Results Presentation 3Q20 – EZTEC

Hugo Grassi (Investor Relations Coordinator)

Good morning one and all and welcome to EZTEC's results presentation for 3Q20. I do apologize for the minor delay, as we had some technical difficulties, but please let us know if you can listen to us well. Please note that this call is being recorded and that all participants are in listen only mode. By the end of the presentation, we will begin a Q&A session when further instructions will be given. In case any of you may need any assistance over the call please let us know through the chat box. In case you have any connectivity issues, you may reuse the same web link or ID to return to the presentation. You may find that Id as well as the slides for this presentation at our website at the address ri.eztec.com.br/en/. Before we start, we'd like to mention that any statements during this call pertaining to EZTEC business projections, operational and financial targets are based on management's beliefs and premises, as well as currently available information. Future considerations do not constitute an assurance of performance. They involve risks, uncertainties and premises, investors may take into account that general economic conditions, industry or operational circumstances may ultimately affect your tax future performance, they may cause the company's results to differ materially from those expressed in those forward statements.

Now, I will keep on with the word, along with Emilio Fugazza, our chief financial officer to introduced the results for 3Q20.

So if you could just quickly move to slide number three, where we address the overall landscape for operational and financial performance for the 3Q20. As far as the operations what we see on the aggregate figures of the nine months of 2020 is net sales of R$916 MN, as well as launches of R$770 MN. Naturally, you know there was a gap on the operation performance associated with especially the initial stages of the pandemic where uncertainties were at their peak. But now as we speak on 3Q20, we are currently at the late stage of pandemic where, quite frankly, we've witnessed a "V" shaped return in our operation, marked by net sales in 3Q20 specifically, of R$330,5 MN, even in the context where we only launched to R$ 206 MN, so as far as the sales we are, like we mentioned further, we're back on track. As far as our land bank, we have R$ 9.4 BN by the end of 3Q20. But with a caveat that on the 4Q20, we've made additional acquisitions, with a few option acquisitions leaving us with R$ 12,8 BN in overall bank at the time at which we speak.

As far as the financial performance. Looking at third order, we've had a gross profit of R$ 119 MN with a gross margin of 44%. As far as net income, we've reached R$120 MN, which is, in effect, the highest ever mark since 2015, a very clear mark of the V shaped return I mentioned. Naturally here I'm making the exception for the quarter in which we sold Tower B from the EZ Towers. As far as our net cash we have R$ 1,291 MN by the end of the quarter, on top of R$ 583 MN in performed receivables with very strong liquidity. Direct receivables performed R$ 489 MN already have a registered statutory lien agreements, and yield an IGP-DI +10% to 12% annually on average, that lands at about 10.4% plus inflation.

Now, I take the opportunity to mention the subsequent events that we get the opportunity to talk about now, after 3Q20. Beginning with the fact that we emitted an official guidance in launch a projection for launches for the two year term of 2020 and 2021, where we announce our expectation of launching exclusively for residential projects, 4 billion to 4.5 billion for these two years. We also get to announce the dividends that we have already paid by October the 2nd of R$ 66.7 MN, that still refers back to the fiscal year of 2019.

Also as a subsequent event, we get to mention the fact that EZ Inc, which had an ongoing offer over the course of the past months, has recently announced a suspension of the offer, as well as the suspension of the listing of EZ Inc onto the Novo Mercado, while, on the same time, continuing with the registration of the company as a public company met by CVM.

Now we get to dive deeper into the land bank landscape on the fourth slide. I think that the punch line we get to see from all this information that we're handing out is that acquisitions have been key in the past quarters. Even prior to the second quarter we were making about 1.5 billion in PSV added to our landbak. But looking at specifically, on 3Q20 to the 4Q20, we've had R$ 630 million of acquisitions that were carried out and already booked on 3Q20. But it is worth highlighting that we also have R$ 1.5 billion of PSV already acquired that is not booked in 3Q20 because that definitive acquisition happened by October as a subsequent event, but it is in effect already a reality. And on top of that, we have an additional R$ 1.8 billion of acquisitions, they're already lined up and very much matured, but still being held as options, which would bring the overall land bank all the way up to R$ 12.8 billion in PSV available for the company.

Looking on the chart on the bottom left, it becomes very noticeable very clear that this land bank is very roundly distributed in all different segments of operation. So you get a substantial chunk on the commercial portion, which is literally the EZ Inc divide. And other than that you have more or less and even distribution between high, middle, and low income segments. That leaves us very much room with possibility to act and operate and all different strategies at a time in which all segments have been very much inviting for new launches. Now as far as the cash outflows relating to those acquisitions I just mentioned, you can see that on the graphic on the bottom right. And if you look at the aggregate figures, what you see is that by now we have already basically fulfilled the promises that we had made by the time of our follow on offer in September of 2019, when we raised about R$ 950 MN in cash with the mandate of making acquisitions. And that is what we just did: so if you look at the overall money committed to acquisitions after the follow-on, and counting the money that we still have to pay but that's already contractually committed to these acquisitions. That takes us to R$ 1.1 billion in in committed outflows. 3Q20 we had about R$ 75 million in cash dedicated to those acquisitions. But there's a heads up for the next few quarters, especially in 4Q20, where we should for 4Q20 and for 1Q21, we should basically have to spend some three to four times that R$ 75 million mark.

Now, if you can move to the operational performance, where we get to discuss our launches and sales. Now, first of all, when you look at the evolution of launches coming ever since 2016, you'll notice that naturally, 2020 fell short as of now, to what we originally intended. But the guidance we made reinstates the conviction in delivering lunches for 2020 and 2021, in part, or actually greater than that and what we were doing 2019. So basically, implicitly, you notice that we're saying that for the next five quarters, so from 4Q20, through 2021, we expect to launch R$ 3.3 BN to R$ 3.7 BN on the top border of the guidance. That effectively means that over the next five quarters, we will launch between 20% to 40%, more than we had launched in EZTEC all time high figures.

Beneath the volume of launches, there is a volume of sales that justifies, and that begs for those launches. When you look at 3Q20, gross sales, hitting up the R$ 377 million, that's basically the average weekly figure of R$ 25.6 MN the highs of inventory sold. That's already 15% above what we had been delivering in the 1Q20 prior to the pandemic. So that signals that “V”-shaped return. I might want to emphasize the performance for ready sales, from ready units mostly in middle income projects. Those really took a turn here thanks to the increases in affordability that really make it easy for the middle-income segment to buy into ready unit. So on that note, we have Itaú and Bradesco delivering mortgage rates of 6.9%+TR from Itaú and 6.7%+TR from Bradesco and also innovating with a new modality, a new form of mortgage concessions, a new mortgage line, pegged to savings remuneration. So that's basically 3.99 plus savings remuneration for both Itau and Bradesco. That hasn't really reflected onto 3Q20 figures and should be a good sign looking ahead as prospects for the 4Q20 and on. In October as we speak we already had 25% of financing concessions made by Itau being made under that new savings remuneration line. As far as cancellation very quickly, you notice that 3Q20 had a slightly more cancellation than what we had averaged consistently ever since the cancellations law was enacted. Those installations were concentrated specifically on July and have already normalized on the subsequent months. I might also mention that half of those cancellations technically are actually cancellations compounded with a new sales. So they're basically downgrades cash, transfer unit transfers or upgrades. With that we reach a net sale figure of R$ 337 million for 3Q20.

Move please those line number six, where we're talking about our inventory. So first of all, when we look at that R$ 1.7 billion in inventory available, it is fundamentally a very much contained inventory for how much we have been launched over the past few years, and it gives us very much confidence and safeguards the fact that we can push on with new launches with the capacity to digest it as we go. When you take a deeper look into the inventory, you notice that it is very fresh inventory, you have a very substantial portion of the land bank relates to works in construction or that have recently been launched, which basically means that's inventory that's already fresh for consumption and that there’s still very much liquidity in them. And as far as the ready inventory, which is slightly older inventory, that is still responding very strongly to the fact that affordability has recovered so substantially with this new mortgage lines. So when you look at the ready inventory in Guarulhos, that's still the highest concentration – that’s basically the project Cidade Maia – it has sold in 3Q20 R$ 32 MN, which signals to how strong performance it. But it's worth highlighting the fact that it's also delivering a gross margin of 52% on 3Q20 in Cidade Maia, so that's not at all a problem for EZTEC, and it's something that will help us generate cash over the next quarters.

Now changing gears to future launches, if you could please go to slide number seven. What you see are projects that ideally we would have wanted to have launched already ever since the past months, I think ever since June, it has been very clear to us that it is a prime time for new launches. We did have a bottleneck as far as to our ability to emit new licenses for those projects to be launched with the São Paulo with the municipality. But as we stand right now, we have these three projects mentioned on the slide already with their sales stands open, fully constructed and open to visit. So basically, you have Signature by Ott, a project of R$ 130 MN in in the neighborhood of Aclimação, you have Fit Casa Estação Bonifácio e Meu Mundo Mooca, these two are both low end projects that go along the Minha Casa Minha Vida program, signaling to a cycle where Minha Casa Minha Vida should have quite an expression. You can imagine something like, one third of the residential operation pertaining to Minha Casa Minha Vida program. So you have if you take all of these two projects combined, and when you look at the temperature in the sale stand, it's something they're really motivates to push forward those launches as soon as we get the licenses to move ahead. Those three projects all combined, generate 319 million in PSV that we hope to launch in the next months.

Now moving to slide number eight, there are these additional two projects: Hereditá Parque da Mooca and Alta Vista Residence Resort, that contribute an additional R$ 224 MN. These two are projects that also have their sales stands ongoing, they're currently at the late stage of construction. It is something that we should have ready to go still within 4Q20, and here we also depend on the municipality to make those launches, but those are launches that we want to make as soon as possible.

All that said, I'd like to move ahead to the financial performance where Emilio, will take over, Emilio are chief financial officer and Investor Relations Officer. Please Emilio.

Emilio Fugazza (CFO and IRO)

Hugo, thank you so much. Hello, everyone, it's a pleasure to be here. Let's talk about financial performance.

On slide number nine, let's start with net revenue. In 3Q20 net revenue was of R$ 272 MN, almost two times what we had accomplished in 2Q20, mainly because of the volume of the performed units sold, as mentioned before, and also because of the volume of construction ongoing in all sites, something around 20 sites under construction right now from projects launched in 2019 and beginning of 2020. As we recognize more net revenues, obviously, we can accomplish more gross profits, of R$ 119 MN, for 44% of gross margin. It's important to say that the gross margin remaining steady since the 2019/2018 above 40%, that's important to say. And when we talk about performed units like those R$ 300 MN inventory we have got in the city of Guarulhos, you can get from those units something around 50% to 53% of gross margin. Even when we talk about some projects under construction right now, it's a moment that we can get more units sold from, a little more expensive than the units we started selling, at the time of launch, simply because nowadays, the majority of the buyers are the final users, instead of the of the investors, who buy more units on top of the building instead of the lower units less expensive than those. And that's why we can see quarter by quarter, an increment in gross margin in projects under construction.

Talking about selling expenses, and G&A expenses, starting with selling expenses: in the third quarter was something around R$ 21 MN. You can see how rational, how assertive we can deliver the unit sold in the last quarter, even taking in mind the majority of the sales stands for the projects we're going to launch by the end of 4Q20 and the beginning of the 1Q21. We also start the construction and obviously we have already been recognizing those expenses to build those sales and staff inside of these R$ 15.8 MN of publicity and stand sales expenses. In terms of G&A expenses, you can see something very close to those we achieved in 4Q19 and 1Q20. Specifically because is the same level before the pandemic outbreak in the 1Q20. I'm saying that we are recovering the same operational standards that we got before, specifically because the volume of launches we have had is much higher than we got in the past. And that's why we are trying to be complete, trying to be fully prepared in terms of people, in terms of skills, in terms of IT tools to deliver as much as we thought in our previous launching guidance.

Let's move to page number 10 talking about financial results. On the top left of this slide, financial result is highly impacted by the increment of IGP (index in Brazil). This inflation index was something around 22% in the last 12 months. Specifically the 3Q20 the impact in our receivables was about 5%, and the volume of financial reserves you can see on the chart of about R$ 34 MN is not the whole performance of our receivables, because the part whose control is shared with partners is recognized via equity income results. So talking about equity income, a huge recovery of those of those figures by R$ 21 MN mostly because, first of all, the recognition of one project in the city of Guarulhos, Minha Casa Minha Vida, a low wind Project, we launched this project in November 2019 – and we are going to talk a little bit more of this project ahead when we are talking about Fit Casa projects. Apart from Pin International, we can talk about Reserva JB, which is the sixth part of one huge project in the city of Osasco, called Jardins do Brasil. It is the last phase in a very middle-income class project with more than 700 units, and we got an amazing performance of sales right in the moment of the pandemic outbreak. So it is important to mention that it was in middle income projects that we got the majority of the Company's sales. And obviously the project is under construction and the recognition of its revenue is coming from the equity income line because the stake of this project by EZTEC is about 76%.

On the bottom right, you can see results to be recognized at a 45% gross backlog margin. So that's important to mention that is remaining flats since 3Q19, and is a very good forecast of what we are you going to see in terms of gross margin the next in the next couple quarters, that's important. And finally, on the left, you can see net income of this company, given the fact that their net revenues were something around twice as much, we saw in the 2Q20 the same the same outcome we can see 3Q20 in terms of net income, so almost twice as much the net income of 2Q20 for net margin almost close to the gross margin of the company, saying 44% and amazing performance since 2015.

So moving on to slide on page number 11. You can see the receivables we got in this company. It's a part of our business providing financing to our clients of performed units, so by the end of nine months of 2020 the volume of receivables was about R$ 489 MN for 1700 units funded by EZTEC. So the highlight here is about the volume of down payments from those receivables apart from the fact that the origination was R$ 31 MN. And the yield that we could add in those assets was something around R$ 9MN, so all in all we're talking about R$ 122 MN. The payments provided by our clients was something around R$ 143 MN. Given the fact that the interest rates provided by the commercial banks nowadays is below 7%, and also the basic interest rates in Brazil is around 2%. So everyone who is saving money on baking accounts are trying to anticipate the payments from those mortgages. Let me remind you obviously, that the foreclosures so far is zero, so foreclosure in nine months 2020 to about R$ 8 MN given the fact that the IGP was a little bit higher than in the past. In terms of units no more than 17 units was the foreclosure out of 1700 units funded by EZTEC.

On page number 12. Now, you can understand better the performance of Fit Casa, Fit Casa is the next branch to the lower income segment from this company. Nowadays we have four projects under construction, as you can see at the bottom of the slide. The first one is Fit Casa Brás, with a remarkable 46% of gross margin; a project of 76% of units sold. Nowadays we have something around 60% of completion in this project. The second one is Fit Casa Rio Bonito, which is part low end and part middle low; it has 97% sold and something around the 45% gross margin, that's important to bear in mind, a project of about 50% of completion. The highlight of this quarter is

PIN International, being abroad 60% stake by EZTEC it's a project of 39% so the majority of those units sold was exactly in the moment of the pandemic outbreak, and was the first recognition of revenues and net income nowadays the gross margins about 41.1%. Finally, a remarkable project of Minha Casa Minha Vida, Fit Casa Alto do Ipiranga, we launched this project in the 1Q20; it's a low-end project launched less than a year ago, it's below R$ 240,000 per units but has a swimming pool on the rooftop. So it's a very interesting project to be to be bought here in the city of São Paulo. Nowadays it is a project of gross margin 43.5% so far. So the main idea in this slide is to represent what you can see in those chart on the top. On the top left, you can see from the whole net income of EZTEC something around R$ 270 MN, while the contribution from Fit Casa was R$ 34 MN nine months into 2020, but what is more important than that is the gross margin; so the gross margin is practically the same from EZTEC without counting on Fit Casa on this result, so something around 44%.

So the final message here on this chart is: Fit Casa is making a contribution of something around 15% of the whole net profit of EZTEC; we can get in the low end segment a gross margin of almost 45%; and net profit can provide 2020 a return on equity of 16%, taking in mind the equity of this company is about R$ 316 MN, let me mention that inside this equity there are something around 10 projects more to be launched in the next couple quarters in the low-end, the segment belongs to Fit Casa brand from EZTEC.

Let's move to slide on page number 13, talking about EZ Inc's financial performance first of all. Talking about assets evolution you can understand that by the end of 3Q20 we have a segment here in our company where you can see R$242 million of cash, R$359 million of land, and finally R$80 million of inventory, such that the shareholder's equity of this Company, including very few liabilities, is of R$716 million, belonging 98% to EZTEC. That is very important to mention. So from the R$4,1 billion we have in EZTEC's shareholders' equity, about R$716 million refer to EZ Inc. It is our vehicle to support growth in the commercial segment, as I mentioned before, alongside about R$300 million in equity from Fit Casa, like I mentioned before, as our vehicle for the low end segment, taking about 25% of the equity of this Company.

In terms of events, it is important to mention, as Hugo said before, that in 4Q20 we had the offer interruption, but we keep on going in registering as an opened Company, to take the decision of what we have to do to get the money to accomplish the products we have set for this Company within the next 60 to 90 days. In 4Q20 also we have had the conclusion of two very important plots in the city of São Paulo, as I am going to mention in the next slide.

On page number 14, you can see the whole portfolio that you can understand from EZ Inc. The last two ones (plots number nine and number ten) were acquired in 3Q20 but also paid for at the beginning in 4Q20. Both pieces of land are located in the South Zone of São Paulo, in a very well-known region of São Paulo, very close to all other developments of our Company, like EZ Towers, and both acquisitions in very good shape and with a very good gross margin, as usual for EZTEC. Let me talk about numbers one, two and three from this page. The highlight here is number three: it's a piece of land that we have rented to a big market that we can get an agreement of up to 2037. For EZTEC, we can get from this contract around R$4 million of leasing revenues per year, that's very important to mention. And about numbers one and two, they're two commercial towers that we have already developed and delivered, where we kept those towers with some stores to be rented. Some of that we rented to Itaú bank, yielding something around R$5 million per year.

Number 4 is Esther Towers, the flagship of EZ Inc. It is a project of around 80 thousand meter of leasable area; we have already started the construction, and we have more than R$1,6 billion in potential sales value. And as far as numbers 5, 6, 7, and 8, they are also commercial projects that are very well located, in the process of taking their licenses to start construction by the first half of 2021. All in all we got something like 180,000 square meters of gross leasable area. All these figures are going to be providing revenue from tenants between 2023 and 2025.

So finally, on page 15, you can see EZTEC's shareholders' equity of about R$4,1 billion. Mainly, when you see the breakdown of the assets on the right side of the slide, you can see a majority of the assets – something around 34% of the equity – as cash and equivalence to support the growth of the landbank as Hugo mentioned before. We have something around R$900 million to be paid in new acquisitions. Another figure to be highlighted is the ready inventory (in terms of costs) of about R$315 million. So when you think about R$9,4 billion in terms of PSV, the whole costs, including CEPACs and grants, is of about R$990 million, only 6% of the equity. And liabilities are 100% to be paid on those lands that we have already recognized in the balance sheet. And finally, the finished units' receivables of R$583 million, while those with statutory lien agreements signed so far are around R$480 million, so the difference between these two figures (around R$100 million) are units undergoing the process of transferring their contracts to the banks to turn those receivables into cash.

That's the presentation, so we thank you so much for the audience today. And we remain completely available for any questions. Thank you very much.

Nicole Innui (BofA)

I have a couple of questions: I think what is really impressive is the margins you're getting on your finished inventory. Are you increasing prices on your finished inventory, because I imagine those are the most benefited by the lower rates. You're talking about margins of as much as 50%, can that get even higher? Is there space to increase prices there? And then the landbank: you talked about a lot of landbank that you managed to acquire recently, so I am curious if that landbank you've been negotiating, or at least have mapped out, prior to the crisis and to the pandemic? Is it something that you were not able to close within the beginning of the year and it came back, and managed to close now? Or is it new land that became available, and maybe the landowner was having a little bit more difficulty negotiating with another homebuilder that couldn't pay in cash? So if you please just be a little clearer on where that landbank came from. That' it, thank you so much!

Emilio Fugazza (CFO and IRO)

Nicole, many thanks for the question. So let me start talking about the margins of the finished inventory. That's very important and important and interesting question. So what is interesting here is, obviously, when you think about the interest rates provided by the commercial banks, especially when you got Itaú in the middle of the third quarter of 2020 changing the way to charge the interest rates was very profitable for companies like EZTEC itself, so the new way called Poupança Mais, or savings account plus means that the final interest rate to the client, taking in mind the base interest rate of Brazil nowadays in 2%, it's going to be something around 5.4% plus

TR. TR nowadays is about zero, so it is going to be zero up to 8% of SELIC (the base interest rate of Brazil). So, 5.4% is at least one and a half to 2% less at that time of the interest rate that the majority of banks were practicing here in Brazil. And what is interesting is after the movement of Itaú, Bradesco in the fourth quarter started to do the same movements and to practice the same interest rates, the same accomplishment off Itaú. And obviously in the fourth quarter the majority of the contracts I am providing to my clients are using this new method, and the commercial banks have been analyzing and making the feasibility analysis of those clients taking in mind the base interest rates of nowadays. They are not taking in mind that could be, or that is likely an increment of interest rates in the next two years. So that's very important because we can sell bigger apartments, or expensive apartments, for an interest rates practiced by those commercial private banks that are less than the interest rates practiced by Caixa Econômica Federal in the low end segment. So it's absolutely insane, and that’s why we have been selling so much more units in the in the middle and middle-high end especially in the city of Guarulhos. We can improve the affordability by 30%, at least, and that's why we are getting a gross margin of at least over there, where is the majority of our performed inventory is (something around R$300 million) with a gross margin of about 53%. So that is priceless. That's is amazing and priceless. Obviously the forecasts for units being sold in inventory for performed units are the same in the fourth quarter and in the first quarter of 2021. We have been selling much better than in the past and with a little bit higher prices, and that's in a forecast impacting positively the gross margin for the next couple quarters.

In terms of land bank this is quite interesting: the real truth is that we are permanently negotiating land bank, obviously. So some piece of land that we bought this year, obviously, we may have started with the negotiations in 2018, 2019. And obviously, the prices were not getting in there in a very good point. But the moment of the outbreak changed, and the landlords were afraid to keep those huge pieces of land without very good negotiations with the developer, because they couldn't understand what could be the outcome from this crisis. And that's why we are trying to negotiate those lands, or we are trying to negotiate better those pieces of land and exactly in the middle of the pandemic. But it's interesting because the majority of them have better proposals, or better offers with swap agreements. But when you get this moment, this outbreak, you start thinking about receiving all of the price of the land in money, in cash, and just a few companies obviously can support a piece of land of more than R$100 million in cash at once. And EZTEC is one of them. That's the first part of the explanation.

The second part is about is about this segment. Obviously, when you think about the South Zone of San Paolo, the very fancy neighborhoods of São Paulo everyone is looking deeply at those pieces of land and trying to buy small houses, trying to to make a very good piece of land, but there are no more than 2000 square meters or 3000 square meters available in a very fancy neighborhood. And you have to invest a lot of money because the land is very expensive on these areas. And that's why EZTEC took advantage of its engineering team to seek land in the outskirts, or very close to the borders of the city, or in neighborhoods that we can say that is a very middle income neighborhood, or a middle middle income neighborhood indeed. And that's why we started buying very good pieces of land, for instance, in the city of Osasco. This is nearby Bradesco, at the gates of Cidade de Deus. So it's a very important place because it's very downtown Osasco, a place that we are selling a lot of units coming from the Reserva JB, actually selling by R$6 to R$7 thousand per square meter. So why not buying more pieces of land in places like this one. Apart from apart from that area is the East Zone of São Paulo, which is a kind of area that people think that there is only Tatuapé or only Brás, neighborhoods that are very close to downtown São Paulo. Neighborhoods that the income of those neighborhoods is very high. One very good example is a project we are about to launch, Fit Casa José Bonifácio, as Hugo mentioned before, which has 275, which is something around 40 kilometers from our headquarter. So it's very close to the edge of the city. It's a project very close to one train line, that it's a low-end project of Fit casa. We have paid for this piece of land less than R$10 million for a potential sales value of about R$130 million. So we are looking deeply in regions that the majority of the developers are not. And that's important to keep the margin so high and developing our company in all segments that city like São Paulo can provide. That's the explanation, Nicole.

Hugo Grassi (Investor Relations)

Okay, in the absence of any further questions, or conference calls for the results, presentation is now over. We thank you all for your attention and hope you have a nice day.