



**International Conference Call
MRV Engenharia
Third Quarter Earnings Results
November 8th, 2018**

Operator: Good morning ladies and gentlemen. Thanks for waiting. Welcome to the conference call of MRV Engenharia.

We would like to inform you that all participants are going to be in listen-only mode during the company's presentation. We will then start the Q&A Session when further instructions will be provided. Should any of you need assistance during the conference call, please reach the operator by pressing *0.

Now, we are going to turn the call to Mr. Rafael Menin. Please, Mr. Menin, you may start.

Mr. Rafael Menin: Good morning everyone, thanks very much for attending our call. It is a great satisfaction to once again present positive results, net income of 174 million, which is spectacular. More important than that, as a coincidence, this week we had an exercise of revisiting other releases of the past 11 years, and it was interesting to see that what we have said since we went public and future deliveries were extremely consistent. MRV is the only company in the segment that reported for 11 years in a row profits for every quarter, gross margin, always without much volatility, we have been generating cash for many years, very low leverage and that proves how right they were in terms of our long-term strategy, and as important as that, the company's capacity of execution. So, 11 years reporting spectacular results.

So, I would like to talk a bit about what is to come. MRV in the past 3 years has been making quite relevant investments, not only in landbank, but also back office, technology, customer relationship, and that allowed the company to be a bit heavy if you take a picture of the present, but I have no doubt that once again we have the right strategy.

Today, we have a platform that is extremely sophisticated, with national coverage, a brand that is extremely strong, a high-quality product, so today we have a digital platform that has high technology, customer relationship that is second to none and thinking further, and we are investing more and more in the relationship with our customers after the delivery of keys with a series of benefits today.

So, today we have co-management of all developments delivered and we are adding services to developments. That has a cost. We know that in the short term it demands investments in technology and teams, but I have no doubt that the



company is once again ahead of the market, anticipating demands of these customers that are more digital and they want services from the company. So, the company got it right.

And our shareholders and analysts that follow us will see in the following quarters, we are going to release that a bit more on our MRV within 30 days, the very nice things to come in the next quarters, and I have no doubt that MRV platform is to work not only in the *Minha Casa Minha Vida* program, you know that SBPE has already represented 30% of our portfolio share, so we are ultra-prepared, we are going to continue to operate in the economical segments, but also expanding our portfolio to a larger number of customers.

So, we are going to work with SBPE, we are thinking of a new financing model, so a lot of sophistication in our MRV operation, and I have no doubt that that will translate into even more satisfactory returns to our partners, clients and employees.

So, I'm very comfortable and safe, confident that the strategy defined by the company will place us in a very different position compared to the remainder of the sector.

I'm doing now to turn to Leo, to talk bit about financial indicators and Log.

Mr. Leonardo Corrêa: Well, good morning everyone. First, I would like to once again highlight Log. You know that we are continuing our schedule, our timeline for the spinoff process, we are going tomorrow to have a meeting of the Board of Directors calling the general meeting to make the resolution on the spinoff.

This movement, these 2 companies have different cash flows with different multiples, so clearly there was a lack of recognition on the part of analysts and investors of Log's value within MRV, so our objective was to unlock the value of the company and make both companies just follow their natural directions independently.

For MRV at first, as an increase in ROE, you have on the website some presentations on that, and I do encourage you to take a look at these presentations and take a dive deep down into Log's number to get to understand a bit of its outlook, which is quite positive. You have the obsolete warehouses that are being replaced, finally the market is starting to recognize the value of these warehouses that are more well-structured, and they are paying for that, and also, there is a migration of physical to electronic commerce, which demands a higher number of warehouses.

As for MRV, more financially speaking, we had cash generation that was very strong in the 3Q, this is going to continue, there is an upward trend, of course there



is a volatility in between quarters, sometimes a bit more, a bit less, but as a whole, we are doing very well. Our net debt is very low, and we had already allocated 50% of the results of 2017 to be paid out in the form of dividends. We have already paid out 25 and in the short period of time we are going to complete the payout of the remainder amount.

Looking forward, well, we are within months of a new administration for Brazil, that brings more clarity to the market, so in terms of possibilities, we see a higher increase of dividends compared to past payout amounts.

Well, now we are going to open for your questions.

Question-and-Answer Session

Operator: Well, ladies and gentlemen, we will now start the Q&A session. If you have a question, please press star 1. To withdraw your question from the list, just press the star 2.

Please wait while we collect the questions.

The first question comes from Gustavo Cambaúva, from BTG Pactual.

Mr. Cambaúva: Hi, good morning. I have 2 questions. The first, even as a follow-on on what Leo mentioned about the new administration, could you comment a bit about what it's been like for you, have you been discussing anything with the new administration about the *Minha Casa Minha Vida* program? Do you see any likelihood for a change in the program or even in the FGTS and (that is the Worker's Compensation Fund)? The media has been reporting on lots of things, but we would like to know what kind of discussions the segment has been having with the new administration.

And my second question is with regard to the fourth quarter, where you have a guidance of launches, so we would like to know what it is like in the month of October, if you are in line with your guidance.

And in the *Minha Casa Minha Vida* program, you did have some difficulties for the relocation of budget for the past quarter. What is it like today? Are you back to normal completely in terms of companies and individuals? Is everything going on okay or do you still have any kind of barriers that may impact the fourth quarter? Thank you very much.

Mr. Eduardo Fischer: Hi, this is Fisher. Let's go little by little. Okay, first, the new administration. What do we see is going on? Well, first, our segment associations have been talking to, first, the candidates and now the new administration. So, what is basically the general line? Our sector (civil construction) was much affected



in previous years, and it is a very important segment for the economy, for the generation of income, employment, so it is consensus that this is an activity to be preserved and encouraged more so.

So, although we are having preliminary discussions, we don't see anything that would change our strategy or that would bring disturbances in terms of the Worker's Compensation Funds, *Minha Casa Minha Vida* program, even if it changes names. So, basically, we believe that the talks are of continuity and conservation. I did not see anything right now that would bring me any kind of concern.

Of course, we are watching out for that, but we don't have any concerns with that regard.

Answering your question on the fourth quarter, backwards and forwards. So first, we had a difficult in September and October, that is correct, because of the relocation. We are conducting it and now we are starting to rehire companies and individuals in the beginning of November. So, the situation is coming back to normal. That will not affect our strategy for launches in the fourth quarter.

All our fourth quarters are traditionally very strong, October started very well in terms of sales and launches, so we are continuing our pursuits to have the strongest fourth quarter of the year. It should be the strongest quarter of the year.

And, nothing changes. Even if in the end of the year we have some difficulty with funding, the transfers would take place in January. So, I do not see any change in strategy of our business. So, launches in the fourth quarter should be very good and sales as well.

Mr. Cambaúva: Okay, thank you very much. Good morning.

Operator: Our next question comes from André Mazzini, from Citibank.

Mr. Mazzini: Hi everyone thanks for your call. My question is in your housing platform. Last year you were saying that you were going to focus on *Minha Casa Minha Vida* using SBPE. Looking forward, what do you think is going to be the percentage of the general sales with SBPE?

And also, you talked about the generation of sales, sometimes people feel that they want to be a bit more asset like, they don't want to buy houses, but the installments of *Minha Casa Minha Vida* are very low, sometimes lower than rental, and this can change. And if it does change, I know that MRV is also working in the rental market, probably not in a large percentage of your balances, but what do you see like in terms of services and perhaps a more thorough solution for people that are looking for housing, if the rental market makes sense?



Mr. Ricardo Paixão: Hi, this is Ricardo, André. Starting with the housing platform, the way we want this to be seen from now on is as a platform, a housing platform that is complete. So, we have always focused on segments 2 and 3 of the market, that has always been our main focus. Four, 5 years ago we had a percentage of SBPE, which was about 30%, then when we didn't have as many funds in the savings account, we started to focus on levels 2 and 3 of the program, then the level 1.5 came out, which was interesting at the time. We have always been positioned in a very conservative way in the 1.5 segment.

We know that it demands cash and so the Board of Directors said we could have only 20% of our products at the 1.5. The 1.5 products can also fit the class 2 because they have the quality characteristic that are demanded.

So, we are going to focus on lines 2 and 3 of the program and SBPE can have up to 20 volume and 25% of the general sales value. See that the average price is a bit above what we are talking about in the *Minha Casa Minha Vida* program.

Also, it's important to say that we want to have an industrial donation in this area, we don't want to have a standard low-income average with old-timer constructions, we want to have industrial constructions with the same model of transfers in the plant, so that's what we want.

And, Rafael, is giving to talk about rentals.

Mr. Menin: Hi André, it is exactly what Ricardo mentioned, the company is thinking about what the market is going to be like in 10 years' time. So, all the investments we are making in IT, technology, systems, team, people, that eventually do cost an additional cost in the short time, takes into consideration that the market is going to change.

So, we have a super-structured platform now in 150 cities in Brazil, from north to south altogether, with quality, very good customer relation, offering lots of services after delivery, we are thinking of the MRV Way of Life. We had some surveys among American leaders and we brought to us this idea. So, in the coming quarters we are going to release information about that, but we have seen no parallel in the industry.

So, we are very enthusiastic about this project, and we have a prototype in the company, development for rental, it is still very small, but at the right time we are going to give a bit more color about that, return, capital structure. It's nothing that will change the MRV model, it's quite light in terms of capital structure, but further on we are going to hear about that.

So, you know that MRV's always seeding new movements, we are always



managing the company in a very long cycles trying to predict and direct market trends.

Today we are leaders in Latin America and we have very confident that the way we are working, the strategy that we have of having this housing platform with several sources of funds, housing solutions, services and benefits will position us very differently from the remainder of the sector.

Mr. Mazzini: Okay, thank you very much Rafael and Ricardo.

Operator: Our next question comes from Luís Stacchini, from Credit Suisse.

Mr. Stacchini: Hi good morning everyone, thanks for your call. I also have 2 questions. The first, talking about the increase you have in 600 million, you said about some projects in the Northeast that were funded by the Banco do Brasil, you are thinking of completing the construction and then passing it to Caixa do Brasil, but it seems that the speed of sale is not seen to the sector cycles of construction. Is it true? Do you think that you are closing remaining inventories? I would like to know what your strategy is to reduce the limits of your inventory that is ready. I don't know, decrease the speed of construction? I would like to hear a bit about that.

And also, about dividends, in your release you talked a bit more qualitatively with the cash generation and the results, you were thinking of increasing or payout, you're paying about 50%. What would be the level of increase of payout for the coming years, and do you think that will change your appetite for growth? Does it make changes in the company?

Mr. Fischer: Hi Luís, good morning. First, about the ready inventory, it is right, the reason is constructions that we funded with BB, there was a bit of restriction in credits, so these constructions are being completed and after completed we are funding them with Caixa and other banks. So, before this point in time, we had an increase in ready units.

It's not really any different from normal, some developments are sold in 6 months, others take a bit more time. But from the point of view of an overall metrics, I would say, we are selling about 40,000 and building 40,000 and funding 40,000 units a year. So, I would say that we have a very good balance. At some point in time, you will have an increase of ready units, but then they are put into the market and absorbed, especially now that we are recovering from a very strong recession, the economy is getting a little better and that makes it easier for us to put the inventory into market.

As for dividend, well, unfortunately, I do not have a number to give you, this is a determination of the Board of Directors, but clearly, we have shown that we are



able to grow and still continue to generate cash. The reason for the company to be with a gross cash that was very high was because we are going through a period of uncertainty. If you go back 12 months ago (and you will remember the discussions), it is something that has to be taken into consideration, even 24 months behind. We are talking always about long cycles, especially financially.

I think that uncertainties are being left back, and as they are, then the excess cash will settle, I mean, generation of cash will be close to our profit and we are going to have a higher payout. But in due time, the board is going to give us numbers.

Mr. Paixão: Luís, just to add to Leo's answer (this is Ricardo), the inventory of ready units that is going up, as you mentioned, it did go up after it is sold and transferred it becomes cash generation, and that contributes to the policy of dividends that Leo was talking about.

Mr. Stacchini: Thank you. If you just allow me a follow-up in terms of ready units, do you know what is the volume that you have in general sales with Banco do Brasil?

Mr. Fischer: I do not have a number by heart. I would have to look into it.

Mr. Menin: Luís, I can get back to you with the number.

Mr. Stacchini: Okay, thank you very much.

Operator: Our next question comes from Marcelo Motta, from J.P. Morgan.

Mr. Motta: Hello, good morning everyone. Two questions. First, if you could comment on your gross margin trend. Along the year, it has been a bit more compressed. Is that a true trend, is there anything specific for 2018? And also, equity income, when we talk about the equity method, we see it a bit volatile, you have the Prime, RL, so do you think that in the short term we would see it with a positive contribution? And when you have a spinoff of Log, Log is still one of the companies of this line to be a bit less negative, so what do you think is going to happen to this line after the spinoff? Thank you.

Mr. Fischer: Hi Marcelo, this is Fischer speaking. Okay, as for gross margin, well, basically, what happened is that we have a percentage that was higher in the 1.5 segment and you have a lower gross margin in this segment, and you have revenues faster than the 2 segments. So, you have a drop of gross margin, but a faster revenue with lower margins.

The trend for the long-term, and I Ricardo mentioned that, is that we have a determination from the board to limit our participation in the 1.5 segment in MRV. The future is not really clear about this product, perhaps we are going to have



some limitations about it in the future, so we decided to be a bit more conservative in operating in this segment, 1.5.

So, for the future, our margin is not going to change much from this 32-33 it is today, and as segment 2 affects more the revenues, it tends to go on. So, it's not a strategic concern, I think this is an effect of the 1.5 segment.

As for the equity line, it was with a bit of consolation because of the participation of holdings of Prime, RL, in the Midwest in Rio, but we have been calling your attention for some time now for 2 or 3 years, these companies, if you think operationally, now they are doing very well, the margins are already higher than MRV, we even mentioned that about 2 or 3 releases or calls ago, so when this margin is kept up, sometimes you have this bit of an oscillation. But as a whole, the result is very good.

So, again, this is not a concern, we should have a bit of changes, ups and downs, but not much different from what we have seen.

Mr. Motta: Okay, thank you.

Operator: Our next question comes from Luís Maurício Garcia, from Bradesco.

Mr. Garcia: Good morning everyone. I have a question about the pro-soluto dynamics. The portfolio is growing strongly if you have a metrics on sales over the 18 months, would be the duration of the portfolio would go from 15 to 20% in one year. So, when are we going to see the growth of the portfolio more stable? And do you think that for it to stabilize you are going to have a difference in margin or any changes in scenario?

And the second, I would just like a follow-up on the *Minha Casa Minha Vida* program. We continue to see a dynamic in the market with large growth of companies that are coming into the program, new entrants, some small, some midsized, some large companies, and some say that the budget next year is going to end even faster than this year because of so many players in this segment.

What you think the dynamics is going to be like? We don't believe that the budget for next year is going to be much higher than what it is this year. So, what you think the dynamics is going to be like with a larger number of players and the same amount of money?

Mr. Menin: Hi Luís, this is Rafael speaking. Okay, first, about the pro-soluto, well, indeed, when the company started the strategy about 1.5 year ago, we were building our portfolio, it's not what we wanted, but that's life. The banks decreased LTV, so we are having a bit more of pro-soluto, but more important than that is provisioning. When you see a margin in the products sold in the month of October



or September, the margin post-provision is the same margin that it was one year/one year a half ago.

So, once again we are investing a lot in technology, statistical analysis so the granting of credit is quite sophisticated now, so it is not really of a concern in our portfolio. At first, we had losses, but MRV's a company that has bank that generates a portfolio of almost 1 billion a year and we lose about 100 million. It is important that this is provision. Today we have 330 million plus provisioned. With regards to pro-soluto, technical assistance, we have 100 million for legal provisions, so by far we are the company with the largest provision in the segment, I would say the most responsible and less volatile as well.

When you compare to other players, sometimes you have a volatility that we don't understand. The company has been in the market for many years and sometimes the line is positive and then negative. With MRV we work as a clock; we are always consistent. Our provision one year and a half ago was 120 million, now our provision is 350 million.

So, once again, if the bank finance 90% we would have a very low portfolio. But that's what life is. The banks are also important for our operations to go on. The crucial point is to know how to grant credit. And MRV (I am very confident) is the company that has invested the most money and resources in technology and statistical analysis to grant credits responsibly.

As for the *Minha Casa Minha Vida* program, there is competition, as always. Perhaps today a bit more, but again, because MRV works in more than 150 cities, it gives us operational flexibility, some markets are more competitive, others have no competition at all, and MRV (perhaps I'm being a bit proud, but) I would say in some of the cities we operate, we have almost zero competition. So, we have an operation that is more complex, it's hard-working, but it gets more flexibility.

And with regards to the program, Eduardo, Leo, they talked about the 1.5 segment, in the beginning we took it with a grain of [unintelligible] we had initial budget of 9 million and then the budget was the 1.5 segment, small companies even some public companies were very aggressive to the 1.5 segment, they did not have a cap and they consumed resources faster. And the discussion that is going on (and the government is aware of that) is that the 1.5 has to have a cap with less incentives, with less volumes.

So, I that it is going to be good for next year, in fact, I think that we learned this year for our budget next year to last until the end of the year, and the good thing about the current administration and the next administration I think that it is very responsible.

So, this year, this budget, when it gets to 9 billion, no more resources. As of the 15



of December, it's done. It is it. And it has to be so. You know, in the past it was like this; if you have a demand of 500,000 units, just let them go, and then we will solve the problem. Today we don't have this problem, so we have a much better governance. If you have a budget, you have to stick to the budget.

So, this year we saw a problem in the accounting and that will certainly be corrected for next year. So, it is a small hiccup, we believe. And we think it was positive. The program governance, the ministry of cities, Caixa, ABRAINC are establishing parameters for us not to have a problem in the budget for next year.

So, again, we are very confident, very confident. MRV we are working with SBPE, we are also having other sources of funding and I believe we are the most protective company. Again, a bit more investments in the short term, in systems, in brands, but for the long-term we are extremely comfortable, and we are going to have an operation with very little volatility, a very resilient operation, which is what we have been showing in the past 11 years. That's how I started my remarks.

If you could get our releases of 2007, 8, 9, 10, you are going to see consistency, and that is very interesting about the company; what we talked about and what we did, and we did walk the talk.

So, we are quite comfortable. I read your report this morning and we talked a lot, I admire you as an analyst, you were very acquainted with the segment, sometimes we have different views, you are more focused on today's picture, and Eduardo and I we are preparing the company for the next 3, 5 years. So, it's natural that sometimes we have a difference of opinion, but you always have very good comments.

Mr. Garcia: Thank you very much. Thank you.

Operator: Our next question comes from Jorel Guilloty, from Morgan Stanley.

Mr. Guilloty: Good morning everyone. I have 2 questions. The first, cash generation was very strong in the third quarter, and also you have a strong number of launches. Do you think this was a one-off situation that you are going to go down, or do you think you're going to stay with this level in the short and midterm?

And also, the new administration and *Minha Casa Minha Vida*, you recent said that you have no concern about the continuity of segments 2 and 3, but do you see growth in the launches of the segment?

Mr. Fischer: Well, about cash generation the third quarter was higher than normal I would say, higher than the profit, I think we are going to have some volatility, but because of the sale of the ready units and because we kept slightly lower cash generation in the first and second quarters, mostly because of the launches with



Banco do Brasil, then it tends to grow.

So, as our long-term goal, the cash generation should be the same as our profit. Quarter on quarter, sometimes they may vary because sometimes you have a little higher volume of the payment of landbank, or a bit more receiving, or a bit more construction, but I do not see the cash flow much different from our profit, from our income.

Mr. Guilloty: And the second question, about the *Minha Casa Minha Vida* program, do you see growth in the segments of 2 and 3 in terms of financed launches or do you think it is going to be flat?

Mr. Fischer: The Worker's Compensation Fund has a five-year budget, so in terms of volume financed I think it's going to be according to budget. It is a number that is very close to the number of 2018. I think that the constrains, as Rafael mentioned, is going to be with regard to subsidies. We know that the administration is in a more delicate tax situation, all discussions are to decrease our deficit, and because inside the [unintelligible] with low interest rate we don't have much room for that, so the volume of subsidies, especially for segment 1.5, is going to be lower. This is just a matter of doing the math.

Now, because the company has always had a view that all products, all segments that consume too much subsidy have much higher volatility because you depend on the government's budget, and things not always develop as you expect. So, we prefer to focus on more market, I would say, segments, because the cycle is long, we are planning for launches in 2, 3 years' time, I prefer to focus on this more self-sustainable market segment.

But again, going back to your question, the financed volume is going to be very close to what we had in 2018 because of the capacity of the fund and because it is a 5-year budget.

Mr. Guilloty: Okay, thank you very much.

Operator: Ladies and gentlemen, once again, if you have a question, please press star 01ne.

Once again, to ask a question just press star 1.

Ladies and gentlemen, we are now closing the Q&A session. We are going to turn the call back for the company's CEO for his final remarks.

Mr. Corrêa: Well, once again, we would like to thank you very much for attending and the final message is just to summarize everything we've mentioned in our release and in this call. We are looking into 2019-2020 with optimism. What we



created in 2018 was an even broader housing platform, and we are going to turn the year already starting with our SBPE plan. With savings, with the records of capitalization and lower rates, I think that we have in hands a huge potential.

I'm very optimistic we are going to be able to add a product to our portfolio that will be quite representative in the coming years, and like I said, we are bringing industrial technology for construction in apartments that are financed by the savings accounts with very interesting partnership with banks for the financing in the plant, so we are looking into MRV from 19-20 very optimistically in terms of growth.

Leo in the final question was talking about the Worker's Compensation Funds, we believe there is still to be captured in terms of market share, especially from the small ones, the informal ones, that will eventually come to the formal side and, in my mind, we have huge potentials to capture value with this new platform of savings in the large cities of Brazil.

So, as Rafael mentioned, we are looking in the next 3, 4, 5 years, and we are building the MRV of the future, and in this room, we see margins of growth coming from these lines. So, I think this is to be monitored in the future quarters, along 2019, that will bring lots of value to us.

So, that's it, thank you very much and best regards.

Operator: MRV Engenharia conference call is now closed. We thank you very much for attending and wish you a very good day.