

## 2Q21 Conference Call – EZTec

### **Pedro Lourenço:**

Good morning, one and all, and welcome to EZTec's results presentation for the 2Q21. Please note that this call is being recorded and that all participants are in listen-only mode.

At the end of this presentation, we will begin the Q&A session, when further instructions will be given. In case any of you may need in assistance over the call, please let us know through the chat box. In case you have any connection issue, you may reuse the same ID to return to the presentation. You may find a link and ID, as well as the slides for this presentation at our website, [ri.eztec.com.br](http://ri.eztec.com.br).

Before we start, we would like to mention that any statements during this call pertaining to EZTec's business projections, operational and financial targets are based on management's beliefs and premises, as well as on currently available information. Future considerations did not constitute an assumption of performance. They involve risks, uncertainties and premises. Investors may take into account that general economic conditions, industry or operational circumstances may ultimately affect EZTec's future performance. They may cause the Company results to differ materially from those expressed in those forward statements.

I am Pedro Lourenço, EZTec's Investor Relations Coordinator, and along with me to talk about the Company's results in his presentation I have here Mr. Emilio Fugazza, our CFO and Investor Relations Officer.

Starting our presentation, let us move to the next slide, where we are going to talk about what we launched this quarter. During the 1H21, EZTec announced the launches of three products inside the city of São Paulo.

In the 1Q, we launched ID Paraíso, a project of R\$28 million in PSV, focused on smart living units in Aclimação. This project is already 52% sold. In the 2Q, we launched Dream View Sky Resort and EZ Infinity projects. The first one is a middle income project, with R\$253 million in PSV, located in Vila Prudente, that was launched as soon as the sales stands were reopened in April. The second one was announced on the last day of the quarter, and it is a high income project of R\$675 million in PSV. We believe that this project will become a new icon for the city of São Paulo, located in Paraíso, besides the IBM tower.

Last, but not least, as a subsequent event, we launched the Arkadio project, another high income project in the Brooklin neighborhood, with R\$460 million in PSV. It is important to mention that with all of these launches, the Company has reached 50% of the implicit guidance for 2021.

Now moving to the next slide, following our operational performance, we can see that the gross sales have increased 25% from the 1Q21 to the 2Q, motivated by an increment in sales of ready and under construction inventory.

The main reason for this is the increment of the construction inflation index, also known as INCC, making clients more likely to make agreement in a pre-fixed index than being exposed to the construction inflation.

This quarter, our cancellations have grown to R\$39 million, but they are still aligned with the historical volume. And the majority, approximately 40% of these cancellations are, in fact, transfers, downgrades or upgrades of units.

Talking about our landbank, we can see that this quarter we did not make any acquisition of new land, but due to the inflation and changes in some products, we finalized the quarter with a landbank position close to the previous one.

As you can see in the chart in the bottom right, the majority of this landbank is well-located in premium zones of the city of São Paulo. We are still pursuing to add the lands that are now as options in our landbank. Most of them already have an agreement. With a total of R\$13 billion for future projects, the Company covers more than three years of launches, and we are driving to only look for opportunities that are special and aligned with our historical financial results.

Moving to the next slide, the slide about our inventory, we can see an increment in the volume of inventory of launches and under construction units, especially in the south zone of São Paulo, where the Company has made a majority of these recent launches.

Indeed, the volume of ready inventory is still concentrated in Guarulhos, more specifically in the Cidade Maia project, but it has been shrinking significantly in the last quarters. We believe that this ready inventory will only start to grow again in 2022, when the products are that were launched in 2018 will be concluded.

Now, our efforts are in preparing the launches for the next months. As a preview for the 3Q21, we have in the top left in this slide the Alta Vista project, a mid-high project with 60% EZTec's share, located in Chácara Santo Antônio, with an estimated PSV of R\$185 million.

The other one in the bottom of the slide is a massive project for the middle income client, a project near the Rodovia dos Bandeirantes, very similar to the Cidade Maia project that was launched in Guarulhos in 2012, but inside the City of São Paulo. It comes with 897 units, making an estimated PSV of R\$729 million.

Now, I will give the word to the Mr. Emilio Fugazza, to comment the Company's financial results. Please, Mr. Emilio.

**Emilio Fugazza:**

Thank you very much, Pedro. Hello, everyone. It is a pleasure to be here, on this conference call about the 2Q21.

Financial performance, slide number nine. Let us start with net revenue. Net revenue came at the R\$289 million, 48% more than the 1Q21, and something around 80% more than the 2Q20. It is important to bear in mind that units sold coming from the performance side means that the recognition of the revenues are on time in our balance sheet.

Let me remind you that the pace of the construction is OK in the 2Q, better than the 1Q21, specifically because there were not stops in our in our construction sites given the pandemic outbreak. More net revenues means that the volume of gross profit is better than the 1Q, and better than that, gross margin came at 46%. 46% is about 4 p.p. better than the 1Q, and even better, 6 p.p. from the 4Q20.

Let me let me say a little bit deeper about this subject. When we think about the 2H20, you can understand that margins dropped a little bit, specifically because of the increment in construction costs. Increment in construction costs means that costs were raising, and the inflation index for the civil construction was not showing this increment in the same pace.

That can be explained because the volume of the construction for the kind of construction we have, that we got here and it the city of São Paulo, and it is an important region, it is completely different than that average of Brazil, specifically because the measure of this index is much more related to houses, townhouses, or even buildings up to eight floors. There is not the shape of the buildings we have been doing in the city of São Paulo, buildings of more than 30 floors, rooftops, swimming pools on the rooftops, projects of over 40,000 m<sup>2</sup> of private area, more than 500 or 600 each one. So it is a little bit different. And this inflation can match a little bit better in the 1H21, and that is why we can see gross margins improving a little bit in the 2Q.

About selling expenses, R\$15 million of sales stands and publicity. The project Mr. Pedro mentioned before, Unique Garden, it is a project that we will spend something around R\$6 million to start doing the whole sales stand, and this is booked in our 2Q. So more selling expenses because we have been incrementing the volume of launches in the coming quarters.

G&A came at R\$28 million, pretty much in line in the last two quarters, that is important, but because of more volume of net revenues, the relation between G&A expenses and revenues is getting a little bit to 10%.

On page number ten, let us start with financial results. Financial results came in line with the 1Q, R\$46 million. The bright side is that financial result is getting a little bit lower, it is coming to a stage a little bit lower compared to the operational results.

It is important to bear in mind that the majority of this this financial result is supported by our portfolio of performed receivables, financing our clients IGP + 10% to 12%. The amount of IGP in the last six months was pretty much higher, or higher than ever, and we do expect to see the same pattern for coming quarters.

In terms of equity income, R\$26 million, much higher than the 1Q, higher than the 2Q20. That is because in the 4Q20, we launched three projects in partnership, and those projects were recognized in the 2Q. Those projects were Signature by Ott in Aclimação neighborhood, in the south zone of São Paulo. It is very well sold project, it is a high end project, with apartments over 100 m<sup>2</sup>, something around R\$12,000 to R\$13,000 per m<sup>2</sup>.

The second was Meu Mundo Mooca. It is a low income project, Minha Casa Minha Vida, it is a project in partnership with Vivaz, belonging to Cyrela, 50-50. And lastly, we have Eredità Parque da Mooca, east zone of São Paulo. It is a mid-high end project, and it is important to say that we have ten more launches on the same neighborhood of Eredità Parque da Mooca. This is a project sold by over R\$10,000 per m<sup>2</sup>, very well sold so far. So all in all, the projects represented R\$26 million, 90% of the whole net income for this quarter.

Finally, the net income was R\$139 million, and in the 1H21, something like R\$212 million, an important increment compared to one year ago, more than 100% over one year ago, and something around 90% compared to 1Q. A stunning 48% net margin for this Company, supported by, obviously, financial result, increment in gross margin, and an increment for this quarter in net equity.

It is important to understand the gross margins to come, the backlog margin, it is something around 44%. The variation of less than 1% from the 1Q to 2Q is mostly because there was recognition off Fit Casa José Bonifácio, a low end project, a project we launched in the city of São Paulo, something around 25 miles from our headquarter, in the very far east zone of São Paulo. Even though, it is a project with very good gross margin, but obviously a little bit lower than the average margin of this company, and that is why there was a variation from 45 to 44 this quarter specifically.

Let us go to slide number 11, to show you the bottom line of the portfolio, the receivables still performed on the units. In the 1H, we ended up in R\$451 million, at something around 13,000 units under management of this Company, provided financing to our clients.

The volume of payments we have received so far is about R\$135 million, mostly because there was a transition from EZTec's portfolio to the commercial banks. It is important to bear in mind that the basic interest rate in Brazil is growing a little bit, from 2% at the beginning of this year to something around 5.25%, but the mortgage rates are not increasing at the same pace. So far, it is fairly well competitive for the clients that has a loan to value low enough, and with an increment of affordability to make this transition to the banks in order to avoid IGP + 10% to pay something around 7% to 8% fixed rates.

This is a movement that we do not expect to increase in the next coming quarters, specifically because the mortgage rates are increasing a little bit, and the volume of people we have been seeing doing this movement, the majority is coming from 2013, 2014, years that we have made this origination, and nowadays they have a loan to value low enough to make this happen.

On page number 12, financial performance of Fit Casa. Fit Casa is one on the bright side of our balance sheet, nowadays it is about R\$25 million net profit in the 1H, with a stunning 48.5% gross margin.

The majority of the products launched in Fit Casa are 1.5 to 2 years. Some of them are going to be delivered by the end of this year. That is important, but 25% can drive us to a return on equity of almost 16%. So the total amount of equity coming from this company is about R\$356 million, so the construction of return is about 16%.

Finally, gentlemen, let us go to slide number 13, where we can show you the situation of our balance sheet. The shareholders equity now is getting to a point of R\$4.3 billion. In terms of financial liabilities, only R\$11 million coming from project finance. So even talking about the dividends, the dividends paid for this Company approved by the general meeting of shareholders in last April, we paid something around 50 days after the general meeting, so R\$96 million. There is no more debt with shareholders. And the 2Q results is driving us to a return on equity sometime around 11%.

From the assets, the main highlight, I would say, is the landbank. Pedro mentioned before about something around R\$11 billion of landbank already booked in our accountancy, and it means that the cost of this landbank is about R\$1.2 billion.

As Silvio Zarzur, one of our Vice-Presidents said before, this is landbank by cost, it is not the fair value of this landbank. Nowadays, given the inflation, given the new values off the properties specifically in São Paulo, it is worth more than R\$2 billion, a landbank like this one.

In terms of the receivables, something around R\$1.1 billion, and in terms of inventory, ready inventory or under construction, something around R\$750 million.

Let me only highlight the ready inventory, the bright side of the results, of the sales in the last two years, nowadays it is coming to an end, it is less than 12% of the whole inventory. The inventory, the majority of it is in the medium income segments, and the volume of sales, the majority of them is coming because of the mortgage rates provided by the financial agencies, which is too low right now. But inventory is under construction right now, it is one of the highlights of this Company, specifically because it is coming from the mid-high and high ends, with margins above 40%.

So what do we expect for the next coming quarters? I would say it is a well-controlled operation, with a quite interesting amount of launches, and the kind of launches that are very well known by this Company, like this Unique Garden, middle income and high income segments, in a very specific neighborhood, a product like no one, a project that definitely is a game changer for that neighborhood, for that region of São Paulo. So, what do we expect? Definitely, more good results supported by the margins with the same track record.

So thank you very much support, and we are completely available for any questions. Thank you very much.

**Pedro Lourenço:**

Since there are no questions, we are now going to pursue to the end of our presentation.

**Emilio Fugazza:**

Thank you very much, everyone. Thanks for watching us. Any further questions, Pedro, Giovana and Ronan are completely available to answer.

Thank you very much. Have a wonderful day.

**Pedro Lourenço:**

Our conference call for the results presentation is now over. We thank you all for all of your attention, and have a nice day.

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