

---

## **Moderator**

Ladies and gentlemen, good morning. Thank you for waiting and welcome to the conference call by MRV Engenharia. We would like to inform you that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question and answer section, and further instructions will be given.

Should any participants need assistance during this call, please press \*02.

Now, I would like to turn over the floor to Mr. Rafael Menin.

## **Mr. Rafael Menin**

Good morning, everyone. First of all, I would like to thank the participants in this call. We are going to have a very quick opening, and then more time to discussing indicators. A short summary: this was a very good quarter, a record quarter, the launchings have been much better, sales also came in a very strong level, cancellations continued to decrease, company also had a record of net operating revenue, gross profit remains extremely healthy, the company continues to generate cash, so I would say the main financial and operating indicators were good as we have seen in the past years. The company continues to grow. If we analyze the first half of 18 against the first half of 17, company has evolved in all the indicators, we have launched more, we have sold more, we have had greater profits, we were able to dilute administrative costs, we have increased the net income for the semester and hence the EBITDA margin. So, I would say that the company is quite satisfied with the results presented. Another important point is our goal MRV 50 thousand. We have had a weaker first quarter of launching. We recovered a good part of the loss in the second quarter, and we expect a third and a fourth quarter to be extremely strong in launches. We are still optimistic that we will reach 50,000 units, which is quite important for our company, that we have been investing for some years, and 2018 is the year that we will hand over this indicator of 50,000 units released, obviously that later the other metrics, such as sales, construction and transfer will also reach that level.

Another important point that we have mentioned in our earnings release is that ABRAINCO has been speaking with the principal candidates, and not only candidates but economists and professionals that have been helping in the elaboration of the future government program. All of them knows the importance of this country program in terms of employment. From the fiscal point of view "My home, my life" ranges 1.5, 2 and 3 gives positive results, it is crucial for a country that wants to be better, safer, more organized. Housing is a fundamental need for any family and there is no organized society without housing. Then, all the candidates for the government see with the best eyes and have absolute conviction that the program has to be maintained and improved, to grow even more, which gives us a long-term comfort to grow even more.

The third important point is that MRV is already a leader for many years in the economic segment, today it is the largest construction company in Latin America and we, besides having managed to evolve the main operational and financial indicators, the company started some time ago quite relevant investment in technology to deliver a better, more durable, more technological product and also enhance our customer experience. We have been adding, we have been doing something this year, regarding service, customer experience, and we will do from the second half, next year we have spectacular projects, I have no doubt that MRV will do something that has never been done perhaps on a global scale in the economic segment.

---

---

In fact, we are changing economic housing in Brazil. An increasingly technological product, but durable, more sustainable and with more services for our customers. This gives us a great comfort that we will maintain the leadership in the segment, we will continue to be perceived as the most innovative company that delivers the best product to our client. I'm going to turn the word over to Leo now, he's going to talk about some financial aspects here.

**Mr. Leonardo Correa**

Good morning everyone! I wanted to talk about a specific aspect. I would like to talk about the equivalence line, the equivalence line we have, the subsidiaries Prime and MRL, which have already been improving the operations for a while, they are still indebted companies, so the financial cost still has a weight, but the performance of the companies is already improving and we are already seeing the result happening, going positive.

I also wanted to talk about the LOG. LOG delivered approximately 20,000 square meters of sheds in the 2Q and has about 100,000 square meters more to deliver by the end of the year. Of these 100 thousand square meters, that approximately 70, 75% are already pre-leased, will bring a greater contribution in terms of Log's results and consequently with positive effects for MRV in the equivalence. Log should deliver at the end of the year with approximately 800 thousand square meters, or even more than 800 thousand square meters of leased warehouses.

So we see this line moving positively. In the cash generation part, again another positive quarter. I wanted to point out that cash generation could have reached 125 million reais in the quarter. We made an acquisition in Moura Dubeux, it was a specific operation, Moura is our long-term partner, a partner that we like very much, they have a business vision, they decided to focus more on the high income segment and we saw as an opportunity to acquire a part of it, but it is not the objective of MRV to acquire shares in other companies, here was a very specific situation that occurred. Anyway, the cash generation is still at a super comfortable level. We paid two dividends in the quarter, this obviously generates a decrease in the cash, generated a decrease of the financial income and consequently we have worsened a little the result in the part of the financial result, but we will continue generating cash and paying dividends. Our history has been for several years distributing dividends to shareholders, distributing results to shareholders, whether in the form of dividends or in the form of repurchase, more than 50% of the result, we will continue to do so. Of the profits of 2017 we have already distributed 25% and there is still another 25% to be distributed.

The last point that I would like to highlight is ROE. We have been increasing ROE for several quarters, a gradual growth, but it is a constant growth and, with the increase of our operation, with the growth of the launch of the 50 thousand and consequently the sales accompanying this movement, we will continue to see ROE growth, delivering a stronger ROE for our shareholders.

**Moderator**

Thank you, we will now begin the session of questions and answers. If there is a question, please type...digit \*9.

---

---

\*\*\*\*\*

Mr. Victor from Bradesco would like to ask a question.

**Victor (Bradesco)**

Good morning, everyone. The first point that I would like to approach: if you could give us more details in regard to what is written on page 4. These small adjustments that the program, that the housing program may have in "My House, My Life" (*Minha Casa, Minha Vida*), if you could explain to us. And the other issue in regard to gross margin. It is definitely high and significant but do you think that up ahead this margin, this gross margin could be in a higher threshold, since you have done a lot of acquisition of land at a competitive price during the crisis of the country?

**Mr. Eduardo Fisher**

Starting from your first question, regarding my home my life. Next year the program completes ten years, has gone through three governments and is walking to the fourth one. If we go back and see the all the changes that have taken place over those almost ten years, as a rule they were all positive. Rafael said we are interacting via class association (ABRAINC) with the main candidates, the economic advisors of these candidates and our perception is that everyone understands the construction sector, especially low-income, as a very strategic business for the economy of Brazil and with a very relevant social impact, whether for employment or social issues in large cities. Then, we see that eventual changes in the program are all positive. And there is a question in debate about the guarantee fund, but it is an old debate, the changes that happened did not have an important impact on the funding, so we believe from the conversations we have had that no more serious changes will happen. I can not see a rupture, a disruption happening in a social program like this.

Regarding the gross margin, we had a slight oscillation in the quarter and we, as you put it well, were very aggressive over the last three years in the purchase of land, first to meet our growth, supply of the stores, second because we saw a lot of positive opportunities for good deals that obviously will generate very good margins in the future. We see that our landbank is already at an adequate level, in the main squares, in the big metropolis, the competition for land already begins to grow and this condition of price already loses some of the attractiveness that we have had in the last three years. So, as these lands come into our line of launches and consequently the balance sheet, I see that we will keep margins very high in relation to what we have been doing. Regarding the production, I see that we still have the means to improve, efficiency has been improving, whether it is productivity or cost, as we mature the concrete wall inside the production line we still have room to have cycle and cost gain. So that would sort of "offset" any material price hike. Then the price increase of material will be offset, in my vision, by a continuous gain of efficiency. Looking at the margin I do not see anything very different from what we have delivered not. So just look at our margin running around this plateau, maybe a little bit up.

**Victor (Bradesco)**

Thank you. Could you do a follow-up on the first question. Is there any detail, a specific detail of quantity that you can give us about the adjustments on top price, in regards to this line, could you give us any information on that?

---

---

**Mr. Eduardo Fisher**

We are not discussing the top of prices, the moment is not for this and I think that this need now is also not urgent, but eventually this conversation will arise in the future, as it has appeared in the past and was resolved. Looking at the next two, three years of Brazil, this is not my biggest concern. We have an election there and I think that what I look for in a very long cycle business is macroeconomic stability, reform being done, so that we have a clear, stable scenario up front. The commitment of all that we have talked with is to have a strong low-income housing program that generates jobs that attack this problem of housing deficit that Brazil has still very strong and growing. So I have nothing on the horizon that worries me about regarding how the housing program has been treated in the past. I'm relatively reassured about it.

\*\*\*\*\*

Mr. Gustavo from BTG Pactual would like to ask a question.

**Gustavo (BTG Pactual)**

Good morning. I have two questions. The first question is in regards to the issue of funding of the program. Last year, the end of last year, we had a problem of reallocation of the budget, and of this kind, and now on the second semester you are expecting great growth... and everybody has expectations of growing a lot in the second semester. My question is: are you seeing some kind of a bottleneck, as we had last year, maybe in funding or reallocation among the cities... or with the banks, in regard to so many projects and call under Caixa... Maybe it could frustrate this great expectation of growth and how do you see this preparation of great volumes of launching that you are expecting.

And my second question is, and Richard commented this in regard to land or real estate, you do not think that you are not going to grow so much on land banking... can you give us an idea of how much of cash that you expect to spend in the acquisition of real estate in the following months. And the generation of cash, which was a little bit lower in the past three years, because of this great growth of land banking that you have had, we have to expect perhaps over the next 12 months converting to the profit of the company, or how do you see the generation of cash in regards to putting the real estate in the accounts?

**Mr. Leonardo Correa**

Good Morning! The issue of Funding, the first thing about Caixa Econômica, has been reported the contribution of the treasury in relation, therefore, addressing the questions of "Basileia da Caixa". We have also seen yesterday the government commenting again that there is room to make new contributions so that we are totally resolved and addressed. The second question, in relation to the budget, we talk constantly with the Caixa, with FGTS, curatorial council. We see a need for possible relocations between geographic allocations, between states, and so on, but this is a normal process, so it's very difficult to define in advance how much each specific state will receive from allocation. What we have done is specifically signed the PJs before making the launches, we get the location and address the funding issue for each specific project.

Regarding cash generation, for part of the land we spend about 500 million reais this year, in terms of disbursement, with purchases, purchases or payments of land swaps that have already been launched, we see

---

---

a more or less similar value there next year and then a drop of that value looking forward. From the point of view of cash generation, specifically we expect an increase in generation along the quarters in the second half of the year, the generation must grow, we are signing a large volume of contracts in the 2Q and we also expect it to be very high, and the evolution of the construction, as the constructions are moving faster, the issue of the shortening of the cycle is beginning to appear, we will see an increase of this cash generation over the next quarters.

**Gustavo (BTG Pactual)**

Thank you, good morning.

\*\*\*\*\*

Mr. Alex from Itaú BBA would like to ask a question.

**Alex (Itaú BBA)**

Good morning everyone. I have a question. I would like to understand how you see the resolution approved by the marginal fund... I know this is more linked to savings of... and the company is saying that they are going to increase the share and make some projects with *Minha Casa, Minha Vida*. I would like to understand how you see this modificatory that gave impulse, gave you impulse to launch a greater volume and accelerate this kind of launching.

**Mr. Rafael Menin**

Good morning, Alex. The main point is that obviously all adjustment are welcome. Not only the current government but also the previous governments see the importance of housing for the country. And I have no doubt that this adjustment is positive. MRV announced a year ago that it would re-launch products in the SBPE, we have already made 30% of our portfolio within the SBPE and you have more healthy funding points obviously is very positive. Today we depend more than 95% of the FGTS and expect, from now on, we already have several products being approved, products in spectacular locations, lands that were bought at very opportune moments. Also, MRV should rather accelerate, from the second half we will already see something being launched in the SBPE and these measures that were announced last week are positive, will make the banks have more interest in financing products just above my house my life. MRV has already been talking to private banks and the dialogue that was positive at the beginning of the year is even more positive, the banks' appetite is increasing and it will not be surprising if in a short time we can do something with a private bank signing the unit within the construction that is the associative model. So we see with good eyes, you have more funding points is always positive and once again we are still very optimistic about the economic sector if possible also with the SBPE helping to increase the size of this market okay ?!

**Alex (Itaú BBA)**

Thank you, Rafael.

\*\*\*\*\*

---

---

Mr. Guilherme from JP Morgan would like to ask a question.

**Guilherme (JP Morgan)**

We have a first question, we have had a good increase when compared to other peers. We are speaking of 7-8% of the profit, or will you have changes, when the company starts having more launches? In regard to Caixa and regarding the strategy for next year, the acceleration of the purchases of real estate, do you hope to have greater dividends really? Thank you.

**Mr. Ricardo Paixão**

First of all, regarding the expenses, we have already seen SG&A being diluted and our intention is that once we launch more projects this volume increases. A good part of this SG&A is fixed costs, so we should rather see an even greater dilution since we materialize our plan to launch and sell more. The current level is already a dilution over last year, but it's not yet the full potential that we can see from dilution. Regarding the cash generation, just a little correction about what you've said, about starting to pay more dividends, actually in our heads, we've already been paying a lot of dividends, right?! Our dividend payout is already quite high in relation to all the last years, more than 50% of what we have been presenting of net profit. Indebtedness remains low within our strategy of keeping the balance sheet well unleveraged. So yes, a larger cash generation will make room for even more dividends than we have been paying for lately. Thank you!

**Guilherme (JP Morgan)**

Thank you very much, good morning to everyone.

\*\*\*\*\*

Mr. João from Credit Suisse would like to ask a question.

**João (Credit Suisse)**

Good morning, everyone. And thank you for the presentation. I have two questions. First of all, I would like to have a comment about the volume of launching; the 50,000 units. How is the aim of shares in regard to the FGTS, and regard to the calendar? And also, in the increase of [unintelligible] to enter the PLR, which is the percentage of this value, do you think it will be recurrent and how much do you expect it will drop over the next months?

**Mr. Eduardo Fisher**

Regarding the launches, our expectation is that we have a better second half than the first one. Especially the first quarter, that was below what we imagined, we have already regained the cruise level in the second quarter, and we are already in the middle of the third quarter and it is also in the direction that what we imagined, that is, we should have or we will have a 3Q of very robust launches and for 4Q the forecast is also high. As Leonardo and Rafael mentioned, within this context of cash, funding, Guarantee Fund, the movements are always made to adapt to the need of the market. So, we see and we saw in these previous years, a reallocation, some adjustments to be able to attend the market. There has been a movement that we have

---

---

been talking about for some time now that the fund and Caixa want more professional companies doing business, it is better, it is safer for them, it generates less problem. So you have a bigger focus on established companies, big companies and that opens up a bit of funding space there, so we do not take the risk of running out.

In relation to that we have been working day-to-day with Caixa, with Guarantee Fund, I do not see any major problems there, it's inside our radar. Obviously, when we launch, we already have allocated the necessary resources in the banks for funding so also on my short-term radar I see no problem in that front. In relation to SG&A, it was also mentioned here, our pursuit for growth obviously comes with margin gains. We will not grow without delivering profitability growth, that's not what's on our radar. So we already have a dilution, it will continue to happen, obviously in absolute terms it is natural that these expenses grow, but in the medium term what you will see is always a productivity gain and consequently dilution in both commercial and administrative expenses.

**João (Credit Suisse)**

Thank you.

\*\*\*\*\*

**Moderator**

To ask questions, you have to press \*9.

\*\*\*\*\*

Mr. Renan from Santander would like to ask a question.

**Renan (Santander)**

Good morning to everyone. I would like to mention the conditions of approval of the project to get the 50,000 launchings for this year. I would like to know the margin of safety of these participations to guarantee this high number, and which are the potential bottlenecks that may happen on the second semester, which possibly will have an effect on this objective.

**Mr. Rafael Menin**

Hello Renan. In relation to the approval of the projects, an important indicator are the licenses. We already have 70% of the licenses of what is still to be launched by the end of the year. Therefore, the confidence level is high and the risk level is low. I can not say that we will arrive there with absolute certainty, but in our planning I would tell you that if we look at today and compare with last year the percentage of licenses we have already obtained is higher, then the pipeline is more mature than it was in the last year, so much that we have been re-emphasizing, we put in the earnings release once more that goal of our commitment to reach 50 thousand units launched. Obviously, we depend on public power, notary, PJ approval in the banks, but we are not seeing any eminent risk. We remain comfortable and with the company prepared to get there, we have bought a huge amount of land in the last three, four years so it is only natural that these lands will eventually start to be launched. We can also see that we already have almost 40 thousand units with licenses obtained. Even in

---

---

regions that today we have inventory, the license is stored there. When the inventory of these regions reaches a lower level, we will have products ready to launch on the shelf. So I would say that today this strategy that we have been talking to you for a while of supplying the stores has worked very well. Of course it had a price, a big cash effort we spent with land, almost two billion real in the past few years, it was a lot of money but they were land bought at a very good moment, spectacular quality and we are already reaping the benefits of this and we will reap more in the future. MRV's geographic footprint of more than 150 cities is not easy to run a business with such a large footprint and MRV has shown that today it is the only company that actually has effective national performance on a regular basis. Getting there is not easy, there is a huge entrance barrier and MRV has been doing it efficiently for some time now and the next step is now to launch more in these markets, the great investment has already been made that was the purchase of land. So naturally the licenses will happen, they will come out and this gives us a great comfort to reach these 50 thousand units year and also our project already announced also to make 60 thousand units year that is our project approved by the company board and we are convinced that Let's get there. The country has demand, a country with family formation of more than one million families are formed per year a deficit of six to seven million family, a funding available, public power extremely optimistic and positive with the economic housing program then the people are seeing a lot more positive factors and little risk we are still very confident in the short term strategy that year, not 50,000, but also in the strategy of reaching 60 thousand units in two or three years we think it is totally possible to get there.

**Renan (Santander)**

Thank you.

\*\*\*\*\*

**Moderator**

Remembering that to ask questions, you have to type \*9.

\*\*\*\*\*

We close now the session of questions and answers. I would like to give the floor now to Mr. President, for his final considerations.

**Mr. Eduardo Fischer**

I would like to highlight two points that we discussed, one that we discussed and one that we did not discuss. Well, we lived a turbulent moment in May, with the truckers' strike that amended the world cup a bit, so the end of the first half was a bit compromised. I'm very optimistic about the second half! As Rafael said, our pipeline is very healthy, I can see with a good precision that we should have a second semester definitely better in launches, that is the main pillar for the growth of the company. So, I'm optimistic about it, I hope we have a better semester than the first one. And, another important point that is inside our radar here, that I even mentioned briefly during the call, we are getting almost to fullness of the implantation of the concrete wall in the company, and this brings benefits and I see efficiency gain to happen yet and has happened, but there is a very important point that this has been bringing us the shortening of the cycle and then I can see a potential of increased profitability, ROE increase also coming and mainly of a potential shortening of construction cycle very

---

---

relevant. So that's a point on our radar that we believe will be able to continue growing over the next few quarters and it's something that we follow very closely. That's it, thanks to everyone for the participation and see you there next quarter. Thank you!

**Moderator**

The conference call for MRV Engenharia is closed and we wish all of you a great day. Thank you.

---