

## 3Q21 Conference Call – EZTEC

### **Pedro Lourenço:**

Good morning, one and all, and welcome to EZTEC's results presentation for the 3Q21.

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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 do not constitute an assurance of performance. They involve risks, uncertainties and premises. Investors may take into account that general economic condition, industry and operational circumstances may ultimately affect EZTEC's future performance. They may cause the Company's results to differ materially from those expressed in those forward statements.

Now, I would like to pass it to Mr. Emilio Fugazza, EZTEC's CFO and Investor Relations Officer, who will get us started. Please, Emilio, you may go on.

### **Emilio Fugazza:**

Good morning, everyone, thank you very much for being here on our conference call for the 3Q21.

The main highlight for this quarter is about the launches for 2021, something that Mr. Pedro will say a little bit more about ahead.

### **Pedro Lourenço:**

Thanks, Emilio. Talking about launches, during the 9M21, EZTEC's announced the launches of four projects 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.

In the 2Q, we launched Dream View Sky Resort, and EZ Infinity project. The first one is a middle income project, with R\$253 million in PSV, located in Vila Prudente, which was launched as soon as the sales stands were reopened in April during the covid situation. The second one was announced in the last day of the quarter, and it is a high income project of R\$675 million in PSV, and we believe that this project will become a new icon for the city of São Paulo, and is located in Paraíso, besides the IBM Tower.

In the 3Q, we launched Arkadio project, another high income product in the Brooklin neighborhood, with R\$460 million in PSV.

If you move to the next slide, we will talk about our operational performance, and we will be able to see that the launch in sales, as well as the construction sales, became the most relevant component of the total volume of the 3Q21. This fact is due to the lower volume of performed units available, which had a higher demand in the previous quarter. The main reason for the increment in

construction of the sales of performed units that you see in the previous quarter was due to the inflation index, the INCC, that is making clients to be more likely to make agreements with a prefixed to index than being exposed to the construction inflation.

For this quarter, cancelations dropped to 32 million, with a 33% made of reallocated customers. About 33% of this volume refers to downgrades, upgrades or units that were transferred, but it is also linked to a purchase of another unit, or even the transfer of an already rated unit for another property under finance.

In the next life, you will be able to see how our land bank is composed. Without new acquisitions, the PSV is maintained by adjustment in the price assumption due to inflation. As the Company is already sufficient equipped with raw material, and we are talking here about lines for this stage of the cycle, there were no relevant acquisition in the 3Q21. So we finalized the quarter with a land bank position close to the previous one.

As you can see the chart in the bottom right, the majority of this land bank is well located in premium zones in the city of São Paulo. The maintenance of a residential land bank is equivalent to more than three years of launches, if we believe that the launches will be suffering close to R\$2.5 billion.

The sum of this PSV for the Company's residential land stands at approximately R\$7.4 billion as the day of these release. This volume brings comfort to the Company as it removes the urgency to make new acquisition to buy new lands.

If we go to the next slide, where we are going to talk about the inventory map, you will be able to see an increment in the volume of our inventory that is attached to launched or under reconstruction units, especially when we are talking and looking at the South Zone of São Paulo, where the Company has made the majority of the recent launches.

On the operational aspects, the deliveries of the projects are marking the end of the most voluminous delivery cycle experienced so far by the Company. By the way, the Company completed this quarter 358 units, with a total of PSV of R\$330 million, of which more than 90% sold.

Indeed, the volume of ready inventory is concentrated in the South Zone, but the majority of this inventory is commercial inventory. The majority of our ready inventory is located in Guarulhos region, more attached to Cidade Maia project.

The volume of the finished residential inventory currently represents less than 11% of the Company's total inventory, and should only increase by the end of 2023, when the products that were launched in the last two years will be concluded.

In the next slide, we will talk about the future launches of the Company, and we can see that we are putting all of our efforts preparing the new launches for the next months. As you can see, we have three new launches. In the bottom, it is a massive project for the middle income client near to Rodovia dos Bandeirantes, which is very similar to Cidade Maia project that was launched in Guarulhos in 2021. But this one is inside the city of São Paulo, and it comes with 885 units, and a total PSV of R\$716 million.

At the top of this slide, there are two smaller projects with an estimated PSV of R\$145 million. The first one is In Design, and it is a mid-high product with 150 units located in Ipiranga. Pin Osasco, on the right, is a product for middle income, with 702 units, which is located in São Paulo Metropolitan Area, more specifically in Osasco.

Now, I will pass the word to Mr. Emilio Fugazza, to comment on the Company's financial results. Please, Emilio, you can go forward.

**Emilio Fugazza:**

Pedro, thank you so much. Hello, everyone, again. Let us start talking about the top left chart, talking about net revenues. Net revenues remained flat compared to the 2Q21, from R\$289 million to R\$290 million this 3Q. The good news, the bright side of this number is that the majority of these revenues is coming from the projects under construction, projects that we have already started the construction with very good sales. There is only one project located in Vila Prudente, after six months, we launched the project. And this specific quarter, the amount of revenues coming from performed the units is lower than the previous quarters.

In the chart on the top right of the slide, gross profit and gross margin, this is what the bright moments of this Company calls on this earnings release, which means that the gross margin achieved 50% in the 3Q, since the bottom of the cycle, which was in 4Q20, at around 40%.

This increment in margins, it happens specifically because of three main things. The first one is because of INCC. INCC is inflation adjusting the receivables, and our portfolio of receivables, units under construction. Let me remind you that, adjusting the portfolio, we have something around 5% within three months of INCC. And on average, an ordinary client has been paying to the Company something around 35% of the total amount of the price within the construction time for our Company.

Because of that, 65% on average of the whole amount of receivables are adjusted by INCC, without the counterpart of the cost. And that is why we have this gap, this 'mouth' being open in terms of margins since the 4Q20.

The second factor is about the units performed, units ready to leave that we have been selling. We are talking about units, for instance, in the city of Guarulhos, which is the majority of the performed inventory of our Company, and on average, the gross margin of this inventory specifically is more than 50%.

But let me add one important matter, which is the projects we have been delivering. In the 3Q21, we have delivered three projects, and on average, those projects came in with savings off of 2.75% of the budget at the moment we launched the project adjusted by inflation, which means that only produced an increment of 4 p.p. comparing the 2Q21 to the 3Q.

The selling expenses, I think that is flat compared to the 2Q. The volume of expenses, targeting, publicity at the sales stand, we have to do for launching the product was something around R\$11 million this quarter, and these whole expenses mean something around 4% of the total gross sales we got this quarter in our Company. On average, we are talking about something around 4% the whole year.

G&A expenses amounted to R\$29 million in the 3Q, something flat compared to the 2Q21. My personal opinion is that we are running this Company in terms of G&A at about something around R\$120 million of G&A expenses, given the two last quarters off expenses.

This is mostly due to the increment in people we hired to support incremental operations here in our Company, and eventually some adjustments in payrolls we had to do.

Moving on to slide number nine, it is important to understand a little bit, on top left, the chart for the financial results. As we have been watching in the last four quarters, the volume of financial results is pretty high compared to the total amount of results coming to our Company.

This is mostly due to the fact that we have a bulk of performed receivables. So receivables that are provided by financing the clients. So instead of the clients searching for mortgages coming from commercial banks here in Brazil, they take the idea to keep the contracts with our own Company, coming from the shareholder's equity of our Company. That is the majority of the result of R\$43 million.

Apart from it,  $\frac{1}{4}$  of these results are coming from the cash and equivalents of our Company. This amount of money nowadays, the total amount of net cash position we got, which is of around R\$1 billion, is yielding something around 100% based on CDI. CDI in the last three months, in the 3Q21, was something around 1.5%, and that represented something around R\$12 million of financial results added to the portfolio of performed receivables.

Equity income results, the final results coming from the projects we got in partnerships, the Minha Casa Minha Vida projects, low end, or even in the higher income classes, the majority of this R\$21 million result is coming from the project Reserva JB. Reserva JB is a middle income project in the city of Osasco, metropolitan region of São Paulo. This is the last phase of a bigger project called Jardins do Brasil, a product itself of something around 700 units, very well sold, and with the budgets completely on track.

Finally, talking about net income, in the bottom left of this slide, which came in at R\$145 million, with a net margin of 49%. The bright side of this quarter is that the majority of this result, this outcome, is coming from the operational side. So we got good results from the operational since the last quarter, with improvements in operational margins, too. That is important to mention.

And finally, results to be recognized, for me, it is one of the most important things when we talk about financial performance, because it is a kind of an outlook of the future gross margin we are going to get from our Company.

As you can see, since the 3Q20, we remain flat over 45%, 44%, which means that even counting on these incremental costs, or this complicated time we have been living here in terms of cost inflation for all sector, given the fact that we can increase the prices and sell the units too, we can see the margins at the same level as before.

On page number ten, talking a little bit more deeply about the portfolio of performed units finance by EZTEC, at the end of 9M21, we see R\$421 million from 2021 of R\$509 million, an increment of about R\$80 million. The majority of this is because the in advance, or the migration from our portfolio to the commercial banks in the 9M was huger compared to the yield and origination we could see.

In terms of units, you can see something around 1,200 units being financed by EZTEC, compared to the beginning of this year, something around 1,600 units being financed by our Company.

In terms of closure, this is the bright side of these figures. You can see something around R\$23 million this year, representing something around 33 units, compared to 27 units last year. I can say a bright side for these slides, specifically costs, the IGP, which is the main inflation index adjusting this portfolio was something around 30% in the last 12 months. So 30% is huge enough to provoke a very tricky moment to the clients in order to keep up with their installments. And what we saw was a huge effort coming from that to migrate from our office to the banks in order to keep without the delinquency so far.



On page number 11, I would like to highlight the performance of Fit Casa. Fit Casa is our brand to low end segments, Minha Casa Minha Vida segments. Minha Casa Minha Vida projects that, on average, we have been selling for R\$200,000 per unit, something like that in the city of São Paulo, and also in the metropolitan the region of São Paulo.

On top left, you can see the chart providing net profit and gross margin. In the 3Q21, you can see R\$18 million of net profits, and the operational side has been showing 53% of gross margin. On the top right side of this slide, the same chart can provide you, 9M21, the total amount of net profit, the outcome provided by Fit Casa was R\$43 million. Let me remind you that we are not talking about a portfolio of five projects under construction or being delivered, and on average a gross margin of 50%. The return on equity, all in, came at 18%, more than on average the EZTEC itself.

Let me remind you last, in the last weekend, we delivered 500 keys to 500 clients for our very first project delivered in this segment, in this brand, in the bracket, which was Fit Casa Brás. Fit Casa Brás is a kind of project that ended up with a gross margin above 50%, a very successful project for EZTEC. And only to remind you, even this project we started with an amount of gross sales no more than 24%, and we reached by the end of this project, something around 94%. A project that we delivered much more than the expectancy of our clients in terms of finishing, in terms of timeline, in terms of quality of the product itself. That is why we have been counting on selling Fit Casa with better prices, and trying to get better margins for the whole company.

Finally, on page number 12, I would like to highlight the balance sheet. EZTEC's balance sheet, on the right side of this slide, you can see a R\$4.5 billion of shareholder's equity, R\$5.5 billion means that now we are running this Company at, on an average, 12% return on equity. We would like to show you more. It is our expectancy, it is our outlook to see this improving, specifically because the volume of products launched, the volume of the sales we got so far today, without any kind of new sales, we are going to see more recognition of revenues coming forward.

In terms of assets, the main highlight, 25% of this cash is about cash, R\$1 billion in cash in this Company. 60% of this cash is cash available for new investments to our Company, and 40% of this amount of cash and equivalents is of cash exclusively to be used at the construction of the projects. It is a cash of payments in advance of our clients, or payments of our clients that, given the law, we have to use specifically to finish the construction.

And that is why when you look deeply at the liabilities in our balance sheet, you can only see R\$13 million of construction finance, because in the last 18 months we saw a huge volume of payments in advance coming from our clients, clients that were running out from the INCC, which was increasing so much, and are ready now to lower interest rates in our economy. And that is why we saw many clients taken advantage of, making payments in advance.

On many projects, specifically in the high income segments, we saw, on average clients paying something around 50% of the total out of the price in advance, and that is why nowadays we do not need, or so far we have not needed a huge amount of financing to fulfill the construction of the projects.

Apart from that, let me remind you, when you see the assets, the land bank brackets showing R\$943 million, it mean that all the grants, all the CEPACs, which means that grants or the bonds we have to buy from the municipality in order to increase the potential of the land, are booked by costs.

So, saying that this amount of land bank was bought, on average, five years ago, I would say the new pricing if we were doing something like that in order to reevaluate our land bank, could show

something like 50% or 60% more than the cost booked in our land bank And these R\$943 million can represent R\$11 billion in potential sales value on land bank, the same number Mr. Pedro showed you before.

In terms of units on inventory, units under construction we are talking about something around R\$1;2 billion in costs, for a total amount of inventory mentioned by Pedro of about R\$2.5 billion, meaning that the gross margin of these units under construction and ready to use are about 45% to 50%. That is why we are so comfortable to keep the margins at the level that we can show at the backlog results.

Saying that, I would like to open ourselves to answer any further questions you may have. Thank you very much for your audience today.

**Pedro Lourenço:**

Without any manifestation, we would like to close our conference call for the results presentation, and we appreciate all of you, and we are calling that this presentation is now over. We thank you all for your attention. Have a nice day.

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