added R$153 million in PSV for the year.

Moving on, we turn to the performance of our launches. In this slide, which is new in format, we can see, on the left side, the launch volumes from 2020 through 2024. It's evident that EZTec launched around R$1.34 billion in the first nine months of 2024, a figure already 35% higher than the total launched in 2023.

Notice also the marked cherry-colored sections representing third-quarter launch volumes of each year, showing that 2024 reached the highest third-quarter volume ever launched by the Company. However, what truly stands out is the right-side graph, covering 2024 to 2020, illustrating the average sales velocity we achieved within the first three months of each year's launches. By 2023, we had reached an average sales speed of 34% within the first three months of launches. But in 2024, this figure significantly increased, with nearly half of the launched PSV sold within the first three months, demonstrating market strength and our capacity to drive our sales in 2024.

Looking ahead to upcoming launches, we see here three projects planned for the next two months, starting from right to left. First, Connect João Dias, a Minha Casa Minha Vida project in partnership with Conx, a developer and builder specializing in this product type, with EZTec's stake at R$72 million. We intend to begin sales and sign sold units starting on November 7, 2024.

Next is Alt Studios, a project initially developed by EZ Inc as a commercial venture, once again skillfully modified into a residential project similar to DOT.230, and is 100% EZTec. It is slated for launch in the fourth quarter.

Lastly, but no less significant, is another project under the Lindenberg brand, Lindenberg Reserva Paraíso, where EZTec's PSV share amounts to R$190 million. This high-standard apartment project is located in the prime area of Paraíso, and we plan to start sales in early November.

Now, speaking about the land bank, observe that we closed 3Q24 with BRL 10.355 billion, a result of both the launches made during the quarter and the ratification by the Company of the São Caetano land plot, which will bring approximately BRL 1.858 billion in PSV to EZTec. This is over 200,000 square meters of private area to be launched in a city that has the highest Human Development Index in the state of São Paulo, one of the most desirable locations for the middle class in the São Paulo region and São Paulo Metropolitan Region.

With that, we move on to another important part of our operation: the deliveries. In the quarter, we delivered almost BRL 200 million in PSV, concentrated in a two-tower project, Signature and ID Paraíso. The photo on the left shows Signature, high-standard apartments developed with all the design of our architect Carlos Ott. With 77% of the units sold, we also managed to complete this project with cost savings, something that had not happened for the Company in the last two years. We once again see a positive result from engineering, contributing to EZTec's overall result.

The year 2024 has been a more 'restrained' year in terms of deliveries, totaling only BRL 511 million; however, 85% of the units to be delivered this year have already been sold.

It's important to highlight that 2025, a very important year for Company deliveries, already has 72% of its units sold as of 4Q24. This demonstrates the strength of delivering projects without necessarily creating a large inventory, which prevents any pressure on pricing for ready or remaining units to be sold.

Shifting from operations to finance, let's begin with net revenue, where we had a major highlight in 3Q24, with significant growth from 1Q's BRL 239 million to 3Q's BRL 479 million, an increase of over 100%.

Furthermore, as shown by the red line at the top, accumulated 12-month revenue reached BRL 1.472 billion, a growth of approximately 40% compared to the 12 months ending in 3Q23.

Notably, revenue growth was significantly driven by Lindenberg Alto das Nações, with at least BRL 66 million; the overcoming of suspensive clauses in Lindenberg Vista Brooklin, contributing BRL 40 million; and, importantly, Lindenberg Ibirapuera, now over 50% sold with 73% construction progress, which contributed BRL 80 million in revenue and margin growth during this period.

Moving to gross profit, we also saw a substantial increase from 1Q's BRL 82 million to BRL 163 million, marking 100% growth. This quarter's highlight is the gross margin reaching 34%.

However, as noted in the release, which I encourage everyone to review for full quarterly details, our REF margin—a proxy for the Company's future gross margin—remains strong, above 40%, and combined with equity income, is at 41%.

Observe that this is in the context where, currently, the overcoming of suspensive clauses with revenue recognition, at current NTN rates, leads to a significant discount in revenue through present value adjustments. As a result, the margin of a project recognized today is nearly halved due to this present value adjustment. This margin, however, is not lost but merely an accounting effect that remains deferred.

Notably, as the REF margin stands at 40%, it gradually returns as the project nears completion, leading to future margin recognition for the Company. Therefore, the REF margin, which is effectively the working margin of the Company, remains robust within the 40% range, providing substantial reassurance.

Moving on to equity income, another key highlight beyond margin and revenue, equity income has also grown by nearly 200% since 1Q24. This growth is undoubtedly due to the volume increase from jointly controlled ventures, through EZCAL, our partnership and joint venture with Lindenberg.

Equity income for the last 12 months totals BRL 84 million, with BRL 29 million in this quarter alone, which includes cost savings contributing directly to approximately BRL 3 million in additional revenue.

Next, we discuss financial results, another notable component of the total result achieved by the Company. This quarter, financial results reached BRL 37 million, mainly stemming from our Direct Receivable Portfolio. This portfolio amounts to BRL 472 million, marking nearly BRL 100 million growth since the start of the year and approximately BRL 30 million growth since the last quarter.

It's worth noting that the main contributor to this period's results was the IGP index, with a quarterly variation of 2.22%, with 2/3 of our portfolio tied to the IGP and approximately 1/3 linked to the IPCA. The average rate of our portfolio today is around 9.9%, or approximately 10%. This positions our portfolio as a "10+IGP" proxy. Over the past 12 months, BRL 120 million has been added to our net income.

Finally, regarding results, let's discuss our net income and ROI. Net income has grown approximately 120% since 1Q24 and nearly 50% from 2Q to 3Q24, reaching BRL 133 million, marking one of the best net income results in recent years.

It's worth noting that our 12-month accumulated net income is already at BRL 361 million, and, if annualized, would yield an ROI of approximately 11.4%.

This significant increase highlights positive developments across all fronts of our operation. For example, our consolidated EZTec operation saw favorable outcomes, as did jointly controlled projects whose results appear in equity income, and finally, financial results, which contributed about 1/4 of the total results.

In terms of cash and debt, we saw a variation in our net cash within net debt of approximately BRL 50 million. Part of this reflects our traditional policy of quarterly dividend distribution. As for net debt, the main activity this quarter was an increase in SFH financing to support our building projects, with gross cash movement almost imperceptible within the quarter itself.

Lastly, I bring an additional positive note beyond the Company's own results, which is our dividend distribution, contributing gradually to an ROI more in line with current needs.

In this case, this quarter we have quarterly dividends, which have increased from previous quarters, reaching BRL 31 million, representing 25% of the quarterly net income. In addition, we celebrate an extraordinary dividend of BRL 150 million, totaling BRL 181 million, or BRL 0.83 per share. Please note that the cut-off date is November 5, including that day. Consequently, shares will be ex-dividend as of November 6, with payment scheduled for November 14, just before the Republic Day holiday. With this, the past 12 months' cumulative dividend distribution will total BRL 236 million.

With that, I now hand the floor to our CEO, Board member, and Company CEO, Silvio Ernesto Zarzur, for his remarks. Silvio?

Silvio Ernesto Zarzur:

I'd like to start by saying good morning to everyone, and thank you for attending. I'd like to mention that it was a very strong sales quarter. We performed very positively across all segments, selling ready units, mid-range units, apartments at R$10,000 per square meters, apartments at R$30,000 per square meter—essentially, every type of product the Company offers.

This result is closely tied to our aggressive commercial policy, our meticulous marketing approach, and a strong commercial drive in credit approval, ensuring credit is granted effectively without creating unnecessary obstacles.

We also succeeded in smoothly transferring units with the banks, maintaining solid relationships and facilitating fluidity in this process as well.

This performance is also due to cost efficiencies in construction. We are no longer experiencing construction overruns, thanks to adjustments we made in our engineering practices, which are working very well. So today, we are working with cost savings in mind, rather than overruns.

Additionally, this quarter, we completed the non-operational aspects of Lindenberg's expansion. Now we're in the process of securing approvals from Administration Council of Competition Defense and other formalities. Emílio is looking at me—I'm not sure if I was supposed to share that. Was I not supposed to?

Emilio Fugazza:

It's that we haven't completed the expansion yet.

Silvio Ernesto Zarzur:

We have, indeed, completed the bonus anticipation phase, and we are now moving into the operational aspect. We've submitted the request, and I believe it's progressing well. If it's not fully completed yet, it's certainly on track, and we expect a positive outcome within the next four months.

Another key point I'd like to highlight is that our land bank is well-suited to support the Company's operations for the next three years. This is a high-quality land bank, well-positioned both in terms of acquisition price, location, and liquidity potential. It's not a land bank that we cannot realize in the short term, which provides us with peace of mind, knowing we don't need to rush into acquiring additional land right now.

So, we'll be highly selective with land acquisitions over the next two years. This approach should increase our cash generation, as we'll be spending less on land purchases, considering the quantity we currently hold.

We're also well-distributed geographically. Previously, we felt that we were overly concentrated in the South Zone, but we've managed to diversify effectively. Our land bank is now strategically distributed, enabling us to launch a substantial volume without cannibalizing our own sales.

We have made several changes within the Board, including new hires, and have professionalized certain departments, which has been very successful. Management is now streamlined and efficient, giving us a sense of continuity for the Company. As we advance toward a more professionalized structure, we achieve a greater sense of permanence, which I consider vital. Flávio, Marcelo, and Marcos, my brothers and brothers-in-law, are also focused on this, always working toward the Company's longevity.

This dividend distribution is really an excess capital we had that called for distribution to help improve our ROI. I believe our objective is to continually enhance ROI over the next three years.

One additional point of interest: we had robust sales in Q3, and as of yesterday, we closed the month with R$220 million in managerial sales. Sales continue to be strong, spread across the portfolio.

Also, we are selling at prices approximately 5% below our competitors. Even with our current margin structure, we have competitive advantages that allow us to sell at 5% below our competitors, which improves volume and liquidity. This approach has also helped us dilute commercial and administrative costs. This aggressive commercial strategy has been essential to our success.

We currently have two open sales floors heading towards closing. The Lindenberg, here in Paraíso, which we believe will be highly successful, is a building with 75% of our participation, although managed by Lindenberg. We believe it's progressing well. Additionally, we have the Missionários project with Conx, which is also performing successfully, with sales floors already open and transactions expected to be finalized in the coming days, likely sustaining our sales momentum.

A point of concern remains the market outlook for next year, particularly regarding interest rates, which have impacted mortgage financing, making income verification for clients slightly more challenging.

Our direct receivable portfolio is also performing robustly and warrants attention. We are now shifting toward a model where it becomes more structured for transfers. We'll no longer handle it as we did before; instead, we'll manage it to ensure liquidity.

These are the key areas I wanted to emphasize, and I can say everything is progressing very well.

Flávio Ernesto Zarzur:

I echo Silvio's comments. I believe it took some time for us to adapt, as I often say, to the post-pandemic period. We went through a slight shift in philosophy and had some challenges to absorb. I feel that all of this is now behind us, and we're comfortable with our current pace. We're very pleased with the results we're delivering this Q3 and believe that, in the medium and short term, we'll continue achieving results at this level.

Thank you very much to everyone.

Marcelo Ernesto Zarzur:

Good morning, everyone. Thank you for being here. I'd also like to reiterate what Silvio mentioned. With EZTec's new management, now with roles more clearly defined and stable, and Silvio leading operations, everyone knows exactly what to do, and I believe we're starting to see the results everyone expected.

Moving forward, it's about continuing to improve, and if the market supports us, I'm confident that results will remain very strong. We'll start the year off strong, with three or four sales offices ready for launch. Approval processes will be complete, and all we'll need is the market's response to launch securely and achieve good sales.

As Emilio and Silvio mentioned, the engineering side, with the adjustments we've made, is now on track. From here on, we hope sales, engineering, and overall company efficiency return to the strong profit track record we've built over many years.

That's the message I wanted to share.

Pedro Lobato, Bradesco BBI:

Good morning. Thank you for taking my questions. My first question is about dividends. Please correct me if I'm mistaken, but if we add up the dividends you're expected to distribute this year, in terms of total volume rather than per share, this may be the highest amount in recent years, excluding 2017, which included an extraordinary distribution from the sale of EZ Towers.

In the introduction, it was clear that the goal is to improve ROI. However, even with this new level of net debt, can we still expect an extraordinary dividend of this magnitude in the coming years? I'd like to understand a bit more about the forward-looking strategy for dividends.

My second question is more related to the mid-income segment. Over the quarter, at least when we look at the consolidated picture of São Paulo, this segment has lost a fair bit of share in terms of total launches and sales in the city. We understand there are factors like the City's Master Plan, which delayed some approvals, and also the increase in share by the Minha Casa, Minha Vida program. Given all this, what are the main reasons you still maintain a positive outlook for the mid-income segment going forward? Thank you.

Silvio Ernesto Zarzur:

Pedro, thank you for the question. As for dividend distribution, what is certain is the 25%. Beyond that, we have nothing planned. We will evaluate each period and have no plans for anything beyond this. If at some point we see an opportunity, we might distribute more or not, but for now, it’s 25%.

Regarding the mid-income segment, I think it’s heavily impacted by the growth of Minha Casa Minha Vida, which may explain the reduced share. I don’t know the exact share of Minha Casa Minha Vida in São Paulo, but it could have been large enough to make mid-income’s share decrease by comparison.

That said, well-located projects with the right product mix remain key. Look at what we achieved at Villares, where we sold 90% within three to four months—good pricing with good margins. I can’t speak for others, but as for us, we have several strategically positioned lands ready for or nearing launch. We have them in Osasco, in São Caetano, here on Fagundes Filho in the South Zone—throughout the city, we have these targeted products that we expect to sell quickly.

It’s essentially a line of products, designed to specific sizes, with construction and cost features that meet buyer demand and affordability. And due to their distribution across locations, we can launch them in sequence without major issues.

So, I believe that well-executed mid-income projects, as we are doing, will work well for us and be the company’s main growth driver.

Ruan Argenton, XP:

Good morning. Thank you for the question, and congratulations on the results. I have two questions here. First, regarding launches, I’d like to understand your perspective on volume for 2025. Are you expecting robust growth, as we’ve seen this year? With the faster sales and launch pace this year, does that increase your confidence going forward? Additionally, about product profile, we noticed Alto das Nações is more PSV-concentrated; do you expect to have more PSV-focused launches next year, or is the plan to diversify across more projects?

My second question concerns margins for new launches. Emílio provided a good explanation about how project margins increase over time. I’d like to know if, from a total margin perspective for current launches, you see a margin that aligns with or exceeds the current REF, just to understand if we should expect further REF growth moving forward. I believe that’s it. Thank you..

Silvio Ernesto Zarzur:

Ruan, I’ll answer part of your question, and maybe Emilio will address another part. We’re prepared. What do we mean by 'we’re prepared'? In January, we’ll start the year with five sales offices ready, with scale models set up, projects approved, marketing campaigns, everything in place. So, we’re ready to achieve robust growth.

That doesn’t necessarily mean we will. And why not? Because we have a macroeconomic scenario that concerns us a lot. As I mentioned, there’s the rising interest rate and the potential impacts of that. I think you may have a clearer view of this than we do. When I look at the Company, if we weren't dependent on the general economic situation, the answer would be, yes, we should experience robust growth based on what we're capable of achieving.

But we heavily rely on continued buyer confidence, which is still present despite the current interest rates. It seems counterintuitive, with purchasing volumes holding up while interest rates are hovering around 12.5% or 13%. This concerns me regarding what lies ahead. But we also have confidence, given that we have five sales offices in the setup I mentioned.

So, we're very confident, and we're moving forward. Whether we'll continue on that path depends on how things unfold, but there's that factor I mentioned. We can sell 5% cheaper than our competition while still maintaining our margin.

This, then, gives me what I'd call a competitive advantage. We have a very strong brand. Our brand is powerful in São Paulo. We have a robust sales team, substantial financing capability, and the ability to sell 5% cheaper. This gives us a competitive edge over the competition. Others might see it differently, but I believe these factors allow us to navigate situations where others may find it harder to do the same.

And we're present across all segments. 'The R$8,000 apartment isn't selling?' Fine, we'll sell the R$30,000 one. 'The R$30,000 isn't selling? The R$15,000 is.' We'll sell the R$15,000 unit. 'It's not selling in the South Zone?' We'll sell it in the North Zone.

So, this diversified portfolio we have allows us to adapt to various circumstances, as do these competitive advantages I mentioned.

Emilio Fugazza:

Ruan, thank you for the question. Let me shed a bit more light on the issue of margins for the new launches that you asked about. When we look at the REF, this 40% REF, it would be prudent to consider that in this REF, the PIS/COFINS taxes are not included, nor are the financing costs we incur, which of course vary for each product. So, you could estimate an average of around 1.5% to 2%.

Therefore, with PIS/COFINS at 2%, and financing at 1.5% to 2%, that totals 4%. This means that our REF, when it reaches the gross margin level, stands at approximately 36%. This 36% is what we've actually observed in the launches we've carried out. However, it's been quite complicated to adjust to the present value, as the NTN-B rate is very high. So, when I look at Lindenberg Alto das Nações, which has sold very well and already has POC considered, our revenue volume is high.

Now, just to give you a rough estimate: if I were to tell you that its margin is close to 40%, a present value adjustment on a project I'll deliver in three years, with 70% of the client's payment due upon delivery or financed at that time, would mean adjusting 70% of the recognized revenue for that client while maintaining the same cost base. With an NTN rate between 6 and 7, this reduces the gross margin by almost half. So, a project with an initial gross margin close to 40% would drop to around 20%. This is a rough estimate, but it gives you a clear picture of how severe this adjustment is at the moment.

On the other hand, as I get closer to delivery, I'll recover all this revenue. And as I recover this revenue, there's significant compensation. This means that, at a certain point, the revenue from this project will reach a margin well over 40%. That is, it may go up to 45%, perhaps even 50%, due to the impact of such a high present value adjustment in our current economy.

Fanny Oreng, Santander:

Thank you, Pedro. Good morning, everyone. I have two questions. The first is regarding the delivery of units scheduled for 2025. I noticed that you have a total PSV of R$2,560 for delivery, and I would like to understand what percentage of that has already been paid. That would be my first question.

Secondly, I would like to understand how the demand from end clients for arranging real estate financing directly with you is evolving. That's it for now.

Silvio Ernesto Zarzur:

Good morning, Fanny. Thank you for the question. We have set up a solid structure to ensure the successful operational delivery of the projects. We've been delivering properties to the satisfaction of our clients. And as for the rest, regarding the operational aspects of these figures, Emidio will be able to provide more details as well.

A significant portion of these units, due to the financing cost level, goes into the direct receivable portfolio. So, in this last quarter, our direct receivable portfolio grew by R$70 million. Is that correct, Emilio?

Emilio Fugazza:

It grew by R$30 million in the last quarter. Nearly R$100 million for the year.

Silvio Ernesto Zarzur:

Nearly R$100 million for the year. It grew by almost R$30 million this quarter, nearly R$100 million for the year. So, we were prepared for this, but we'll also try to set up a vehicle so that, if this number grows significantly, we have an opportunity to transfer it to CRIs or to banks more easily.

Marcelo Ernesto Zarzur:

Flávio has already answered; we're prepared to absorb the demand for in-house financing. As Silvio mentioned, we're preparing this portfolio to be transferable at a time we find convenient, when the clients once again meet the banks' credit requirements. So, we're ready to handle all incoming payments from these clients.

Emilio Fugazza:

Fanny, I'll add to my colleagues' responses in the following aspect. First, it's important to mention that this upcoming batch is a healthy one. The percentage paid by these clients is close to 40%.

However, it's worth noting that EZTec, through Flávio and our legal department, has been actively monitoring collections. So, when you look at the cancellations that occur quarter by quarter, despite any changes in people's lives, Flávio is always very attentive to managing delinquency to ensure it doesn't persist in our portfolio.

Thus, when we reach the end of a project, we are left with clients who are truly ready to be transferred or remain with the Company and are in good financial standing. This is very important.

In-house financing has grown, especially considering new sales, but this growth—which was R$30 million in the quarter—when I look at the total for the completed project, has not been much more than 5% of the total delivered project.

Obviously, our view is that for the future, given Silvio's comments about interest rates and the tightening of real estate credit due to these rates, we understand that the portfolio will be an important vehicle to finance a portion of these new clients.

The Company has a robust balance sheet for this, so we expect this to increase. But for now, we are observing this in a well-controlled and, above all, healthy situation.

Fanny Oreng:

Just a follow-up here today: currently, we know that the demand from real estate funds to purchase receivables portfolios is very high, and EZTec's portfolio is particularly attractive due to its return level. Have you been receiving many purchase offers for your portfolio?

Emilio Fugazza:

Fanny, yes. We do receive offers here. I would say that every two weeks, financial agents present us with CRI proposals, each with its own structure—some with mezzanine operations, with co-participation or without. Yes, we are receiving them.

Silvio Ernesto Zarzur:

And I want to remind you of something, Fanny: we are much more efficient than a fund or a bank in managing this portfolio. Because repossession of the property, in the event it occurs, and its resale—this is all part of the Company's daily operations, something we even do profitably.

So, there's what Emílio mentioned, and one more thing: from now on, we will have this portfolio set up in a way that will make it even more liquid and increase its value. We will structure it within parameters that will allow us to have greater liquidity and higher value at the end of the transaction.

Fanny Oreng:

That's great. And can't you share with us the rate that people are currently offering you?

Emilio Fugazza:

Fanny, essentially, this is a portfolio that could easily be securitized at par. In fact, the offers we're receiving today are designed for us to gain a bit more, obviously by retaining some level of risk. In other words, the value at which it's accounted for is the value we could achieve through the vehicles offered by the banks. So, our IGP or IPCA + 10% is within expectations.

Silvio Ernesto Zarzur:

And the risk he's referring to is also a gain potential. Because with this portfolio management, when Emílio mentions risk, we have to see that it can go both ways. I believe that if we manage such a portfolio within the model and with the experience and structure we have, the risk will turn into profit.

Tainan Costa, UBS:

Good morning. My first question is a follow-up to the previous one. I'd like to understand what percentage of the delivery volume you have scheduled for next year you intend to keep on your books and what percentage you plan to transfer to banks, considering the somewhat more challenging scenario of resource scarcity and rising rates.

Given that, what is the cash generation outlook for 2025? Can we expect an extraordinary dividend, given all the transfers planned for next year?

Emilio Fugazza:

Tainan, the second question, you were talking about commercial expenses. Is that correct?

Tainan Costa:

Perfect. Another point that caught our attention this quarter, perhaps a positive surprise, was the selling expenses. In the recent past, you were running sales around R$300 million to R$400 million per quarter, and in these last two quarters, there was an increase to just over R$500 million. There's been some growth, and in Q2 there were some outliers with non-recurring marketing and sales expenses, but this quarter was more efficient in cost control. Even with sales at this level, you managed to keep expenses slightly lower, which reduced the percentage of selling expenses in relation to sales to around 5%. Was there a specific strategy for this, and can we expect the Company to continue operating at this level going forward?

Silvio Ernesto Zarzur:

Tainan, our preference is bank transfers. So, if the client has the possibility and their credit is approved, they go for a bank transfer. We're prepared to increase it a bit. For example, we could increase our direct receivable portfolio by an additional R$200 million next year. But it doesn't depend on what we want to do; it depends on whether they are unable to qualify and fit into our portfolio.

So, this is something we're prepared for based on demand; it largely depends on how banks behave, on whether they facilitate financing or not, to understand the demand we'll have. We're prepared to do it, but that doesn't mean we will. That's one point—we plan for a certain amount, but it doesn't depend on us to achieve it.

Marcelo Ernesto Zarzur:

Regarding commercial selling expenses, as sales increase, we dilute the fixed selling costs. This is obvious. But we monitor it week by week, product by product, to make the best calculations for the company.

Sometimes, we have to be a bit more aggressive, which causes the percentage to increase slightly, and of course, you'll see this reflected in the following weeks. And since we've seen a sales growth trend, this has led to an improvement in results, further diluting commercial expenses.

Emilio Fugazza:

Just to add a technical note here, Tainan asked about the cash generation capacity for next year, given the delivery volume we have. Tainan, obviously there are uncertainties about what will be done regarding direct receivables and bank transfers. So, I think you can do a straightforward calculation based on the R$2.5 billion we plan to deliver.

I've already mentioned to Fanny that 40% is paid, so I have 60% left to receive, and let's say I reach that with 80% of it sold. From that, I need to subtract the real estate financing, which should be about a third of the total generated.

So, cash generation is quite positive, but I should remind you that it will really pick up in the second half. It's undoubtedly a very important year for cash generation, but starting in the second half, Tainan.

Silvio Ernesto Zarzur:

And we have a launch pipeline that also requires significant cash outflow. I think that, in this equation, the positive point, when it comes to cash generation, is the lack of a need for land purchases.

When I look at the Company's operations, there's the cash generation that Emilio mentioned, there's the cash consumption in launches, everything we do needs to reach a certain percentage of construction start to secure financing. So, there are several factors involved. Therefore, in terms of cash generation, I think the reduced need for land purchases is the most relevant point.

Kiepher Kennedy, Citibank:

Good morning. I have two questions. The first one is that the Company delivered a strong, healthy, resilient gross margin, but my question concerns costs. We've seen INCC evolving at almost 6% year over year in the latest available data. I think labor and materials are the items that stand out most for us. I'd like to hear from you what you're seeing on the ground, regarding cost discussions and adjustments for next year. Any insights you can provide here would be great.

And the second question, perhaps a bit more sensitive, but I think it's important to hear what you can share on the CAL topic to better understand this issue. You mentioned that the subscription of shares to be issued by CAL should happen by transferring EZCAL's stake to CAL and, if necessary, covering any shortfalls through the conversion of loans between the companies. Today, EZTec's stake in EZCAL is approximately R$130 million in equity, if I'm not mistaken, and the loan between the companies, as per the balance sheet, is around R$75 million.

I'd like to understand if it makes sense to consider these values as a starting point for a potential transaction between the companies and, from a strategic standpoint, understand what would motivate the anticipation of this event, which was the subject of the Company's announcement. Should we think that, for example, this event might be driven by the fact that CAL's land bank is higher-end than EZTec's current holdings, perhaps better suited for this launch cycle? So, I'd like to understand a bit from the perspective of values and the strategic motivation behind the anticipation of this event, and the first question concerns the INCC.

Flávio Ernesto Zarzur:

I haven't been on the ground as much, but I've been following Gava's updates. We expect the INCC to indeed align with our construction costs so that we don't exceed them further. We are investing in more streamlined projects, faster construction processes, and forming partnerships to ensure this, as we have always done in the past.

Of course, labor is the main challenge, in my opinion. I'm not as concerned about materials, but with these standardization and industrialization processes that we're already developing here with the engineering and project teams, I expect the INCC to cover our construction costs.

Silvio Ernesto Zarzur:

As we've been designing projects more suited to each type of land, even though costs are rising with the INCC, we've become more efficient in how we plan, which has led to savings. It's not a specific type of savings—I can't fully explain it—but where we can use structural masonry, we do; where we have a partner who can build concrete walls, we use concrete walls. So, we've been employing various methods to align costs with the sale price we want to achieve. I think we're doing very well with this.

Regarding the partnership with Lindenberg, it has yielded positive results for them as well. You can see that, since we partnered, they've shown very good performance, and when we look at how they work alongside us in sales, etc., it's been very positive.

Now, this is a company with an equity of about R$30 million today. So, you see, it's a company without the means to finance itself, without the means to grow. And when we look at what we aim to achieve in partnership with them, it's very positive to make this move and provide them with a capital structure that allows them to grow faster.

And let's remember that we'll have approximately 40%, I imagine, upon completion of this. And this upcoming market period, I believe, will be favorable for them. And it's not always that the market is favorable in Brazil, where you can say, 'Let's wait three years to do this.' In three years, everything could change, and you might not be able to do anything.

So, the general understanding here was that the timing is positive. The time when we invest aligns with their capacity to operate. This capacity to perform three years from now might not encounter the favorable market conditions we see today.

Therefore, the motivation to get them running stronger now is based on this positive outlook. Again, three years from now, we don't know. The outlook might not be as favorable for them. We hope the coming years will be good, and we're with them both directly with Lindenberg and through the partnership between Lindenberg and EZTec. So, these are two important business channels for us.

Emilio Fugazza:

Thank you, Silvio. Just adding, Kiepher, and confirming, because this is also an important point you mentioned. In this operation, where we requested the anticipation, we will capitalize them through EZCAL's participation, our stake in EZCAL, and we will supplement with part of the loans that were made with CAL. We will still retain a significant portion of the loans within EZTec. So, I'll have this operation with related parties here, which will yield some type of remuneration for the Company until CAL can, through its own structure, achieve a lower capital cost, a slightly lower debt cost. This is the step-by-step process we intend to promote with CAL in the coming years.

Kiepher Kennedy:

Answered. Is there a timeline for the next steps in discussions with CAL? You mentioned Administration Council of Competition Defense, but what would be the timing, so we can understand?

Emilio Fugazza:

Kiepher, from now on, there's no further discussion with CAL. In other words, the discussion was completed through the request for anticipation. The next steps are really legal procedures. That is, on CAL's part, there are two shareholder meetings to be held, along with meetings, board approval, and CADE. This is why Silvio mentioned an expected process completion time of four months, given these legal timelines.

Mariângela Castro, Itaú:

Good morning. Thank you for the question, and congratulations on the results. I have two questions. First, I'd like to explore the level of net income the Company achieved this quarter. Does it make sense to consider this as recurring for the upcoming quarters? What is your outlook on the Company's profit evolution?

My second question, returning to the topic of funding, is to understand from EZTec's perspective how it has been for you to secure financing for projects with banks. Have you felt any pressure on rates or increased difficulty in this regard recently? That's it. Thank you very much.

Silvio Ernesto Zarzur:

It's recurring. There are a number of factors that affect net income. What I can say is that within the Company's plan, we aim to keep increasing it. When you look over a 12-month period, there are specific factors that may slightly change its progression. But our intention is to increase our profit next year, then the year after, and the year after that.

We want to achieve a better ROI than we currently have. Our current rate, around 7 to 8 per year, isn't satisfactory. We aim to reach a 12 ROI initially, then 16, and eventually 20, returning to the 20% level we traditionally operated at.

We have a long-term plan in place to achieve this. It doesn't happen overnight, unless we have some movement within Esther, which isn't on the table at the moment. There's no significant negotiation or anything like that happening, but the corporate market has been improving.

This increase is slow and gradual, following a plan, so you can eventually make a forecast.

Flávio Ernesto Zarzur:

And speaking about funding, for EZTec, which, as everyone knows, is a well-rated company with banks, they have been very consistent with the latest financings we've done.

In fact, we're currently in the process of quoting financing for production up until June of next year, and the rates are coming in at the same levels as before. It's a considerable amount, around R$1 billion, and it's either coming in at or near the same rates we previously worked with.

If Emilio wants to add anything. But that's about it, right, Emilio?

Emilio Fugazza:

Of course. Our main concern, honestly, Mariângela, is with the end customer, because the Company is well-protected through its own balance sheet, the quality of management, and the results.

The end customer is a concern for us, and obviously, we would like to always maintain a close relationship with the banks, which are able to offer competitive rates for these clients, because, in the end, 60% of this credit will stay with them.

Igor Machado, Goldman Sachs:

Good morning. Thank you for the opportunity to ask questions. I have two on my end. The first is regarding inventory. We saw a 9% sequential increase, with 56% being in the high-end segment. I'd like to understand how you see this going forward, and if you expect a decrease, given that we've seen greater liquidity in high-end products.

And the second question, continuing with the land pipeline, you mentioned that the pipeline for the next three years is already set. I'd like to understand better, if possible, the breakdown of this land among the segments you plan to launch. That's it. Thank you.

Silvio Ernesto Zarzur:

Igor, thank you for the question. This growth in inventory, this high-end inventory position, is temporary and circumstantial. We tackle one thing at a time, and this quarter we worked to reduce high-end inventory, and we succeeded.

I'll speak a bit about overall inventory. So, for high-end, I don't see a buildup of unsold units for us. We'll address each product individually, as we did recently with Lindenberg Ibirapuera to reduce inventory, and we were very successful with that. We work selectively with the products, assessing the need as we go. That's one thing.

Another thing is that the Company's overall inventory will follow the pace of launches. Our inventory won't grow disproportionately to our launch volume. We'll keep it growing in line with or below our launch volume.

Right now, I have the numbers here—we're at around R$2,200 in inventory on our management side, though that may not be the exact figure on the balance sheet. But if I launch three or four buildings in a quarter, there will be an increase in inventory, because you can't immediately sell everything that's launched, and we adjust this throughout the year. But, as a percentage of what we launch, inventory will either stay at its current level or go below it. That's what we'll manage it towards.

As I mentioned, our land bank is well-distributed across several income segments, including a significant portion in low-income, within the Minha Casa Minha Vida program, through partnerships. We probably have something around R$1.5 billion, though Emílio may be able to give a more precise figure, but it's roughly in that range, with none of these projects being directly operated by us.

We have a geographic distribution in Greater São Paulo and in the East and South Zones. Speaking of low-income, we are well distributed. We have a high-end project now launching in Paraíso with Lindenberg, we have high-end properties in the South Zone, in Moema, near the Chucri Zaidan region close to Alto das Nações, and land near Roque Petroni.

So, we are well distributed. Our land bank is diversified in terms of geography and standard, with all properties very well purchased, well-positioned, and with a very competitive final sale price for the regions we are in.

Gustavo Cambaúva, BTG Pactual:

Good morning. I have two questions as well. First, could you comment a bit on the two large plots you mentioned, the one in São Caetano and the Extra plot as well? I'd like to understand if these are indeed the only two in the pipeline. Silvio suggested that much of the cash generation next year may stem from the fact that there's little land acquisition. So, I'd like to know if that's really the case. And regarding the Extra plot specifically, are you considering bringing in a partner to potentially share the risk and scale of the project, given its large size, or does EZTec intend to proceed alone?

And my second question, perhaps more for Emílio, is to understand a bit about leverage, capital structure, and dividends. The Company currently has a very low net debt, but the historical position has been net cash, and you've announced this extraordinary dividend now. So, I'd like to understand how we should view this going forward—was this dividend indeed an anticipation of the cash generation expected next year, or will you work with a slightly higher leverage in the short term, given the receivables, the tower, and so on, to potentially deliver a slightly higher ROI? And should this dividend align with cash generation throughout next year, or is much of it already anticipated now? Thank you.

Silvio Ernesto Zarzur:

Gustavo, thank you for the question. São Caetano is a plot located in a city that previously had an urban planning issue concerning zoning laws, which has now been resolved. So, we bought this land and will start paying for it next week. It's already approved and divided into four plots. Essentially, when I talk about this land, it consists of four lots, each with its own registration, approved project, and we'll pay for it over 24 months, if I'm not mistaken. We plan to start launching it, and before paying 30% of the land cost, we'll launch in the first half of 2025.

It's a city with high demand due to the previous urban planning issue, with one of the highest HDIs in the region, and there's strong housing demand. We bought this land at what I consider a suitable price, and we believe in its potential.

We're going it alone on this project. With a PSV of R$1.8 billion, it's all EZTec's, with a variety of products. Imagine that it will range from four-bedroom apartments of 140–150 square meters to one-bedroom apartments without parking spaces, around 35 square meters. We have several developments lined up to execute this within a relatively short time frame. Given the diversity of developments, we believe we'll be able to convert this into sales within a shorter timeframe than typically expected for land of this size.

As for the Extra plot, I'll leave that discussion until we surpass the acquisition clause. We haven't yet met the acquisition clause for the Extra plot. As Emilio says, what is it exactly? It's not a purchase.

Emilio Fugazza:

It's under a suspensive clause.

Silvio Ernesto Zarzur:

It's under a suspensive clause. We are analyzing it, and I think it's an excellent deal, but all discussions about partnerships, etc., will happen once we execute this purchase. And one more thing: when I talk about the land bank and its timeline, I'm not including the Extra. The Extra would be outside of what I mentioned—those two or three years of land we have to launch.

Apart from these plots, we have another one, the Bandeirantes plot, which is also larger. Its PSV is R$1.5 billion, a pipeline asset that stands as the only extraordinary plot within our pipeline. Because São Caetano, as it's currently divided, is no longer an extraordinary plot. We're talking about launches of R$500 million, R$400 million, another R$500 million—more aligned with the Company's day-to-day operations.

Emilio Fugazza:

Gustavo, in response to your question about the capital structure, I'll start by saying this: no, this extraordinary dividend is not an anticipation of any future cash generation that we're currently observing. It's an amount that is feasible, comfortable, and healthy for the Company to distribute today.

I'd like to remind you that we've been leveraging all the real estate financing available to us. Our real estate financing costs are below the CDI rate, which is very important. The cost of debt today is low, meaning that our projects are making full use of this potential.

Given this, and considering the launch plans for next year, as well as Silvio's point that there's no need for additional land purchases, the Company, based on its planned activities and with all the necessary land in place—except for São Caetano, which will be paid in installments—understands that the other land plots are fully paid, including any CPACs that may be required, with only the permits pending. Therefore, the Company views these R$150 million as additional to its cash needs for the next 12 to 18 months.

Rafael Rehder, Banco Safra:

Good morning. Thank you for the opportunity. I have two questions here. The first is a bit more specific regarding Esther Towers. I noticed that, looking at the quarterly comparison, you increased the total GLA, which is now at 94,000. Previously, I thought it was at 86,000. I wanted to understand if there was a project change or if it was something more specific, and also ask if you could give us a catch-up on the balance sheet today regarding how much more you have incurred in costs for Esther Towers, and how much is still left to incur until the delivery of the second tower?

And my second question is a follow-up on the direct receivable portfolio. I think you've already been clear about the size it could reach next year. I wanted to ask if there is any 'rule of thumb' for an ideal portfolio size or any size that you wouldn't want to exceed, as it would increase the risk for you. Those are my two questions. Thank you.

Flávio Ernesto Zarzur:

Specifically regarding Esther Towers, the GLA hasn't changed. For the last three or four years, it has been 94,000 square meters of GLA. Here, strategically, concerning Esther Towers, due to the improvement in demand for corporate offices, we are planning to complete the first tower by the end of 2025. During this period, we expect to make investments in this area, and we are sensing some demand already, but nothing that firmly anchors the building, which is what we are looking for. So, we are quite comfortable about this.

Silvio Ernesto Zarzur:

Speculatively, we expect to complete this tower within 2025. That's what Flávio is referring to. We understand that there is a demand that should allow us to make some leases, some movement within it. We don't have everything finalized yet, but we have decided to complete the tower, and we will also finish a much smaller tower, which is the commercial project at Air Brooklin, by the end of the first half of 2025. This is also because we believe it's the right time to finish and seek leasing or selling these assets.

Emilio Fugazza:

And also, to complement Flávio, when he mentioned that we will be making the investment, I want to remind you that we have financing secured for this project. This means that this investment will typically come from real estate credit.

Regarding your second question about the ideal size of the direct receivable portfolio, the first important thing to mention is that the portfolio serves as a sales instrument. It's not something we are doing opportunistically. It is part of the operation because it creates the opportunity for sales at the right price. And, in a way, given the conditions we analyze, this portfolio, along with the credit assessment, is an important tool for generating results for the Company.

Considering that the scenario may be somewhat more challenging from the perspective of transferring costs to clients and may increase this portfolio, if there's an increase that we deem inappropriate for its size, or if we need those resources, we will look for a good opportunity to place them through market instruments, such as the CRIs that are being offered today, as we discussed in the question we answered for Fanny.

But today, there's no concern about setting a specific level for the portfolio. It is growing gradually, which makes us quite comfortable.

Silvio?

Silvio Ernesto Zarzur:

Emílio mentioned sales, and it's true; it's an important sales instrument. But imagine that you sell a development, you approve the buyer's credit, they rely on financing the property with the bank three or four years before they receive it, with a certain interest rate X. Then, when it comes time to secure the financing, they may encounter a rate that is very different from what they projected and what we projected for them to complete the purchase.

So, having this portfolio here, integrating these clients into the portfolio, greatly enhances this transfer—what I'll call 'transfer,' along with bank transfers—with us. I cannot afford to miss this opportunity. And if needed, if this volume becomes excessive, as Emílio mentioned, we will transfer a portion of it.

But I won't lose sales and avoid including clients in the portfolio. I want to remind you that we have been managing real estate portfolios for over 40 years. Our experience is vast, and our confidence in this management is very high. It has never generated losses.

So, it's a recovery process. A bank does not have the agility we have to take back an apartment, renovate it, and put it back on the market. For them, all of this is a problem. For us, it's day-to-day; it's very easy to do.

So, we will continue. We will use the portfolio within the necessary volume, and we will transfer any excess that we believe is not beneficial for us while continuing to manage the overall portfolio.

Flávio Ernesto Zarzur:

Just to add one more point, a large portion of clients enters the direct receivable portfolio temporarily. They stay there for one or two years and then go to the bank if they secure better financing. So, it's also a way for them to improve their situation and ultimately acquire their apartment.

Rafael Rehder:

Perfect, it's very clear. If I could follow up on the Esther Towers question, if you feel comfortable discussing it, roughly what percentage do you think you have already incurred of the total costs?

Emilio Fugazza:

Rafael, we have this information in the release. We currently have a POC of 67%. I want to remind you that when Flávio mentions the completion of the tower, we are referring to the first tower of Esther, which is closer to completion, and obviously, we will have the second one to follow after the first is completed. So, it's approximately 67%.

Pedro Lourenço:

Gentlemen, taking advantage of the fact that there are no further questions, if there are any additional questions, please send them to our IR website. I will now pass the floor to our directors for their final remarks

Silvio Ernesto Zarzur:

We are working. We are coordinating our efforts, striving to work in the best possible way. We have important support from our Board with Samir and Marcos. Our external advisors, Anis, Nelson Bastos, and Juliana Salvador, have helped us make important strategic decisions.

I believe the Company has reached another level of maturity, very different from what it was four years ago. Regardless of improved results, the Company has achieved a much different level of maturity in all corporate and governance aspects. We have always sought to act correctly and transparently, but we are reaching more significant governance levels that allow us to have greater confidence in the sustainability, continuity, and growth of the Company. I think this is a very, very important point. We have truly reached a different level over time.

That's it. We are open to questions. Flávio, as Chairman of the Board, will close the release and speak to us now.

Flávio Ernesto Zarzur:

Today, Silvio was very concise and objective, and everything he mentioned reflects what we are feeling. I speak here for myself, for Samir, and for all the others. We are very comfortable.

Thank you for your attention. Count on us. Emílio and Pedro will always be available. If you have any questions, we are also here for any inquiries. We are in this together, always. Thank you.

Pedro Lourenço:

Thank you, directors. Thank you to everyone who joined the conference call. The EZTec earnings conference call is now closed. Please make sure to check out the other materials available on our Investor Relations website. We appreciate everyone's participation and wish you a great day.