



## PDG Fourth Quarter Results

### 4Q19 Conference Call

March 31<sup>st</sup>, 2020

**Operator:** Good morning. Welcome to the conference call of PDG to release the results of fourth quarter of 2019 and the whole year of 2019. Today with us we have Mr. Augusto Alves dos Reis Neto, CEO, CFO and IRO.

This conference call is in listen-only mode and all participants will be just listening the presentation. Then we are going to start our Q&A session for analysts, when further instructions will be provided. Should anyone need any assistance during this conference call, please request the help of an operator by pressing \*0.

You may ask questions directly to the Investor Relations Team of PDG through the e-mail [ri@pdg.com.br](mailto:ri@pdg.com.br). The slides are being transmitted simultaneously in the internet at [www.pdg.com.br/ri](http://www.pdg.com.br/ri). You may also find the slides there to download.

Before continuing, statements made during this conference call relative to PDG business prospects, operational and financial projections and goals are beliefs and assumptions of the company's management and are based on information currently available. They involve risks and uncertainties and assumptions because they reflect the future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that the general economic scenario, industry scenario and other operational factors may affect this future performance of PDG and the results that will be materially different from those expressed in such forward-looking statements.

Now I would like to give the floor to Mr. Augusto Reis, who's going to start the presentation.

Mr. Reis, please.

**Mr. Reis:** Hello, good morning to everyone. I would like to thank you all for attending our conference call. And as a reminder, we will be talking about Q4 and the figures for the whole year of 2019. Obviously, I'm going to briefly explain how the company is handling the current global crisis. We are going to briefly address that and to start our presentation.

I would like to tell you that we are going to start, so please move on to slide no. 3. So, you're going to first see an executive summary, where we're going to address the highlights for the year and then an update on the developments and how the company's dealing with the pandemic, and then a brief update on our restructuring plan. And then the operational and financial results for the period.

Now, going straight to slide no. 4. The year of 2019 as a company had, we are talking about the highlights, our net operating revenue amounted to 64 million BRL in Q419 as compared to a negative performance of 107 BRL million in Q418. So, we totaled 300



million BRL in net operating revenue for the year of 2019, 41% higher than the 180 BRL in 2018.

Our G&A expenses continued on that downward trend with a 66% fall on quarter, and we are still trying to reduce all our expenses, especially general admin expenses. So, as said before, that 60 6% drop, quarter on quarter, and a 50% reduction y on y.

Along 2019, we amortized first priority debt amounting to 175 million BRL that's also reached 280 million BRL up to Q4 19. So, this is accrued number. And in August 2019, PDG was able to resume our activities of the Palm Beach project, and we expect to deliver it in May this year. And this venture is in the city of Manaus, meant for middle- and high-income residents. And the company aims to continue its businesses during its transactions with banks and creditors, so that we may find a solution for each one of our unfinished ventures. So, this will definitely be one of our priorities in 2020, as it was in 2019.

Now on slide no. 5, a brief explanation on how we're dealing with the pandemic. In early March, when the problem was already infecting heavily the world, but it hadn't yet quite arrived in Brazil, the company started introducing the first initiatives, in order to comply with the prevention practices recommended by the Ministry of Health and the W.H.O. So, we intensified cleaning, provided alcohol gel dispensers in the office, bathrooms and meeting rooms.

In the second half of the month, when the problem had worsened and was more intense in the country, we decided to change our work system to home office. So, we started the process in March 16<sup>th</sup> and we wanted to migrate to the company's migration by the end of the week. So, we were able to conduct the wave of migration in phases so that at the end of the 18<sup>th</sup>, our structure was ready to... for 100% of the company to operate in home office, which started on the 19<sup>th</sup>. All employees had tools available, so that they could access the whole infrastructure, so networking, email and communication tools so that we could have effective communication amongst everyone.

We intensified the daily monitoring of all the employees to identify any confirmed or suspected cases of contamination. It is important to highlight that, so far, the company has not identified any cases yet.

Obviously, it's natural that to be concerned, at this moment, for us to focus on initiatives that have an impact on cash. So, at first, we started talking with our main partners, seeking possible renegotiation of payment in order to preserve cash. We intensified our monitoring of delinquency rates to preserve revenue. And by the end of March, we had not yet identified any significant variation. But we have already identified an impact on sales and lease. So, we have adopted, since the government passed provisional measure, 9 to 7, regarding FGTS, and it is our focus to seek to keep jobs so that we may resume our operations so soon as the crisis is over.

The company has given... has put some of our employees, a group of employees on vacation. Not everyone. It's not collective vacation, but we are planning in terms of



having flexible work shifts and, depending on how long the crisis lasts, we might reduce salaries depending on the company's cash requirements.

Now going to slide no. 8, we are going to see our court supervised reorganization process. During Q4 the company, our debts were amortized by 30 million and, as reported before, the total of the company today, we amortized 260 million in debt.

Now, going to operational and financial results, going briefly through our sales in Q4 19. Gross sales total 57 million BRL, 47 below Q4 19. For the whole year, gross sales of 207 million, 29% below 2018. It's important to highlight that the company's commercial strategy, since the approval of the plan is always focused on selling products that provide free cash to the company. And obviously we adapt and adjust it, as our inventory and inventory availability is adjusted, depending on our negotiations with creditors and with our debt and the recovery plan. And so, the highlight, it's total is of 77 million BRL and the total for 2019, 119 million.

When we look at the cancellations of the company, you can see that there is an increase in cancellations, which to us is positive, because the company's strategy is to effectively reduce the backlog of cancellations – cancellations generate an available inventory –, providing the company free cash sufficient to meet our cash requirements. So, these numbers are very much in line and appropriate, according to the company's strategy commercially speaking.

Net sales have naturally been negative because of the many cancellations that we had during the year, with a higher concentration in the last quarter of 2019. In 2018, our net debt, or net sales rather, sorry, was 44 million BRL, this in 2019, which is 69% lower than it was in 2018.

As to sales general admin expenses, G&A expenses went down by 66%, compared to Q418, and 50%, compared to 2018, which shows our strategy of continuing efforts to reduce GSA expenses. Commercial expenses increased by 71% in Q419, compared to Q418, and 32% in 2019, compared to 2018. And so, this refers basically to our expenses with taxes and there'll be administration gains. So, we have had a drop of 38% of commercial expenses in Q419, compared to Q418, and a 29% in 2019, compared to 2018.

So, our inventory, for the total inventory of the company today, is priced as 1.800 million BRL. Most of it is in ventures that have not completed yet. We have 500 million BRL in complete properties, most of each in Sao Paulo and Rio de Janeiro, where most of our operations are located. And it's very much concentrated in sales above 60% and in residential products.

Now on slide no. 13, as then here goes through the evolution of our first priority debt. So, the company's debt increase 35 million BRL in Q, from Q3 to Q4. So, this is the evolution in the last two quarters of 2019. So, I have 107 million BRL of monetary correction and interest rates, and the volume of first priority debt were due to the payment of the interest in the quarter amounting to 32 million and as an effect of one of their controlling of Leo Moreira of operations in Belem, with an increase of 35 million in our first priority debts, between Q3 and Q4 2019.



Now going to our financials, I would like to highlight the 41% increase in net operating debt, in addition to an adjusted gross margin of 31.8%, which is a positive factor which shows an improvement in our revenues. It's also important to highlight a drop in practically all our lines of operational expenses, except for commercial expenses, as said before.

Now before closing our conference call, I would like to highlight that the company continues seeking increase in productivity. We continue the constant improvement of structures, processes and controls, and this work is being reflected with positive results. And it's seen by the company's independent auditors, that have a continuously better opinion of our management.

Then, in finalizing, I think it seems inevitable to mention that PDG was very successful in the past and in the present, too, considering how we are conducting and executing our recovery plan. But of great difficulty, too. So, more than any other time, the company, the country and the world is going through very difficult times. But we often use our difficulties as an opportunity to become stronger. And we believe that in spite of the short-term difficulties in the long term, these difficulties will turn into opportunities and profits the company and the country.

I think that, at this pandemic, we're being able to identify and to work in a different way, strengthening our values. And we are confident that we'll be able to recover our company in spite of all the challenges.

I would like to repeat the confidence that I have in my team, that we have in our partners, our suppliers, customers, that we are sure that in spite of all difficulties, we'll be able to overcome all of this together as soon as possible.

I end now my presentation and now I'm open to any questions you may have. And as mentioned in the beginning of our conference call, our channel is also open if you want to ask questions afterwards. Our channels are open for that. I thank you very much. And I am now available to enter any questions you may have.

Thank you.

**Operator:** We are now going to start the questions and answer session. If you have a question to ask, please press \*1 on your touch phone. If your question is answered, press \*2 to take your questions from the list. Questions will be answered as we receive them. We kindly request you to pick up the headset when asking your questions in order to ensure optimal audio quality. Please stand by while poll for questions.

Now, our first question comes through the webcast by Mr. Kalil, from Sarabani Logistics.

"Will the company postpone its creditors meeting?"

**Mr. Reis:** So, our shareholder basis still has a relevant share with 21% of our shareholder basis. And the second relevant is pulverized between individuals, about 53%. So, there has not been any major change in our shareholder composition. As to the meeting, you are talking about the shareholders meeting. And there might... the



date might change. We might reschedule it and our initial schedule is for April 30<sup>th</sup>, as initially scheduled. We are not considering rescheduling it

**Operator:** Our next question comes from the webcast by Bruno from Itaú BBA.

“At which point is the development for new companies? Any new launches in 2020?”

**Mr. Reis:** So, as said in previous conference calls, we are working intensely to launch our service provision on and, obviously, considering the current scenario, we want to hold on that. It wouldn't make sense for the company to invest in communication, all these activities, considering that scenario. But we did our homework. The structure is ready to put the service provision on the air and it is on hold for the time being.

As to other activities of the company... So, as you mentioned, the brands and the new companies... To wrap up, the idea is to have a service provision company as soon as we overcome the current crisis. And additionally, we're going to continue, as we've been doing today. So, our work front in the real estate market remain the same with the creation of this new service provision activity.

**Operator:** Our next question has been sent by Mr. Mario Henrique, by J.P. Morgan.

“How is the structure of PDG after the changes earlier this year?”

**Mr. Reis:** So, there have not been many major changes in the structure, so we just re-adapted it in terms of managers. And the whole process of changing the company's structure was... We talked a lot about it and discussed about this, and I shared my ideas and my suggestions, meaning there has not been any major changes. What happened was a reorganization between the departments so, that we do not see any major changes in day to day operations of the company. So, I have been interfacing intensely with our employees. And the few changes that were implemented had a positive impact internally, and the changes always had the aim of improving communication. So, effectively there has not been any major changes or any major adjustments in the company's organization.

**Operator:** Next question sent by Mr. Gustavo Loyola, from Credit Suisse.

“What is the cash, the company's cash to go through this phase? Where will you come off the bankruptcy?”

**Mr. Reis:** So, 2019 and early 2020: in 2018, we made many payments with the bankruptcy. Now we have a... Now our cash is more stable. So, of course, the crisis puts us in a situation where the high uncertainty, and more than ever, we are at the time that we want to adjust our future. So, the company's cash today, of course, it's not okay. Because we are in bankruptcy. So, we want to correct our road or the way we're dealing with things. Of course, like any other company, we are susceptible to the companies. So, this recovery... But, so far, we think we can go through that in a well-controlled way and always taking a close look at all measures implemented by the government and to do anything that we can do. So that we may cross this period slightly more confidently.



As to the time, yes, the 24 months have ended in fact. And this is a decision that needs to be recovered by our reorganization judge. But of course, we are keeping conversations. And in the organization, there are many issues that we still need to address and overcome. But there is no final decision. As far as we know, there is no definition from the judiciary.

**Operator:** The next question comes from Mario Pierry, from Bank of America.

“Do you expect any other reorganizations in your industry, such as Gafisa?”

**Mr. Reis:** Well, as far as I'm concerned, the real estate industry depends very much on the macro economic scenario of the country. Considering everything we are going through, opportunities are created, and, on the other hand, there is a lot of insecurity. But I can't see anything like that, at least not in the short term. I think that Gafisa's movement is just for now in the short term. So, I think that there may be other movements in that direction, but they will be one off events, not in a consolidated way.

**Operator:** As a reminder, if you want to ask questions, please press \*1.

Please stand by.

“Is PDG postponing the shareholders meeting?”

**Mr. Reis:** No, we do not intend to reschedule our shareholders meeting. So, we are studying how to do it. We can have a remote meeting with vote. So, we don't see why it should be postponed. So, for now, we stick to the date of April 30th.

**Operator:** As a reminder, if you want to ask question, please press \*1.

Excuse me. The question and answer session has now ended. I would like to give the floor back to Mr. Reis for his closing remarks.

**Mr. Reis:** I would like to thank everyone once again for your participation. I've seen the times we are living are unique. And it's really a surprise for us to have you participating. I'm happy for your attendance. And I would like to repeat our concern with our team, all our employees. They are our priority and our priority, obviously, is to keep the company operating, preserving jobs, our employees and everybody's health. They have been our focus right from the beginning. They will remain as our focus.

And we have a concern with cash. And this is what will keep us operational in our day to day operations. So, obviously, we are concerned as everyone else. But there is a vote of trust. So, the situation today is different from anything we experienced in the past. And in spite of the current scenario, we are still looking ahead into the future. We believe that soon everything will be over. Then we will be able to recover, we and the country as a whole, and then we will look back and use everything as a learning.

Thank you all once again and our IR channel is open if you still have any questions. Thank you all very much.

**Operator:** The conference call of the results of the fourth quarter of 2019 of PDG has now ended. Please disconnect your lines and have a good day.

