Operator:

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to EZTec's 2Q18 results conference call.

Note that this event is being recorded and 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 the call, please press *0 to reach the operator.

Today's event is available through a live webcast that may be accessed through the EZTec Investor Relations website at www.eztec.com.br/ir by clicking on the banner "Webcast." The following presentation is also available for download on the webcast's platform. The following information is stated in BRL and in "BR GAAP" and "IFRS" applicable to real estate developers in Brazil, except where stated otherwise.

Before proceeding, let me mention that any forward-looking statements made in today's conference call regarding the business outlook, forecasts and financial and operating targets is based on the beliefs and assumptions of EZTec's management and the information currently available to the Company.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the conference call over to Mr. Hugo Soares, Investor Relations Analyst, who will begin the presentation. Please, Mr. Hugo, you may begin the conference.

Hugo Soares:

Good morning one and all and welcome to our results presentation for the 2Q18. Apart from me, we also have Emílio Fugazza here, our Chief Financial and Investor Relations Officer, to announce EZTec's operational and financial highlights. I will ask you to please move to slide number three, so we can begin.

In a synthesis of the operational performance, we had the launch of Z. Cotovia in the 1Q, followed by a 5% stake acquisition in Jardins do Brasil in the 2Q, totaling an aggregate of R$129 million in the period of PSV launched.

Net sales reached R$201 million in the semester, much healthier than the R$49 million for the same period of the previous year. It is a performance that reflects consistency in inventory sales, as well as a continued decline in cancellations. These are sales that can be empowered by the new launches ahead. For that, we rely on a landbank of R$6.7 billion, which already counts with the very relevant contribution of the residential project of Parque da Cidade, with a PSV of R$500 million.

In the quarter, we also delivered the second of the three projects to be delivered in 2018. Our engineering team also managed to recognize economies in construction, as it has repeatedly been the case over the course of the last cycle of deliveries. In the semester, we reported gross profits of R$58 million and a net income of R$20 million. These are values that tend to become more expressive to the extent that we accumulate launches, but that already indicate a recovery in margins for the 2Q.

We have also generated R$86 million in net cash in the semester. It is a consequence of strong ready inventory sales. This generation could have been even greater had it not been for the increased practice of direct financing by EZTec, as well as for the recent plot acquisitions.

Now I ask you to look at slide number four, where I will speak of the Company's landbank. In the past years, EZTec's Management has been especially focused in capturing investment opportunities that were being presented by the economy's moment.

We are capable of such because of the solid cash position strategy that has granted us the comfort to seek the best possibilities for returns to our capital, which became even truer with the sale of EZ Towers. With that, we put on a landbank that enables us to look ahead with great confidence that we will have adequate products for whichever situation that arises.

Our landbank today goes much beyond the Parque da Cidade project, which we will address with the proper attention ahead. It includes, for example, acquisitions from the past 18 months, from very well-positioned projects in the city of São Paulo, directed towards the high- and mid-high-income segments.

These are projects that have showed good traction in launching sales at this moment of the economy, and that are also able to safeguard solid margins. We also have plots from older acquisitions for a broad range of segments. We will already be able to position some of them, as is the case of our experiments in Minha Casa Minha Vida.

It is also the case for the commercial project Esther Towers, which inherits the success from EZ Towers. Other plots will remain serving as ammunition to guarantee the strength and flexibility to deal with the new operational cycle, which we will initiate with strength in the 2H18.

Now I ask of you to move to slide number five, where I will speak of the operational performance still in the 2Q. Operationally, the 2Q was marked by matters that were external to EZTec, but that still impacted its performance. Within three months, we've had the World Cup, as well as the construction union's and truck drivers' strikes.

Moreover, the public prosecutor's office emitted an injunction that suspended the right of protocol in the city of São Paulo. Though this injunction has already been suspended, it prevented us from being able to launch new projects in the 2Q.

However, we carried through with an additional 5% stake acquisition in the Jardins do Brasil project, reaching an overall 46.25% share. This incremental acquisition contributed with a PSV of R$24 million, in the form of additional inventory and receivables.

In the absence of launches, the quarter's gross sales were also impacted, ending the period in R$135 million. Nonetheless, inventory sales remained firm in the 2Q. Despite the truck drivers' strike having impacted the clients' confidence, we still sold R$108 million of ready inventory.

With the exhaustion of the ready inventory in the South Zone of São Paulo, the central axis for residential inventory sales has become the metropolitan region of São Paulo, the highlight being the Cidade Maia project, which counts with consistent demand from local consumers in the city of Guarulhos, as well as with a continued contraction in cancellations.

In the 2Q, cancellations reached R$55 million, representing acceleration in the downward trend that has already lasted for five quarters. Cancellations in the period are still residual from the deliveries from the end of 2017, remembering that the PSV delivered in 2018 is 83% smaller than that from the previous year.

There is only R$122 million in PSV remaining still to be delivered in 2018, which indicates the conclusion of cancellations as a latent matter for the Company. At last, the drop in cancellations was not sufficient to offset the lack of launches, and net sales dropped to R$80 million in the 2Q.

Please, I ask you to observe slides number six and seven, where I will talk about future launches. These two slides list a few of the most adequate projects to be launched in the semester, the first slide outlining those that have the most short-term perspective to be launched. Note that the Company has a variety of unobstructed options to ignite an operational uptake. It includes five projects that are already approved by São Paulo's city hall.

In a detailed look to the launching cycle, we can highlight projects that are derived from recent acquisitions. It is the case of Diogo Ibirapuera, Z. Pinheiros, Indianópolis, and Flechas, which are all already conceived under the city's new master plan. These plots are also very well located in noble regions in the city of São Paulo, directed towards a client profile that has demonstrated resilience and interest to both invest and live in desired neighborhoods.

The launches for the semester will be complemented by projects in Minha Casa Minha Vida, which already is the case for the Fit Casa Brás project, then followed by Rio Bonito. These are plots originally intended to be launched in the mid-income segment, but that also have a vocation for Minha Casa Minha Vida.

Considering that a strengthened demand in the mid-income segment depends upon improved unemployment metrics, it is on Minha Casa Minha Vida that these projects can best monetize and reward the Company's capital. In it, these plots can rely on a quicker turnover and a better protection from cancellations, as well as on the generation of margins that are compatible with the Company's historical standards.

On top of these two Minha Casa Minha Vida projects mentioned, we count on others still being developed. To deal with the Minha Casa Minha Vida projects, the Company created a Fit Casa enterprise, a wholly-owned subsidiary to the EZTec Corporation. This new brand will mark the projects destined to Minha Casa Minha Vida, facilitating product placement.

Now I ask you to move to slide number eight, where I will address the Parque da Cidade project. Here, we highlight the Parque da Cidade residential project, being another resource at our disposal for the beginning of this new cycle. It consists of two residential towers embedded within the Parque da Cidade complex, in Chácara Santo Antônio, in the South Zone of the city.

It is a region with a high density of companies situated, which makes it a natural location for this type of product. It is a product with a standard of quality that can hardly be found in its Brazilian residential counterparts. It counts with a structure entirely made of concrete; it counts with a centralized vacuum-driven garbage collection system; it counts with a great utilization of common spaces throughout its towers, with a restaurant, spa, winery, etc. That makes it a project with a PSV of at least R$500 million.

The acquisition of Parque da Cidade cost R$90 million, of which the first half has already been paid. However, only the initial R$10 million was paid during the 2Q. The remaining R$25 million was paid upon the overcoming of its due diligence cancellation clause, which took place, as a subsequent event, in July, totaling R$35 million.

Therefore, the accounting recognition of this acquisition is postponed to the 3Q. Regardless, it is a project that was acquired with a project already approved by São Paulo's city hall. In other words, it is not about the purchase of a mere plot, but of a whole project, with a registered development, environmental licenses, as well as paid-for air rights. Today, Parque da Cidade is still to be launched, and it is a resource at our disposal to promote a strong operational uptake.

Now I ask you to move to slide number nine, where I will summarize our launching capacity. As it should be clear by now, EZTec enters the 2H18 with a strong availability of projects on their path to be launched. From them, R$553 million already count with São Paulo's city hall approval. Another R$360 million are on their track for it. Not to mention Parque da Cidade, which contributes with another R$500 million in potential PSV.

On the aggregate, we have R$1.4 billion in PSV as a resource at our disposal for the beginning of the cycle, not to mention other projects that can also be accounted for in this metric. Considering that it is an electoral year, Management is focused on channeling the launches from its landbank in the best way and at the best time possible, and remains sure that it will accomplish its launching guidance, within R$500 million and R$1 billion in launched PSV for 2018.

Now, I would like to pass the word to Emílio Fugazza, who will speak of our financial results. Please, Emílio.

Emílio Fugazza:

Thank you very much, Hugo. Hello, everyone. It is always a pleasure to be here talking about EZTec's financial performance. I would like to start talking about net revenues on the chart on the top left. I will start talking about the R$69 million of net revenues in this 2Q18. We have lived, since 2015, a huge recession, something like a depression in terms of real estate markets and performance.

But, even though we have ended with our results remaining on blue, blue because we have made the decision to launch less projects since 2015, trying to focus on solving problems about cancellations, about the debt of the projects and the construction at times and really trying to understand what kind of strategy we have to address for the upcoming years.

And the decision we have been taking was a decision to launch less projects up to the moment some sort of benefit and, I would say, better blue skies could be foreseen ahead in terms of political and economic decisions. And, up to this moment, it is important to bear in mind that the 2H18, we are kind of leading with the presidential elections in Brazil and, obviously, this is the kind of turning point for launches and sales maybe between the moment we are and 2019.

That is why, from the beginning of 2018 up to now; we have launched just one project. Partially, this was offset by the prosecutor trying to address a specific cause in São Paulo for bidding new approvals up to June 2018. But, from July and August, we have, as Hugo mentioned before, a lot of projects with all the licenses completely free to start launching from August and on.

Saying that, I would like to address the graph on gross margin. The gross margin, nowadays, is about 38%; 38% is something that is better than in the 4Q17. Let me remind you that we ended 2017 with 29% of gross margin and that gross margin was there exactly because of the cancellations we have been living since 2015, specifically because of the Cidade Maia project. The Cidade Maia project was a project that we delivered the whole project in 2017, and with something around 80% of the whole units sold, we have faced cancellations.

Cancellations, as Hugo mentioned before, are dropping right now and this huge drop we have been seeing for five quarters, that is the reason for trying to get better gross margins, because cancellations are not offsetting anymore the sales we have been releasing. And because the crisis has recovered a little bit since the 4Q17.

The forecast for the whole year is something in line of the 1Q18 and 2Q18 margins, specifically because the projects we have launched since 2015 are projects under the pressure of the prices at the moment we live in a recession. That is why I think between 30% and 40% of gross margin is a good target for the margins of those projects.

Nonetheless, the projects we started launching in 2018, Z. Cotovia indeed, the margin was above 40% and projects, as Hugo mentioned before, like Minha Casa Minha Vida projects are projects that we can expect something better than 40%. So, all in all, I would say 2019 is a good year to see a ramp-up in margins, specifically in gross margins, a ramp-up from 38% to something above 40%.

Another kind of important situation to be addressed is the expenses. You can see, on the chart below on this slide, slide on page number ten, the G&A expenses and the selling expenses. The G&A expenses remained almost the same. We are releasing something around R$21 million, compared to R$22 million, even though it is better than the 2H17.

In terms of selling expenses, that is the major gain we can get from the 2Q18, because you can see that, since the 3Q17 and 4Q17, selling expenses have dropped a little bit, from almost R$22 million in the 4Q17 to R$17 million in the 1Q18 to almost R$14 million in the 2Q, partially because, obviously, we had no launches in the 2Q. No launches not because it was our choice, but because of the market and prosecutor.

But, obviously, I would like to say that we will probably see a little bit the selling expenses, because of the sales, are going to open up in the 2H18. But so far, obviously, less expenses can help a little bit to increase the bottom line of our Company.

Let's look to slide number 11, talking again about financial performance, now talking about financial results on the chart on the top left. The financial result in the 2Q was R$24 million, an advance on the R$20 million in the 1Q18, partially because of the IGP-M inflation index, affecting our contracts with the clients we are providing mortgage.

The IGP-M had an increment in the 2Q18 and 3Q18, specifically because of the exchange rate of our currency. The USD, here in Brazil, the rate came from something around R$3.3 or R$3.4 to R$3.8 or R$3.9 in the 1H18 and the USD has a huge impact, specifically in terms of commodities in Brazil, commodities like soy, corn, oil and steal.

But the impact from those items can impact directly the IGP-M index, and this adjustment of inflation is the kind of index we have been using in our contracts. I am going to address a little bit more these specific subjects on the next slide. Secondly, in the financial result, obviously, the increment is because this volume of mortgages practiced by these contracts by EZTEC was, I would say, 20% higher than the 4Q17.

Talking about equity income, on the top right on this slide on page number 11, is almost zero. The main reason for it being zero is because we have been buying the stakes of these companies from our partners, mainly because they need liquid cash, they need a way out from these projects, and we can provide this way out and, obviously, the remaining result coming through equity income is this decrease.

But, partially, it is also because we delivered, at the beginning of this year, a project called Parque Bussocaba, a low-middle-end project in the city of Osasco, delivered between February 2017 and January 2018. The capitalization ratio over this was something around 40% to 45%. So, the time to deal with those cancellations was between April and May, and that is partially why the result of equity income since the 1Q was a weaker result than in 2017.

But, in July, at the beginning of the 3Q18, you are going to see a ramp-up in results because of the sales of this specific project and the projects in partnership are a little bit better than the first half of in all. That is why I think we are going to see an increment in equity income in the 3Q18 and 4Q18.

Secondly, the bottom line. The net income in the 2Q18 was R$15 million, slightly more in the 1Q18, of R$6 million. All in all, the 1H18 was R$21 million, obviously softer than previous years because, again, as I said before, the Company is working on the middle-high-income segment.

When you see weaker results, but remaining on blue, is a kind of victory, specifically in our sector, specifically in the moment we have been living, it is a kind of victory. And I think, obviously, 2018 is a kind of weak year for our operations, but, with all the launches Mr. Hugo said before, we are going to see a ramp-up in revenues and income in 2019 for sure.

And, finally, results to be recognized with a margin that has remained flat since the 1Q18, at 36%, representing the whole projects we launched since 2015. That is the kind of results we are going to expect for the next two or three quarters in terms of gross margins, 36% to 40%. But, when we stop launching these projects, we are going to see a little increment in this margin, but for now on, I would say 36% is a good gap for the gross margin in the next couple of quarters.

I would like to move to slide number 12 to address the portfolio receivables subject. It is a kind of new information we are trying to show you in order to understand a little bit better what kind of corporation we have, we close in our Company, providing very good financial results, the best financial results we can get from the last two or three years.

Let's start explaining the first chart. The first chart can show you that, by the end of the 4Q16, we had something around R$300 million, R$292 million of mortgages we provided to our clients, increasing to R$406 million in the 4Q17, and ending up, in the 2Q18, at R$478 million.

R$478 million is an increment of almost R$72 million from the beginning of the 1H18. And the reason for that is R$111 million of origination, new mortgages, R$41 million of interests paid to aid in our assets, R$69 million of payments and R$11 million of foreclosure.

So, comparing to the second chart, the chart below, we are financing R$478 million, which represents something around 2,000 units in all. So, it is almost 1,800 units to 2,000 units. The foreclosure we had in the 1H18 was something around 18 units, the origination was 387 units and the acquittance something around 166 units.

So, you can see that almost half of the total amount of origination in terms of units was fully paid in the same period. This new graphic is because of the increment in the IGP-M I mentioned before. The IGP-M being so high is a very good motivation to our clients, starting from the mortgages provided by EZTec to the bank.

Just to have a small comparison, you can see EZTec providing mortgages in a range of 10% yearly plus IGP-M, providing maximum time of 20 years. Compared to the commercial banks nowadays, we can see something around 1.5% yearly of the interest rate and a maximum period of something around 13 years. So, it is a new exchange that is a good motivation.

Obviously, not all those people can provide the whole instruments to get the mortgage transferred, but, for now, it is a very good part of our operations, providing a very good part of our results.

Moving to slide number 13, the final two slides we have here to show you now, it is the potential cash generation. We have here this slide just to make sure our point of a solid position of cash and a solid balance sheet.

Talking about the potential cash, nowadays, we have a net cash position of R$412 million, mainly because in cash we keep R$536 million and the gross debt of the Company – mainly because of the project debt, we have no corporate debt in our Company – the project debt is somewhere around R$125 million; that is why we have a net cash position of R$412 million.

Apart from the cash, we have the performed receivables. Part of them are mortgages, as I mentioned before, and part of them are being transferred to the bank, because we are going to deliver those units. So, all in all, we have R$546 million of performed receivables.

Performed receivables means that we have R$261 million of units, units that are under construction right now. People have been paying the installment of those units; seeing that we have less delinquency rate, people have been paying. The moment we are about to deliver the keys, they have to choose between transferring the contracts to the bank or accepting a mortgage provided by EZTec.

Apart from the R$261 of unperformed receivables, we have the provision of dividend payment of R$85 million, to be paid between October and November, so in the next couple of months, and we have R$185 million of construction obligation.

All the construction we have, all the projects we have, the total amount of money we have to spend in order to fulfill the cost of the construction of these projects is something around R$185 million. All in all, we have a balance that is about R$1 billion in cash. So, the whole situation of cash without selling our units from our inventory, we can provide something around what we have in cash.

Selling the inventory, the inventory at market value, which is about R$1.3 billion, we would see something around R$2.3 billion, R$2.4 billion in cash, in potential cash generation.

So, if we are paying this amount of cash or investing partially this amount of cash in new pieces of land, in a new kind of offer, in a new kind of projects, in new acquisitions, we do not know for sure so far, but the problem was this situation addressed was that we have a complete amount to choose to deal with this movement we are going to see from the new moment, political and economic, provided by the person who is taking charge of Brazil in the next elections.

Moving to slide on page number 14, I would like to address the balance sheet situation. The balance sheet situation, starting from the left to the right, our balance sheet is a sum of: R$2.9 billion of assets, and those assets are mainly represented by R$536 million of bank balance and cash equivalents; performed receivables of R$546 million; inventory ready – by cost, not market price, by cost of the construction – of R$486 million; and, finally, landbank by cost of R$776 million.

So, the whole piece of land we have, as Hugo mentioned at the begging of the presentation, the cost of our position from this landbank is about R$776 million, but this R$776 million can provide a generation of the potential landbank you can see, looking at the chart, you can see on the same block, of R$2.6 billion in potential gross margin coming from this landbank. This potential landbank can add something around R$16 per share in terms of our shareholders' equity in our balance sheet.

So, all in all, we have R$2.9 billion in assets, comparing to almost R$400 million in liabilities, and those liabilities are mainly because of the R$125 million of debt coming from the projects we have under construction right now. The bottom line from our book value is about R$2.6 billion of shareholders' equity, which means now almost R$16 per share. R$16 per share for now can turn into R$35 per share in the next couple of years, after we launch the whole amount of landbank we have in our balance sheet.

That brings me to the conclusion right now. To conclude, I would like to deliver the Management's message. We began 2018 with the goal of increasing the Company's operations after three years with few launches due to the crisis. This recovery is important for the Company to show results that are proportionate with its capital structure again.

There were setbacks in 2018. However, we remain confident in our launching guidance, with launches concentrated in the 2H18. Management is focused on coordinating the launches agenda, looking out for the best time and the best way to push each project. We are alert to our capacity to mobilize our sales forces. We are also alert to the impacts from an electoral year with uncertain results.

Yet, we rely on a flexible and qualified landbank for the current moment. It is a landbank with quality products that will help us restore margins like they used to be. We also rely on a very comfortable cash position that allows the Company to finance its own clients. This direct financing not only creates an attractive financial revenue, but also allows us to go around the bureaucracy in banks. It helps us to make sure we go on with consistent inventory sales that maintain strong margins.

Looking at the big picture, EZTec has a very comfortable capital structure, able to allow us security in a new cycle. It gives us comfort to have larger numbers of construction sites again. Including some sites with challenging constructions, such as Parque da Cidade or the Minha Casa Minha Vida projects, the low-end projects. However, they are able to generate strong operational growth and a better outlook for profitability.

In the microeconomic point of view, there are positive trends. There is the fall in inventory in São Paulo city and the drops in rates practiced by banks. In a long-term perspective, real estate financing has also much to gain from the new changes made by the Central Bank. These changes tend to increase the quantity of resources to the sector. This benefits especially the financing of units up to R$500,000.

First of all, because these units usually are overlooked by banks, because they are above the Minha Casa Minha Vida ceiling, and much below the SFH limit. But mainly because it is the segment where we concentrate more than 40% of our inventory, as well as a large part of our landbank. The Company is ready to push on its operational growth, seeking to deliver the best possible return to EZTec's shareholders.

Operator:

At this time, showing no questions, I would like to turn the floor back over to Mr. Hugo for any closing remarks.

Hugo Soares:

Many thanks for your audience today. We are all available to address any further questions. Thank you very much for your audience today. Goodbye.

Operator:

Thank you. This concludes today's presentation. You may now disconnect your lines at this time and have a nice day.