



**Local Conference Call
MRV Engenharia
First Quarter Earnings Results
May 15th, 2017**

Operator: Ladies and gentlemen good afternoon. Thank you for the waiting. I welcome you to the conference call of MRV Engineering.

I would like to inform 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 session when further instructions will be given. Should any participant need assistance during this call, please press star 0 to reach the operator.

Now I would like to turn the floor to Mr. Rafael Menin, please Mr. Rafael, you may proceed.

Mr. Rafael Menin: Good afternoon to all. It is a pleasure to announce today good quarter results. We reached our records level for the first quarter and we sell 7% more in the first quarter than compared to 2016. It is also important to point out that all our financial indicators as gross margin, Ebitda margin, net profit, improved when compared to the first quarter 2016.

It is important to point out that MRV is the only company that currently can deliver consistent results despite operating in more than 200 cities in Brazil. This result throughout the years associated with the economic potential of the market for the coming years allowed us to grow more than the level of 40,000 units a year.

In the last 3 years, we executed an ambitious plan to reach even a better result in the future; 60,000 units a year. The first step has already been executed because we already doubled our land take in the last years. It is important to point out the differentials of this land take, which was constructed in a moment of severe crisis of the housing market in Brazil. The second step in this the strategy is to bring this to a different level than that of the last years.

Because of the maturity in the current land take, we are convinced that this year we will launch a larger volume than in the previous years. This is the result of an increase volume of launchings due to the market of few offer and high demand. Because of this we will have a larger sale... level than the last semesters.

We already have a structure that is ready to operate on a level of 60,000 units a year, so we will only need a slight adjustment in our structure to reach our main goal: 60,000 units a year.



And now I pass the floor to Leonardo Correa.

Mr. Leonardo Correa: Good afternoon and thank you for participating in our conference.

Well, I recall our last General Assembly, I would like to thank counselors Levi Henrique and Fernando Fonseca who honored us with their participation throughout a number of years and now leave the Council, and I would now like to welcome our new counselors Betania Tanure and Sinai Waisberg; 2 professionals with specific background and excellency in their areas of activity, who will enrich our board or our counsel.

Still going back to the Assembly and back to the financial aspects, we approved the capitalization of 50% of the profit and the remaining 50% will be distributed. The first half of this dividend will be paid in June and the other half will be paid in the near future, as long as the macroeconomic picture is under the same conditions of temperature and pressure.

In market last year we distributed R\$130 million and MRV will try to keep this percentage level in dividend distribution.

Regarding cash and debt, we will continue to keep a conservative level with a gross cash margin which is very large, we will try to continue to lengthen our debt. We understand that this is a good policy in this market, which is very volatile and has a long cycle.

Still talking about the balance but now looking at the active cash flow, I would like to talk about the projects in aluminum. The higher diversity of construction of this material will have a positive impact and improve our cash flow.

And finally, we are going to talk about nonpayment in our portfolio. We are increasing our level of pro-soluto. We reduced our loss when compared to the previous quarter. These provisional volumes should not be very volatile, the concession of this credit is part of our business model, more specifically of the associated credit. We will continue to improve our tools to reduce our losses.

And now I open for Q&A.

Q&A Session

Operator: Thank you. We will now start the Q&A session. If you have questions, please press star one.

And there is one question from Victor Tapia, Bradesco BBI.



Mr. Tapia: Good morning everybody. Thank you for the opportunity. I have 2 questions. You have been emitting CCB's at a low cost considering the fiscal exemption, but it called our attention that the cost of debt of non-emission of debentures, which was 750 million and a series of the CDE and IPCA 0.25, and the cash of the company was 2.9 billion. On the 10th series you informed that considering the short-term credits that you expect, don't you think that the company would be able to work with a cash expectancy of 1. million to reduce the financial risk of the spread?

And my second question is regarding the LOG. We see a spinoff as an alternative and we would like to know your opinion about this.

Mr. Menin: Hello Victor, good afternoon. Well, regarding cash, yes, we had some emissions. I will try to step back so that you understand the strategy of the company regarding the debt.

Our cycle is long, we are talking about between the purchase of a land and delivering the entire construction, we have 5 years and then there is another 5 years of guarantees. This is a long cycle, this operation of CRI and the markets... these are very short operations.

We cannot consider to have any debt with a 2-year period. It is difficult to match the economic cycle, to determine what is going to happen to the country, so what we want to do is to make long-term debt, to transform this into long-term debt. Until the end of the year we have 800... more than R\$800,000 million, which in the first emission of debentures we rolled all these dues, not all of this we could prepay, because of this they are still in the balance sheet.

Next year we will still have a large number of amount due and what we are trying to do is to anticipate these dues and what happened in the last emission of debentures we want to enlarge, to elongate this period to 10 years.

If I have a 5 to 10-year period, I can consider a net debt level that is different from that I have today for the company. But if I have a very short time of the debt, the debt of the company will be close to 0.

In this first quarter, we had already 500 to 600 billion which were due and debentures so the gross cash volume will fall in the next months. The next due days on the principles are next year and if the market is good, we might anticipate this, but we will always try to anticipate all of this, and we want to have large gross cash.

And finally, we capitalize part of our interest rates and this quarter we directed these cash flow operations and this cash volume so that it became only cash flow



and it's not possible to use for capitalization.

As we do this migration, the volume of capitalized interest rates will fall. This is a soft movement throughout time, but I already anticipated this.

Regarding LOG, I cannot talk a lot about LOG, but there are a number of companies that are interested and the shareholders are supporting LOG. LOG... in April we had the smallest vacancy rate since the last 5 years, since 2012, and this proves our business model in LOG where we are outside of the high-density markets.

LOG is more present in the countryside of São Paulo, there are some people interested and the shareholders will take the best decision regarding LOG.

Mr. Tapia: Thank you.

Operator: The next question is from Daniel Gasparete, Bank of America Merrill Lynch.

Mr. Gasparete: Good afternoon to all of you. Thank you for the call. My question is associated to the ramp-up of launches and how you are structuring the pipelines throughout 2017. What are the bottlenecks, how do you plan to avoid the bottlenecks?

And the second question is regarding cash flow. We had the lowest level of the history of the company and I would like you to tell us about the potential of optimizing the cycle of cash flow and how aluminum could help you.

Mr. Menin: Hello. Regarding your first question, our [0:13:08 unintelligible] is more mature, we had a considerable effort, we bought 800 million in land which is spectacular, we had very small competition and now we are present in 144 cities and in most of them there is little offer, but a lot of demand.

The market in general there are a few offers today. Our market is... we have high demand, but little offer. So, our project, our main project for the next quarters and for the next years is to launch a higher percentage than what we're doing, so when we are launching more the sales will also rise, production most also rise and this is the project of the company.

We have done our homework regarding re-cost, IT, people, training and recovery of the gross margin, we are at a very good operational level and we are sure that we can take the next step to offer up to 60,000 units a year. First, to go from 40 to 60,000 we must to go from 40 to 45, to 50 to 55 and then to 60. But our aim is 60,000 units a year.



And from now on, we plan to launch more so the dynamics will be basically this. And the second quarter, second quarter and fourth quarter we will see better results than in the first quarter regarding the cash flow.

Mr. Ricardo: This is Ricardo speaking. What has happened? Our receivables have reduced because of the simultaneous sales strategy where we are able to pass on these units much faster than before, we reduced it from 10 months' average sales time to 2 months. And aluminum is the new strategy that we are using and it has increased its share participation in our project. As you know, the faster we build, the faster I get paid.

And just to close, yes, we have a potential to reduce our receivables, our assured sales process helps us in this, so simultaneous sales and guaranteed sales help us to launch more, to build more and with this I will get more money.

Mr. Gasparete: Thank you. Thank you for the call.

Operator: The next question is from Alex Ferraz, Itaú BBA.

Mr. Ferraz: Good afternoon ladies and gentlemen. Thank you for the presentation. I have 2 questions regarding the banks. Did you have the impression that the banks are restricted regarding the *pró-costista* line and that they are re-managing the *Minha Casa Minha Vida* project? So, have you felt anything regarding the banks?

And regarding the NASBE, you only launched one phase, but what was the demand like? And the remainder of the project, 1.7 billion, when do you plan to launch this? This year or next year? Is just for me to have a clearer view of this topic.

Mr. Fischer: Alex, good afternoon, this is Fischer talking. Regarding the first question, the behavior of the banks, throughout the last 2 years we have mentioned this before, the banks have become more restrictive regarding the credit lines to our clients and since our sales depend on these concessions, this has disturbed our sales dynamics.

What we noticed in the bank behavior in 2017, there was nothing different than from 16. We have 2 partner banks, one of them is no longer very relevant and the operation because of this excessive restriction, but we noticed that both institutions that we work with show an interest in operating at levels that they did in the past.

So, I look at 2017 with an optimistic view. It is not comparable... this first semester is not comparable to the last semester of last year, but this year our talks to both institutions show us very positive perspectives. I do not... I only see an improvement in the scenario.



Regarding NASBE, yes there is the first phase and it was launched in March, we are now in May and we already launched 4 businesses, it is a very exceptional product, it corresponds to our initial planning.

The expectation is that we will be able to sell all the units in 2 years, which is very good. And what is most relevant for a project of this size is all indicators of the NASBE are higher than the average of MRV today. We have a higher margin, we have a higher expected margin and with this we will reach the end of the project adding a lot to the results of the company.

Mr. Enrico: Hello, this is Enrico, Fernando. Just a follow-up on the first question of Alex, which is the payment to the banks. What is... what do you expect for the second quarter? Is there going to be an impact in the second quarter?

Mr. Fischer: Well, the operations are normal, these procedures are still ongoing, there has been no rupture, we had a problem with financing of corporate individuals at the beginning of the year, this is no longer happening in the second quarter, so we believe that everything will be normal from now on.

Cash flow is associated with what we receive and what we spend, we have been spending more in acquiring land, we are acquiring more lands than in the first quarter because all of what we created in these last 3 years we have a trigger, payment trigger which is associated with the leases. As soon as we start to have the leases last year, so the trigger to get money back on these lands has started.

We will continue to have these expenses in the second quarter. So, our cash expectancy for the year is robust, but it will go... it will improve in the next quarters.

Mr. Enrico: Thank you Fischer.

Operator: The next question is from Nicole Hirakawa, Credit Suisse.

Ms. Hirakawa: Hi, good afternoon to all of you. I have 2 questions. The first is regarding the hiring demand. This is associated with the hiring of corporate individuals, you mentioned that this is a bottleneck and in the last 12 years the number of units hired is 20,000, and I would like to understand the main factors associated to this difficulty.

And you mentioned that the scenario as a whole improved, so could you tell us what happened recently?

And the last question is regarding the gross margin. Which is a level that would make sense, an average level that would make sense? There is a recurring component, a nonrecurring component, what could we use to project gross margin



in the future?

Mr. Menin: Hello Nicole, this is Rafael. Regarding the corporate individuals, in January one of the banks changed one of the criteria to release corporate individuals. Today we have a stock of PJ, higher corporate individuals, so this is not a concern for us. This metric is a little bit shorter, this is only temporal, it is not associated with our operations.

Regarding the gross margin, we are recovering the margins quarter by quarter. In 2013, we had our negative peak, or let's say our valley, we reached a valley, it was almost 26% and we are recovering quarter by quarter and reaching the margin of 33%. There is still margin for a gain of operation and efficiency.

I hope to have an improvement, a small improvement because most of the work has already been done, we have followed a very positive path in the last 3 years and now there is a marginal increment in this gross margin.

Ms. Hirakawa: Just a quick follow-up on the hiring volume of the of corporate individuals, do you expect a normalization? And since you already have 2.5 million of projects with RI, the chances of non-delivery are very modest or are very small, right?

Mr. Menin: Well, this is associated to the licenses, this will be limited by the licenses and not by the corporate individuals. Our cycle is normal. First, we have the license then the RI and then the PJ. PJ takes a little bit longer, so we depend much more on the licenses than on PJ.

We would like to have launched more in the first quarter, but we did not achieve this because these licenses had not been issued and because of this we were not able to launch anything in the first quarter of 2017. So, PJ is something natural, it a continuous grow. We depend more on licenses.

Operator: The next question is from Jorel Guilloty, Morgan Stanley.

Mr. Guilloty: Good afternoon. My question is regarding your target to launch 60,000 units a year. To do you believe that all units will be available for the use of the FGTS? And will this change your leverage metrics?

Mr. Fischer: This target of 60,000 is feasible, we have talked about it today, but it's something that we inside the company have been talking about for a long time. In the last 3 years, we stabilized the company on an operational level, that is very high and very dispersed in terms of geography.

Today we are we feel comfortable to take different steps to reach this target. This target does not have a fixed date, we want the company to be able to construct, to



sell and to receive. We have very good planning for this, this target is feasible, there are challenges on the way, but we started 2016 with a good step forward in the word to meet this.

Regarding the FGTS, it's part of our strategy that the majority of these units is... that people will be able to use this fund to pay for the units. This where most of the demand is in Brazil, so that makes no sense to change this strategy, and 60,000 units is possible using the FGTS.

Regarding the leverage, we have mentioned that we understand that we are a business that generate cash. We understand that we grow by generating cash. An example of this is that in the last 2 years we have invested in land and we did not stop generating robust cash.

So, we are focused on cash generation and with this will cause the operation to grow without burning cash. This is our aim.

Operator: To ask questions, please press star one.

The next question is from Marcelo Motta, JP Morgan.

Mr. Motta: I would like you to comment on the equity income. Last weeks we have been seeing MRV guaranteeing some of the debt. I would like to understand if this is still a leverage problem. In the last call, the gross margin of these projects was already positive and that it was only a question of time to see profits.

So, I would just like to know if this is still the same projection or if there is any change in this.

Mr. Menin: Marcelo, that's exactly what you described, the operation of the MRV and Prime are improving in terms of gross margin and sales speed and cash generation in both is improving. In Prime it is much clearer, but it takes some time for us to remove the leverage of these companies and to produce a higher difference in the equity of these companies.

Mr. Motta: Thank you.

Operator: Remembering, if you have question, please press star one.

As there are no questions, I would like to close the Q&A session. I would like to turn the floor over to the President for final considerations.

Mr. Fischer: Thank you for participating in this call. I would like to point out something that has been discussed in the Q&A, which is our target of 60,000 units.



Some very important things happened recently which improved our trusts to take these steps. We have seen positive developments in the project *Minha Casa Minha Vida*, Brazil is recovering and is reaching balance, we noticed that there is a response to the banks, they are already more positive regarding the future, everything that we constructed in the last 2 or 3 years have been very positive and the operational area of the company, which has been trained in order to reach this aim regardless if we are in the commercial area, prospection, all of this make us confident that we are on the right path to reach this goal.

We started 2017 in line with our planning and we are on the correct path to reach our target.

Thank you very much and I would like to have you back in the next call next quarter. Thank you.

Operator: The conference call of MRV Engineering is closed. We thank you for your participation, have a nice day.