



Earnings Conference Call

1Q20* - PDG

May 18, 2020

Operator:

Welcome to PDG's 1Q20 earnings conference call. Today, with us, we have Augusto Reis, Chief Executive, Financial and Investor Relations Officer.

We would like to inform you that this presentation is being recorded and all participants will be in listen-only mode during the Company's the presentation. After that, we will begin the Q&A session for analysts, when further instructions will be given. Should you need any assistance during the conference call, please ask an operator for help by pressing *0.

We would like to inform you that questions can be sent directly to the Company's IR team at ri@pdg.com.br.

The audio and the presentation slides of this conference call are being simultaneously broadcast on the Internet at www.ri.pdg.com.br, where you can find said presentation for download on the webcast platform.

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call about the Company's business outlook and operating and financial targets and projections are based on the beliefs and assumptions of the Company's Board of Executive Officers, as well as on 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 should understand that general economic conditions, industry conditions and other operating factors may affect the Company's future performance, leading to results that are materially different from those expressed in such forward-looking statements.

I would now like give the floor to Augusto Reis, who will begin the presentation. Augusto, you may proceed.

Augusto Reis:

Good morning. I hope everyone is doing well. Initially, I'd like to thank you for participating in this conference call in which we'll discuss the earnings results for 1Q20.

On today's agenda on slide 2, I'll begin with the executive summary about the main events in 1Q20, then I'll briefly update you on our court-supervised reorganization plan and the operating and financial highlights for the period.



Finally, I'll comment on the new projects conceived during this pandemic and its current and future impacts. On slide 4, in the executive summary, we show the continual initiatives that the Company has been taking to tackle the coronavirus.

In addition to the two cycles of initiatives that we pointed out on our last conference call, we are now in our fifth cycle of initiatives. In the third cycle, in early March, we made available 24-hour telemedicine services to all our employees, in partnership with our insurance and healthcare company.

We continue to monitor suspected cases of infection and supporting those who need us. In addition, all our employees are working from home.

We began hosting a number of virtual chats with the Company's Management and the entire staff, in order to keep them up-to-date with the Company's situation and the actions being taken amid the current scenario. We believe that providing transparent information is the best way to keep our staff united, which contributes to maintaining the company at full operation.

We have momentarily changed the payment method for food vouchers. Thus, we began to make these payments together with the deposit of ticket meals into the employees' accounts, in order to provide them with more flexibility during the pandemic.

In an attempt to support our employees in their health concerns, we began to send out a number of nutrition, ergonomics and physical exercises bulletins. We conducted a survey focused on IT equipment and the digital needs of our employees so that we can take the necessary initiatives in the future to improve team performance and working routine at home.

Throughout the fourth cycle of initiatives held in mid-April, we continued to host virtual chats with our entire staff, send out health bulletins and monitor suspected cases of infection, as well as those who need assistance from our People and Management Department.

We anticipated our flu vaccination campaign—launched in a drive thru format—that was attended by all our employees and their family members. In addition, we participated in a survey conducted by Great Place to Work, in order to assess the impact of Coronavirus on the daily routine of our employees and the Company's business.

I'll talk about the results of this survey later. On slide 5, we address the main initiatives taken in the fifth cycle, which began in May and were concluded on May 15. We finalized the planning to return to the office once social isolation is over, taking into consideration that it was initially expected to end on May 11.

For this planning of return, we have foreseen all the staff safety measures. As a result, we decided that the return will be gradual, according to the needs of each position, risk profile and means of transportation used by the employees to go to the office, among other factors, always focused on the health and protection of our workforce.

I'd like to anticipate a topic that I will address later in the presentation – the adoption of a work-from-home model. As I said, the return to the office will be slightly different, and



we are working towards the adoption of this work-from-home model by our employees in the future.

This planning will include a gradual return, i.e. those who are able to continue to work from home will return to the office at a later time. But I'll comment about this at the end of the presentation.

Throughout the fifth cycle, we maintained the distribution of health bulletins to our employees and hosted another virtual chat with them to talk about the Great Place to Work survey results. I'd like to point out that we were very proud of the survey results. Due to the adoption of our work-from-home model, we noted that the score given by our employees was superior to the average score of all companies participating in the survey.

Questions related to internal communication, productivity and team caring scored close to 100%, and some of these questions achieved the highest score. This undoubtedly proves that we are on the right track when it comes to taking care of our employees and the Company's business.

Finally, on May 12, we held an online lecture to celebrate Mother's Day. The lecture featured a psychologist and obstetric nurse to speak not only about PDG's working mothers but also about the wives of our employees.

We discussed health, work from home and education in times of pandemic, among other topics. On slide 6, still speaking about the Coronavirus situation, in early April, we applied two important guidelines in order to preserve our cash. The main guideline was to maximize our cash retention. To that end, we took 4 important initiatives.

First, we reviewed our monthly payments and renegotiated what was possible with our suppliers and service providers. Obviously, we have renegotiated payments with them, always trying to preserve our business relationship and the needs of our partners.

We began to record our default rate on a daily basis. We haven't identified major variations yet. We enjoyed the benefits of the Executive Decree related to the Severance Pay Fund (FGTS) and the S system, and temporarily suspended investments related to our launches, one of which was initially expected to be delivered in 2020.

At this time, we believe that while we don't have a more assertive forecast for the future regarding the return to our office, the end of social isolation and the impacts that it will have on the economy, we should temporarily suspend all planned investments so as to preserve our cash.

The second guideline is regarding the maintenance of jobs. Due to PDG's restructuring process over the past few years, we currently have a lean and efficient structure, which allows us to maintain the company at full operation and work hard to resume our growth.

For this reason, we see the maintenance of jobs as a key priority and do not plan to cut staff at this moment. In this sense, we have reaped the benefits of the economic packages, as I previously mentioned, and granted vacation time and compensatory time off to a group of employees.



We believe that, in this manner, we'll be able to protect the income of our employees at a critical moment like this. Finally, as I said previously, we implemented flexible working hours and intend to adopt a definite work from home model, which will serve for part of the Company only.

We will continue to closely monitor the developments of the crisis and preserve the Company's and the employees' operations amid this uncertain scenario. On slide 7, there is an executive summary, and I'll talk about the main facts related to the first quarter of 2020.

The Company's net loss decreased by 27%, from R\$240 million in 1Q19 to R\$175 million in 1Q20. Our general and administrative expenses maintained a downward trend, recoding a 12% drop in 1Q19 over 1Q20.

Since the beginning of PDG's court-supervised reorganization plan, we have already amortized R\$282 million in debts subject to the reorganization plan until the end of 1Q20. Cancellations totaled R\$20 million in 1Q20. This reinforces what I wanted to point out – our cancellations strategy.

It is worth noting that the high volume of cancellations was mainly related to sales cancellations from previous years; in other words, our cancellations indicator—most of the time with figures equal to or above R\$20 million recorded in 1Q20—is in line with our strategy to release assets for sale.

Our new sales cancellations ratio is close to zero as our process of transferring customer financing is in line with our sales process.

This is important because it substantially reduces our cash impact as a result of cancellations in critical times like these. We also observed a recovery in net sales compared to the last three quarters, reaching R\$19 million in the first quarter.

I'll discuss it with more details when I talk about the income statement for the period, in the revenue part. Regarding the potential decline in real estate sales price in the market, we don't expect an inventory price adjustment that may impact the results in the short term.

This is because throughout the court-supervised reorganization, we have already made several inventory price adjustments in order to adapt it to the market's reality. At this time, we believe that it is not necessary to make major sales price adjustments.

As we commented on our last earnings conference call held in August 2019, we resumed the construction works of the Palm Beach project in the city of Manaus, which was scheduled for delivery in May 2020, that is, this month.

Despite this uncertain scenario and the problems posed by the crisis, we are happy to announce that we were able to initiate the inspection of units together with our customers last week. We also have adopted all the necessary safety and hygiene measures for this process. We are distributing personal kits containing face masks and hand sanitizers to all customers responsible for conducting inspections.



We limited the number of people during the inspections in order to avoid agglomerations; in other words, we are trying to follow all rules not only to preserve the health of our employees and customers, but also to be able to meet our customers' expectations so that they can receive their units.

It is worth noting that Palm Beach is a project located in the city of Manaus (AM) focused on upper-middle and high-income class people. I'd like to take this opportunity to reaffirm the Company's commitment to continuing to find solutions for our (yet) unfinished projects.

Palm Beach was one of those, but fortunately we were able to finalize it, and all customers will have the keys to their new units shortly. At these difficult times, we understand that this is an important achievement for us.

Turning to the next item on the agenda, regarding our reorganization plan on slide 9, the debt structure totaled R\$18 million, mainly due to the increase in interest and monetary restatement in the amount of R\$32 million.

In addition, we made payments in assets in the amount of R\$14 million in the quarter. Since the beginning of the reorganization plan, the Company has amortized a debt of R\$282 million, which reflects the continuity of our operations and the compliance with our initial obligations provided for in this plan.

Other amortizations and payments in assets related to the debts subject to the reorganization plan will be maintained throughout the year, as provided for in our reorganization plan. Let's turn to slide 11 on our operating and financial results.

Gross sales amounted to R\$39 million in 1Q20, 55% lower than the amount recorded in 1Q19, partially due to our sales policy adjustment in 2Q19. We started to focus on the units that generate cash for the Company, which are responsible for keeping us operational during this period.

As I said previously, cancellations totaled R\$20 million in the first quarter, down 31% over 1Q19, underlining the Company's strategy to focus on cancellations with more liquidity and free of encumbrances, in order for us to generate and reinforce the Company's cash.

Due to the cancellations strategy adopted by the Company, net sales recovered and totaled R\$19 million in the first quarter in relation to previous quarters, as I've already mentioned.

I'd like to remind you that net sales were negative in the past couple quarters, as it was greatly impacted by the cancellations. However, these cancellations that impacted our results in previous quarters were very important for us to maintain our sales pace in 2020.

Regarding the financial impacts, the development of the pandemic caused economic instability and market turmoil, thus substantially impacting PDG's and the entire real estate market's sales.

These impacts began in late March; and as a result, they did not affect our results in the first quarter. Taking into consideration that sales in January and February remained



in line with our projections, the sales results in the first quarter were not impacted the way we expected.

Due to this scenario of declining sales presented in late March, the unpredictable economic recovery and the impacts that we will have on our operations, we revised our projections and forecast that our revenues will decrease. We are considering scenarios of declining revenues, including critical ones, with negative impacts on our revenues not only in 2020 but also in 2021.

Our decision-making process will be based on this critical scenario, which will have an impact on our sales in 2020 and 2021.

On slide 12, we present our selling, general and administrative expenses. In 1Q20, general and administrative expenses decreased by 12% over 1Q19, chiefly due to the lower service expenses. Commercial expenses were negative by R\$14 million in 1Q, due to the reversal of provision for payment of IPTU taxes and condominium fees related to our finished units.

Due to this non-recurring reversal in commercial expenses, SG&A expenses decreased by 92% in 1Q20 over 1Q19.

As done in recent years, amid this uncertain scenario, the Company continues to focus on reducing its costs and expenses, seeking to improve its operational efficiency and resume its growth.

Let's turn to slide 13 to talk about inventory. At the end of 1Q20, inventory at market value totaled R\$1.852 billion, down 0.5% compared to the end of 4Q19. Of this total, 26%, or R\$479 million, is related to finished projects (available inventory).

Basically, 74% of our finished inventory is distributed between São Paulo and Rio de Janeiro, 72% of which is focused on projects where our sales exceed 70%, and 60% is focused on residential projects.

On slide 14, our gross debt totaled R\$91 million in 1Q20, up 3% over 4Q19, mainly due to interest and monetary restatement in the amount of R\$118 million in the period.

The reduction in gross debt was mainly due to the payment of principal and interest of R\$38 million in the quarter.

To conclude, on slide 15, we present the income statement for the period. I want to highlight an important drop, as I previously said, of 27% in the Company's net loss, which went down from R\$240 million in 1Q19 to R\$175 million in 1Q20. Another important highlight was the decline in virtually all operating expenses, except for financial expenses, which is normal.

Therefore, operating expenses fell by 22%, totaling R\$47 million, almost R\$48 million between 1Q19 and 1Q20. The bad news was revenue due to the decline in sales, as I previously mentioned.

As I said, due to the scenario of declining sales presented in late March and the unpredictable economic recovery, we revised our projections and forecast that our revenues will decrease. All our projections were affected, with impacts on sales in 2020



and 2021. In other words, we are seeking to be conservative. But we imagine that we will have a great impact on our sales not only in 2020 but also in 2021.

We know that our market relies heavily on macroeconomic factors, such as jobs, income, interest rate, and especially, our customers' trust. We understand that all these items, save for the interest rate—which is good news—were deeply affected by the crisis.

This leads us to believe that our segment will be greatly impacted by the crisis; in other words, due to the impact it will have on these three key items, we should be negatively affected not only in 2020 but also in 2021. So far, we don't know when this will be over, when the economy, and consequently, our market will recover.

The good news is that even considering this worst-case scenario for our projections, we realized that we will possibly have the necessary resources to go through these critical times; in other words, at this moment, even considering this pessimistic scenario for our revenues, it won't be necessary to take more restrictive actions that may have an impact on our operations. I believe that's a major point.

Talking about the last topic on our agenda – the current and future impacts of COVID-19, in the midst of this hard reality imposed by the pandemic, we were able to identify some opportunities that, at this moment, are fundamental for the Company's operational continuity, such as the need to digitize our sales process.

We launched a project internally called digital journey, in order to implement a fully digital sales process. Part of this project was initiated in May with the purpose of substantially reducing the time spent during the sales process, providing customers with a safe way to make purchases in light of the current scenario.

But it's not only that. We plan to speed up most of the Company's internal processes, that is, the digitization process is not simply focused on sales, but we believe that it will greatly benefit the Company as a whole.

Today, customers can purchase of one PDG's units in a fully digital manner. However, our digital journey project does not end with the signature of the purchase and sales agreement. Our objective is to digitize the entire customer journey, i.e. from the purchasing of the unit to the filing of the financing agreement with the real estate registry office.

We know that some of these steps still need to be addressed, but we believe that the crisis is providing us with a collection of factors. In other words, we know that all participants in the customers' sales process are united to fulfill the same purpose, namely customers, real estate developers, banks and real estate registry offices.

We not only believe that this is a great opportunity but also that it is important to take advantage of and benefit from it. As I previously said on slide 4, we are in the final step towards our work-from-home project and we want to take advantage of this opportunity in which everyone is working from home to expand it in the future.

This change represents a cultural shift for us, but we believe that all employees and the Company as a whole will enjoy its benefits. Our idea is to have a work-from-home project in which part of the Company can fully work from home and part of the Company can work at our office.



One thing I did not comment was that with this work-from-home model, we had the impression that our productivity increased in this period. We have been working heavily with our people, management and IT teams, as well as other teams, in order to find the best format for this program.

The strategy was designed based on an internal survey, as I said previously, and we managed to identify all our weaknesses and strengths to make this model work. Our employees' desire is the most important for us, as high productivity levels are noticeable.

Surprisingly, our staff realized that our communication process improved significantly. As I previously mentioned, despite the fact that everyone is working from home, our staff realized that our internal communication improved significantly, as evidenced by the Great Place to Work survey results.

Another important factor for the implementation of the work-from-home model are the medium- and long-term cost savings, such as the reduction in our physical structure and the consequent reduction in our expenses.

As disclosed in a Material Fact, we temporarily suspended our Extraordinary Shareholders' Meeting, in order for us to wait for the legal provisions of the government and the Brazilian Securities and Exchange Commission, so that we can hold our ESM at an appropriate time, ensuring the safety of the PDG's team and our shareholders.

Thus, taking into consideration that the rules for the remote meeting were recently issued by the respective authorities, we will release this week the call notice for our Extraordinary Shareholders' Meeting, which is scheduled to be held in June.

Over the years, PDG has gained experience to face economic, industry or internal crises, taking, for instance, its court-supervised reorganization, which led the Company to reinvent itself. We had to devise means to face turbulence and crises. And we can say that we have successfully faced all these difficulties so far.

We will continue to focus our attention on the impacts and consequences of the crisis, prepared to make any necessary adjustments, fully prioritizing the Company's cash retention and the health of our employees, as well as preparing our staff to help us resume the Company's growth as soon as this moment is over. The presentation for 1Q earnings conference call is drawing to a close. Let's move to the Q&A session. Thank you.

Participant (via webcast):

How do you see launches?

Augusto Reis:

As we said in previous conference calls, the Company expected to launch a project still year; we did all the internal work to launch this project and have it approved by the municipal government.



However, as it is natural in uncertain times like these, we decided to suspend these investments in a responsible and conservative manner. We naturally haven't lost our work; in other words, we are ready, the project is ready, so as soon as we overcome this period, and the market improves, we can launch this project.

To put it shortly, we temporarily suspended the launch and haven't set a new launch date yet.

Participant (via webcast):

Can you give more details about inventory pricing?

Augusto Reis:

It's essentially what I said in the presentation: we don't expect to revise prices at this moment, as we have done it over time since our filing for the court-supervised reorganization.

Participant (via webcast):

Could you give more details about the Company's operational continuity and the impacts it may have on employees?

Augusto Reis:

As I said, we are working with a very conservative scenario for revenue reduction. At this moment, we don't see a need to make structural adjustments. Through our initiatives, we've tried to take action to avoid reductions in our staff, and this is the last initiative we want to adopt.

In other words, our idea is to maintain the same lean structure we have today, which is not only appropriate for the Company's operations but also fundamental for our growth. Obviously, the scenario is dynamic; we are attentive to what is happening – the expected resumption and the consequences of this crisis.

So far, based on the current information we have, we don't see a need to make adjustments.

Participant (via webcast):

How is the court-supervised reorganization plan?

Augusto Reis:

In fact, we are following the plan for now. Some actions obviously take longer at certain times, but we are fulfilling all our obligations. As I mentioned, we managed to pay R\$272 million related to the debts subject to the reorganization plan until the close of 1Q, which is a very relevant amount for a Company under court-supervised reorganization, given all its difficulties.

Participant (via webcast):



When will the company be out of the court-supervised reorganization?

Augusto Reis:

According to the law, our 2-year period expired in December last year; that is, it is not the Company's decision to finalize the court-supervised reorganization. I commented about it on our last conference call, but we believe that we still have some important actions to take related to the reorganization plan. In other words, on the part of the Company, we still don't know exactly when the court-supervised reorganization will be over, as it is a court decision. But we believe this will be over in the short term.

Márcio Costa, XP Investimentos:

Good morning, Augusto and everyone. My question is simple. I believe I can have an optimistic view about PDG based on the presentation, the recovery and the debt reduction – I think that you guys are doing a good job, and that's very positive.

My question is: if we compare this with previous crises that PDG went through, how does the Company see the current moment? Can we say that we have been through worst times or is it the greatest challenge that the Company has ever faced?

Augusto Reis:

Thank you for your question. I think it is pertinent to the moment we are living. I think we can break it down into two groups. We learned a lot from the previous crises, but they were obviously caused by external factors. In contrast, several reasons for this crisis came from within. I think that's a major difference between the previous crises and the current crisis.

I believe that PDG was able to learn a lot from these past crises and from the internal causes, which somehow prepared us internally to face the current crisis. But, obviously, the crisis we are facing today was unexpected.

Our learning and all our internal adjustments somehow strengthened us so we could go through this moment. Answering to your question, the current crisis is obviously more complex than the previous ones due to its global reach and, inevitably, without perspectives.

Nobody knows how the post-COVID-19 world will be, in all aspects – economy, employment and even consumer behavior. I think that this crisis is more complex and severe than the others.

In contrast, I believe that PDG is internally more prepared. Obviously, nobody knows how this crisis will be, but based on late March, April and mid-May, we are handling it well – our internal operations are working, and we are managing to tackle the challenges in a satisfactory manner amid all external difficulties.



Compared to the previous crises, we are internally more prepared. But naturally on a global level, nobody knows what to expect from this crisis and its actual consequences. I hope I have answered your question.

I think that all questions have been answered.

I'd like to thank you all for participating in our earnings conference call. If you have further questions, our Investor Relations Department is at your disposal at ri@pdg.com.br.

I'd like to highlight the results that the Company achieved, which were reinforced by the Great Place to Work survey. I believe that this is an important and definite indicator, which proves that we are on the right track. We trying to take care of each other, and everyone is trying to take care of PDG.

We are going through a very difficult moment, but we feel good vibes from the entire staff. With everyone understanding the Company's current situation, the market conditions, and confident that this crisis is eventually going to end, we will be able to resume PDG's growth, as we all expect.

I'd like to encourage all of you to take good care of yourselves during these difficult times. Thank you everyone.

We can conclude now, and once again thank you for your participation. I look forward to meeting you on our next conference call to release the results of 2Q20. Thank you.

Operator:

Thank you. PDG's earnings conference call for 1Q20 is concluded. We'd like to thank you all for participating and have a nice day.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable for any injury or damages arising in connection with the use, access, security, maintenance, distribution and/or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the Company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the use of this transcript."

* Please note this is a free English translation of the Company's conference call. The original Portuguese audio and its respective transcript can be accessed on the Company's website.