4Q18 Earnings
RNI (RDNI3 BZ)
March 15, 2019

Operator:

Good morning. Welcome to Rodobens' earnings conference call for the fourth quarter (4Q) and fiscal year 2018. With us today are: Carlos Bianconi, Co-CEO, Chief Financial & Investor Relations Officer; Alexandre Mangabeira, Co-Chief Development Officer; and Felipe Rodrigues, Investor Relations Coordinator.

We inform that the event is being recorded and translated simultaneously, and that during the Company's presentation, all participants will be in listen-only mode. We will then begin the Q&A session for analysts and investors only, when further instructions will be given. If you require assistance during the conference call, please request the help of the operator by pressing *0.

The event also is being broadcast simultaneously via webcast, which can be accessed at ri.rni.com.br, where the presentation is also available.

We also clarify that any statements made during the conference call regarding Rodobens' business prospects and its operating and financial projections and targets are based on the beliefs and assumptions of the Company's management as well as on the information currently available. They involve risks, uncertainties and assumptions, as they refer to future events and, therefore, depend on circumstances that may or may not occur. Investors are cautioned that the conditions of the overall economy, industry conditions and other operational factors could affect the future performance of RNI and lead to results that differ materially from those expressed in such forward-looking statements.

I will now pass the call over to Mr. Carlos Bianconi, who will begin the presentation. Mr. Bianconi, you may proceed.

Carlos Bianconi:

Good morning, everyone. Let's start with the highlights of 4Q18.

The fourth quarter registered the highest launch volume of the year, of R$183 million. In 2018, we launched R$323 million, up 62% year-on-year, with the My Home My Life segment accounting for 55% of total launches. Another highlight was that we had the lowest volume of cancellations in any year since our IPO, of R$144 million in 2018, down 17% from 2017.

We also expanded our landbank allocated to MHML projects in 2018 by signing option contracts for 10 projects in the South, Southeast, Midwest and Northeast regions with combined potential sales value (PSV) of R$1.7 billion. Adjusted Gross Margin stood at 29.1% in 2018, expanding 13.4 p.p. from 2017.

General and administrative expenses amounted to R$40.9 million in 2018, down 36%, representing savings of R$23.2 million from 2017. We continued to maintain a lean structure.

The restructuring of our debt led the Net Debt (Ex-Production Debt) to Equity ratio to end the year at -1.8%, compared to positive 2.4% at the end of 2017. So, we continued to deleverage the company and improve its cash flow.

The net financial result in the year was R$13.8 million, compared to R$2.0 million in 2017. This reflects the liability management efforts made by the company, with deleveraging and improvement in borrowing conditions.

The net loss decreased by 72% in 2018 compared to 2017 to end the period at R$26.1 million. The net loss reduction in nominal terms was R$67.1 million.

I'll now turn the call over to Alexandre Mangabeira, who will discuss the operating results.

Alexandre Mangabeira:

Good morning, everyone. Let's turn please to page six, which shows our launches in 2018. We launched R$323 million in the year, or 62% more than in 2017, but still fell short of our initial expectation for the year. We ended up postponing two projects due to market conditions, and one project took longer than expected to be approved and was postponed to 2019.

Of the R$323 million launched in the period, more than half was in the My Home My Life segment, which is line with our strategy of strengthening our presence in the low-income segment and in MHML.

Let's go now to page seven, which shows our sales. Our gross sales decreased compared to 2017, to R$334 million. On the other hand, the volume of cancellations decreased, to R$144 million in the year, compared to R$171 million in 2017. Most of these cancellations are still related to the subdivision segment, which has slightly higher portfolio turnover.

Note also that, in 2017 we very aggressively decreased our inventory by sometimes practicing slightly higher discounts, which led to lower gross margins, but in 2018 we changed this strategy somewhat. In addition to holding a smaller inventory, we were a bit more conservative in offering discounts, as shown by the improvement in our gross margin, as you will see in the income statement.

Another point that adversely affected sales volume was that 76% of our launches were in the second half of the year, which weighed on our sales volume for the whole of the year.

Let's move on to slide eight, which shows our inventories. We ended the year with inventories of R$573 million, or 26% more than in 4Q17. In relation to performed inventory, which is always what we pay more attention to, we had an increase of 15% in the inventory of finished units, which ended the year at R$160 million. In 2017, this figure was R$136 million.

If you consider that we delivered R$306 million in 2018, this increase of 15% is small and well under control, but we do have a strategy to eliminate it as quickly as possible.

Now, to discuss the financial results, I'll pass the call back over to Bianconi.

Carlos Bianconi:

When analyzing the Company's financial results, which confirmed the operating results, you can see in the first table the breakdown of debt, cash and debt, with the cash balance the year at R$92 million, with a debt balance of R$318 million.

The breakdown of this R$318 million is as follows: production financing of R$237 million, which is the natural debt of the business, and bank debt of R$81 million, which is declining. It already has been declining in recent quarters and years, and we continue working to further reduce and mitigate our bank debt, to leave mostly only production debt.

Net debt automatically stood at R$225 million. This R$225 million, as a ratio of our shareholders' equity of R$626 million, gives you a ratio of 36%; and ex-production debt, which is structural debt, would be negative, at -1.8%.

The debt maturity schedule is very flexible, very long term, and mostly related to production. Bank debt also is linked to certain events, but we have no pressure from debt. It is very highly diluted and does not weigh on the performance of our business development, contracts and growth.

Turning now to the income statement, we have net revenue, which in 2018 was R$182.6 million, compared to R$289 million in 2017. In 4Q18, net revenue was R$34 million, compared to R$72.9 million in 4Q17.

Gross profit posted very significant improvement, going from R$3.3 million, or 8.7%, in 4Q17 to R$6.9 million, or 20.4%, in 4Q18. So our net revenue was lower, but were registered very sharp improvement in the quality of this revenue consequently in our gross profit.

In the year, gross profit was R$40.5 million, or 22.2% of gross profit, compared to R$11.3 million in 2017, or 3.9%. So that represents a very important leap in the quality of the Company’s net income.

Selling expenses remained relatively stable in 4Q17 and 4Q18, at R$8.1 million and R$8.2 million, respectively. In the year, selling expenses registered an important decrease, some of which is directly related to the lower sales volume, but was much more driven by the improvement in the quality of expenses, with selling expenses in the year of R$29.07 million, compared to R$36.2 million in 2017.

G&A expenses remained stable and in line with the Company’s assumptions, as we mentioned at the start of call, with G&A expenses in 4Q18 of R$10.4 million, compared to R$16.2 million in 4Q17. So, we registered a sharp reduction here as well.
This reduction was line with other quarters. In the year G&A expenses were R$40.8 million, compared to R$64.1 million in 2017.

So, we registered a very important decrease in the machine, in the Company’s structure, which is leveraging sustainable growth and high-quality results.

In terms of equity income, in 4Q18 we had R$8.2 million, versus -R$1.39 million in 4Q17. In 2018, this figure was R$8.5 million, compared to R$7.5 million in 2017.

Lastly, net income, in this case a net loss, was R$26.09 million in 2018, compared to the net loss of R$93.1 million in 2017. So, this represents a very important improvement in the Company’s net loss. In 4Q18, the net loss was -R$7.7 million, compared to -R$19 million in 2018. Here, the Company’s financial performance is precisely showing the improvement in gross profit, the stability and reduction in expenses and, of course, the financial result, which had a positive impact on this performance.

In terms of the income statement, very quickly, R$182.6 million of net revenue can from projects sold, so PoC; the cost of projects sold, was R$142 million, resulting in gross profit of R$40.5 million, with gross margin of 22.2%, compared to 3.93% in 2017.

Adjusted gross profit, which is gross profit ex-business plan financing expenses, was R$53.09 million, with adjusted gross margin also of 29%, compared to R$45 million and 15.6% of adjusted gross margin, respectively, once again corroborating the improvement in the quality of the Company's results.

Going to net financial expenses, almost at the bottom line, we had net financial income of R$13.8 million, which is exactly reflecting the improvement in the Company's debt, the reduction and the optimization, which compares to R$2 million in 2017. Consequently, the bottom line, was a net loss of R$26 million, compared to R$93 million in 2017, down 72%. The exact figure, the nominal amount, was a reduction of R$67 million. This also corroborates our strategy of improving the Company's financial and operating conditions.

I will now pass the call back over to Alexandre Mangabeira.

Alexandre Mangabeira:

Please turn to page 14, with our closing remarks, to talk briefly about our strategy. This year, we restructured our land bank. We added around R$1.7 billion in business to the MHML and low-income segments, in line with the Company's new strategy.

This increase is explained by our intention to, over the next three years, take the Company to a level of R$1-1.2 billion in launches. To achieve that, we have a strategy of growing this land bank to R$6 to R$8 billion, because a lot of the lots we purchased have another two to three phases. They are large lots, especially for horizontal condominiums, in which the PSV is sometimes very high. It may look like the land bank is too high, but it will serve for five to eight years. So we need to have approximately R$6 to R$8 billion to fulfill this strategy over the next three years.

And we are working very hard to expand our gross margin, which can already be seen this year. Our new launches already have higher gross margins. Construction of the projects launched last year is starting this year, and we hope that the revenue will start flowing, and we have been mitigating this loss over the last three years so that the Company can resume its profitability and achieve the profitability we expect.

Thank you all, I'll now open for the questions and answers session.

Operator:

Thank you. With no further questions, I will pass the call back over to Mr. Carlos Bianconi for his closing remarks. Please, Mr. Bianconi, you may proceed with your closing remarks.

Carlos Bianconi:

Thank you all for listening. So those are the company's numbers presented very pragmatically, which reflect precisely the strategy to return to the market, focusing on the My Home My Life bands II and III, and on improving financial conditions to improve the results, increase launch volume, while, of course, growing revenue and profits, our bottom line.

We are very confident, very pragmatic regarding Brazil's growth, obviously observing the regional and market issues, but we are very focused on development, on growth and on the resumption of Brazil's growth. We believe very firmly in the domestic scenario, and we remain at your disposal to, if you have any questions or require any clarification, remember that the Company's IR channel is at your disposal.

Thank you and see you next time.

Operator:

Thank you. This concludes RNI's earnings conference call for the fourth quarter of 2018. Thank you for listening. You may now disconnect.