



## Conference Call Transcript

2Q20 - PDG

August 17, 2020

**Operator:**

Good morning, and welcome to PDG's conference call to discuss the results of the 2Q and the 1H20. Today, with us, we have Mr. Augusto Reis, CEO, CFO and Investor Relations Officer.

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

We would like to inform you that questions can be sent directly to the PDG IR team by e-mail, [ri@pdg.com.br](mailto:ri@pdg.com.br). The audio and the slides of this conference call are being transmitted simultaneously over the Internet at [www.ri.pdg.com.br](http://www.ri.pdg.com.br), where the presentation can also be found for download.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call, which pertain to PDG's business prospects, operational and financial projections and goals are beliefs and assumptions of the Company's management as well as 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 industry conditions and other operating factors may affect the future performance of PDG and lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to give the floor to Mr. Augusto Reis, who will begin the presentation. You may proceed, Mr. Augusto.

**Augusto Reis:**

Good morning to everyone. First and foremost, I would like to thank you for participating in our conference call. We will see the results regarding the 2Q and the 1H20.

Starting with slide 2, we will see the main highlights of the 2H of 2020. I will talk about reorganization program, the highlights and the financial and operational results. Finally, I will talk about the new projects that were planned months ago and are being implemented. Here, we can see the continuity of the Company's actions before this pandemic.



During the last calls, I spoke about these initiatives. I am going to update you regarding their performance and new things that we started after our last conference call.

Due to this pandemic, immediately during the second fortnight of March, we started working remotely. This is the entire company. During five months, we realized that this working model has worked. We have not had a drop in productivity, and we were able to improve our communication.

On the other side, we do understand that not all the employees have 100% adequate conditions to work remotely to use this model. Therefore, they have to be physically in the office at least a number of days during the week. This is why we decided to resume our office activities on August 3. And we have been seeing restrictive alignment, and we are aligned with all the norms and all the entities that represent us in civil constructions.

We have hygiene available, we make available masks, hand sanitizer and all the instructions that are necessary for the employees that have to come back to the office. We have signs showing the minimum spaces.

And also, we have dedicated working spaces so that we can comply with the minimum social distancing norms. When the employees arrive, each one is received by a nurse, and this receive carries out a pre-assessment of the employees, and they are tested for COVID on a daily basis. We are following the suspect case, and we give them help if they are confirmed as positive.

We have also carried out a flu vaccination campaign for all the team through our drive-through system. We have an active communication channel talking about health and well-being, we have our management and the employees have been talking and these communications have been held constantly, and with this, our team has been aligned and it has been aligned with all of our guidelines. And in the moment of pandemic, we believe that the effect has been very positive.

Although we are distant, the team is focused, aligned with the strategies to overcome the crisis. And I believe that these conversations and these meetings have reduced the level of lack of safety provoked in each one of us.

We are also closely following the activities of these remote activities, and we are improving this process. One of our focus has been or concerned with emotional and physical health of our team. We believe that we have to take care of the emotional side.

And if we take care of this, they can improve their delivery and increase their productivity. We have a program, PDG and Casa. We talk about issues regarding a quality of life, nutrition, and we are having lives that are being very interesting for the entire team, with help professionals we hold physical activities. I believe that this has helped to minimize the effects of this restricted coexistence in home.

We launched live PDG program where we invite market professionals to give information to our team. These are professionals that talk about a number of areas, capital, real estate, governance economy, amongst other themes.



This is a good opportunity to increase the knowledge of our team, and they are also updated regarding current matters. Another concern is regarding our people and management team. We have reinforced this team now in the beginning of the 2Q in the area of people and management. And therefore, we were able to unfold the targets for all the Company. We systematized our results meetings where we can assess deviations. We can elaborate action plans.

In August, we will resume our evaluation process with our management and our people management team. This is important, and they were temporarily suspended in the past because of the difficulties.

But fortunately, we have been able to resume these actions, and you can see the reflection of these two actions. We consider the good results during home office. We have our distance working program, and the objective is well-being and to improve the quality of life of employees. So the employees that can perform their activities at the distance partially, they can comply or fully with this modality.

We had a strategic evaluation that I believe is very important to evaluate the financial benefits from this program. So we started an assessment of office layout to analyze some type of benefit or cost savings that we can have when our employees work remotely.

On slide number five, I would like to strengthen to guidelines in the beginning of the pandemic. And after the five months of pandemic, they have been very assertive. Because in five months, after we can assess the results of these two actions, we are very successful.

These two initiatives, the first one was maximum cash retention. Therefore, we continue working on this first guideline with a review of monthly payments with possible renegotiation, also daily monitoring, the daily default rates still without major variations, adoption of the benefits generated by provisional measures, FGTS and System S, and launches and other planned investments temporarily suspended.

During the last two months, June and July, we have realized a surprising improvement in the indicators, even with the crisis. And this improvement has allowed us to reassess the suspension and resumption process of our launchings.

We do understand that we still have a great concern due to the consequences of the crisis because of unemployment and future income impact. Therefore, our decision of maintaining our investments, our launchings are on hold.

Nonetheless, we continue on a daily basis, on a weekly basis, assessing the news and the evolution of these indicators. So as soon as we have a clear scenario, we will resume our operations.

The 2Q that would be maintenance of job for operational resumption. We did not have to lay off anyone in the Company. We ended and we have implemented the remote work program. And as I mentioned, we strengthened our team of people and management before a difficult situation, changes have been even more dynamic. We continue monitoring the unfolding of crisis. And when necessary, we carry out adjustments, and we create new initiatives.



On slide six, we will talk about the highlights of the 2Q and 1H. Here, we see the main points. We had a drop of 26% in the Company's net loss from R\$489 million in the first quarter of 2019 to R\$361 million in the first quarter of 2020. The SG&A registered a decrease of 48% year-on-year. And this demonstrates the efficacy of the policies that we adopted of expense optimization and even dropping the fixed costs since the beginning of the Company's recovery plan.

Amortization of the debt subjected to the reorganization plan totaled R\$285 million until the end of the 2Q. As I mentioned in the last two quarters, Palm Beach, in Manaus has been resumed. We are starting the inspection process, so we can deliver the keys to our customers, all this inspection is done with safety to avoid risks to our customers and our customers.

This is a moment of joy for us, and we are very proud of it because we will be able to deliver another real estate development. Although we are facing difficulties, we would like to remind you Palm beach is in Manaus, it is for medium- and high-income customers.

And I would like to strengthen our commitment, and we are renegotiating continually with banks and investors to find solutions for the real estate developments that are unfinished. And as I mentioned in our past conference calls, this is a very important theme, and we have dedicated a lot of energy in order to find a solution that meets the needs of our customers and our creditors.

Here, we go to court supervisory organization. Here we have our debt subjected to the reorganization plan. Here, we have a R\$20 million. We carried out payments in our recovery plan of \$6 million during the 2Q. As I said, in the beginning of the recovery plan, these amortizations already totaled R\$225 million, and they will continue throughout our plan and throughout this year, according it was established in our plan.

On slide ten, operating and financial results. Here, we see the sales performance. The 2Q, the gross sales totaled R\$39 million, 26% below the 2Q19. In the 1H, we felt the impact. April and May were strongly hit because of a paralyzation of the market, improving in June, and this compromised our results. In the 1H, gross sales amounted to R\$78 million below the 1H of 2019. And this is explained by our sales policy chain.

As I mentioned before, it is strongly focused on our stocks or inventories that generate free cash to our Company, and here we have the gross sales. We also had a good performance during the 2H, R\$10 million and this represents 13% of total sales. This good revenue of cash sales was because of our campaign that was focused and in order to strengthen our cash flow because of the crisis.

During the 2Q20, cancellations amounted R\$22 million, 45% below the 2Q19 and 10% higher than the first quarter of 2020. Year-to-date, R\$42 million were canceled, a 39% reduction when compared to the 1H of 2019. We prioritized the cancellations that do not represent a burden that generate free cash flow for the Company.

Part of the drop of cancellations is because our sales operations are concerned on finished inventory, but this is an important point because this allows us to transfer the financing contracts after the sale. And this practically eliminates the cancellation of new sales.



We can maintain with this the cash flow and reduces the rate of contract cancellations. Net sales amounted to R\$17 million during the 2Q, 31% higher than the 2Q19.

In the 1H20, net sales reached R\$36 million, 49% below the 1H of 2019. Although there was a drop in sales, we attained positive results in net sales during the 1H20, which reflects the effort mainly from the digitalization and sales process that has made or has enabled our sales. Although we are working at distance and there is distancing, and we cannot be close to our customers.

As I mentioned beforehand, we were not strongly hit in March, but April and May were difficult months, but we felt an improvement in June. And for the time being, July has been a very important month, and August is also very similar to July. And this shows us an alignment with the behavior of our market. And all of us have good expectations for the 2H.

On slide 11, here, we have SG&A and commercial expenses. Between the 2Q19 and of 2020, commercial expenses dropped 60%. The balance of commercial expenses was R\$-8.9 million due to the nonrecurring reversal of the provision for payment of IPTU and condominium expenses.

The general and administrative expenses added to selling expenses decreased by 7% quarter-on-quarter and 48% year-on-year. Before the uncertainty, we continue gearing our efforts to reduce our costs and improve our operational efficiencies.

At the end of the 2Q20, our inventory was R\$1.854 billion. Regarding the 2Q19, there was an increase of 3% in terms of stock, and the stock is made of 4,380 units. Concluded the inventory features, 74% of the inventory in São Paulo and Rio de Janeiro, 40% of our inventories with sales range above 60%.

Here, I am talking about the characteristic of our stocks. 74% are located in São Paulo and Rio de Janeiro, 71% of the inventory is concentrated in projects with sales range above 60% sold.

On the next slide, slide 13, here, we have the debt not subjected to reorganization plan. The Company's debt not subjected to reorganization plan was R\$78 million. The drop is because of the amortizations of the 1H of R\$28 million. Here, we have our financial and operational results. I would like to show a drop of 25% of net loss that went to R\$190 million.

When we compare the 1H19 and 2020, there was a 26%. Then another highlight would be a drop of all operating expenses. This way, the total of our operating expenses dropped 24% when we compare it to the quarter in '23 to the semester.

Our gross margin that has an improvement of 3.8 p.p. going 6.8% during the 1H to 10.8% to the 2H of 2020. This increase is because of the sale of units with better gross margins. This is not very relevant right now, but this shows an improvement. Of our operation, the negative point was the net income because of the drop in sales that were registered.

What I mentioned during the last conference call in the beginning of the pandemic and the scenario of drop of losses that we saw in March, and we saw that the resumption of



economy was unpredictable. In the past, we reanalyzed our projections, and we are working with a very restrictive scenario of income drop for 2020 and the 1H of 2021.

This reflects our expectation, and we believe that we will still have some further consequences. We are concerned with unemployment and income indicators. We believe that the drop of the interest rate can positively impact the market as a whole, and obviously, the Company. Nonetheless, we still cannot set aside the consequences that we may have. Although we have good indicators in June, July and August, but we prefer to plan to be prepared to a harsher scenario. And if this scenario materializes itself, we will have no negative surprises.

When we go to the last point, it would be the ongoing projects. As I mentioned during the last call, we identified opportunities within the pandemic. These opportunities are very important so that we can continue, we can improve our operating activities.

We continue with our digital journey plan in the Company. We have tools that made our sales process digital, and we were able to materially drop the time spent in sales, and the customer does not have to be in contact with our team. In addition to this, we also reviewed a number of company processes, and this digitalization, something that we started in our sales process has facilitated our internal processes.

As I mentioned on slide 4, we ended our distance working plan, and it has already been implemented. And as we expected, the resumption to the office started in August. It was a little bit different because in the past, we thought that we were going to come back before.

And in the beginning of August, it started, and we have given our employees the opportunity to decide to work in the office or remotely, depending on the individual situation of them. We believe that our productivity is positive. The communication has improved. Therefore, in order to keep everybody health, it is up to our employees if they come back or they work remotely.

Speaking about our remote work. 100% of the team could work remotely if they wish. It could be partial. It is going to depend on the conversation of the leaders with their teams. This is according to the individual needs and the need of each one of the areas. I have the impression that we are producing more and better throughout this period.

Although we are working remotely, we had to work intensely. Management had to focus strongly. People management, legal management team and the IT team had to strongly work and focus on this point to find a solution so that would enable this possibility so that everybody could work in home and so that this could be a successful strategy.

Throughout the years, we have gained experience in facing difficult situation, be it because of crises in the segment, or because of the economy of the country or because of the Company's situation, a result of the legal reorganization. And this forces the Company to reinforce itself to face these difficult moments and being successful.

So I believe that, to bring our presentation to an end and to go to the Q&A session, I am very pleased with the performance after five months of crisis. I believe that in the beginning, we were very unsecured, which is natural. But I believe that we have been able to plan things properly, and we have been totally aligned with the Board, with the



team, with being transparent, we have talked a lot, and this helped us a lot. I believe that our team is totally aligned, they are focused on what is needed. And I have no doubt that our strategy had very positive effects.

We did not have to lay off anybody. We have been able to overcome this situation with an encouraged team, with an aligned team. Of course, all crises bring lack of safety and security. But I believe that everybody knows what they have to do and what they have to deliver, and they have focus.

So with this, I bring my presentation to an end, the earnings result of the 2Q and the 1H20, and now we can go to the Q&A session.

**Bruno Mendonça (via webcast):**

Is PDG going to use this good moment of interest rate and the market to relaunch projects?

**Augusto Reis:**

Bruno, thank you for your question. As I mentioned during my presentation, the drop of the interest rate is very important for the market. I have no doubt that there's improvement of indicators in the midst of June, July and August. Yes, it is directly connected to the drop in the interest rate, and I have more expectations that as the interest rates are dropped, this will give us good results.

Regarding launching new real estate developments, it is obvious that the external scenario is very important, but we have to see the internal situation and the uncertainties brought by the crisis.

What we have done, as I already mentioned, we are analyzing new developments, but we want to expect the scenario to improve. And there are things that still have to happen so that we feel reassured to launch something, because we want to reduce uncertainties. We have made a lot of mistakes in the past. So we cannot make more mistakes currently. So we are waiting to see what happens.

**Renan Manda (via webcast):**

PDG talked a lot about performance to recover and you did not speak a lot about people. I believe that the management has changed their position. Do you believe that this is a differential for a turnaround in the Company when you compare the Company to the past?

**Augusto Reis:**

Thank you, Renan, for your question. As a matter of fact, I am absolutely sure that this is important. When you are concerned with people, of course, the Company under when critical moments and the current situation of the Company allows us to be concerned with the well-being of our employees.

This is fundamental, but in hindsight, we have to see all the difficulties we went through. But now, yes, we have the opportunity to take care of our people and to adopt



actions that provide this perception and the feeling for our employees that the Company is concerned with them.

Because as a matter of fact, we are concerned with them. I have no doubt that this is fundamental to have an operation with quality, with performance, and I believe that we are on the right path. And not only regarding this plan, but regarding the other actions that we are adopting.

**Antonio Carmona (via webcast):**

With possible resumption of real estate developments, do you believe the SG&A will continue dropping. When can we expect a turning point or tipping point? And second question, what level of launchings do you expect to maintain in the Company?

**Augusto Reis:**

Antonio, I do not know if I understood. I believe that is the G&A. The Company already reduced this. We still have a high operational level. You have to see our level of inventory. It is very significant. We have operations in a number of states of Brazil. So the size of company with the people that it has and our G&A, I would say that it is very close to the minimum value that can guarantee our operation with no loss and operational performance.

And thinking about the resumption or recovery, we always decided to try to maintain the most strategic people in the Company, because we understand that this is fundamental for this moment and this is something that we had in mind when we reduced our team.

Launchings, it is difficult to talk about this. This is not our concern right now. We are concerned about performing. First, we want to overcome the crisis to focus on the concluded inventory so that we can have cash and to go back to our first launching.

I believe that the volume of future launchings will be a consequence of the situation of the Company and the situation of the market. I really cannot forecast anything right now because I believe it is one day at a time. We are focused on the future, but the scenario is still difficult, moreover with this crisis.

So I would not like to give you a forecast because right now the Company is not focused on thinking about three or four years or what size do we want to achieve. Right now, we are really concerned about our current performance and what we need to do in a very difficult moment that is right now.

**Alex Sobral (via webcast):**

What is missing for you to end your legal reorganization plan?

**Augusto Reis:**

This is something that we stress in every conference call. And as I mentioned, in the beginning of our reorganization plan, we still have some important facts that we have to overcome. Also regarding assets, there are certain processes that we have to finish. There are important things that we have been fulfilling.



This is not a Company's decision, but as soon as we end the judicial reorganization, I believe that the Company is ready to end the judicial reorganization. But it is very difficult to predict something. This is the fastest possible and we are fulfilling all our obligations. And as we overcome all the stages, I am absolutely sure that we will finish this as soon as possible.

**Alex Sobral:**

Do you expect a 2H better than the 1H?

**Augusto Reis:**

Alex, when we analyze June and July, this gives us good expectations for the 2H. And this is directly connected with the drop in the interest rate. But I would like to strengthen my concern, I would rather be more conservative because I believe that there can be a strong reflection because of unemployment. People are still receiving the commercial benefit of the government. This has helped the economy to flow, but I am still concerned with the macroeconomic indicators and what the impact can be.

Of course, if the interest rate continues low and if it even drops more, perhaps it will drop a little bit more for a customer. My expectation is good, but I do not believe it will be as good as it was before the crisis. Perhaps the resumption will be the 2H of 2021. I would rather be conservative and have a good surprise instead of the other way around. But during the last two months, the results were good. Let us see what happens.

**Sergio Mota (via webcast):**

Congratulation for the results. Can we expect the net loss to continue dropping in the Company?

**Augusto Reis:**

Sergio, I mentioned during my presentation that the Company's situation today, our net loss gross margin, our net income shows you we focus on performed products with margins that have been sacrificed because of the past problems of the Company.

So as we drop our expenses, we will improve our performance. But there is no doubt that our improvements will be with new launches with better margins. And yes, the Company will improve as a whole. Our concern today is our cash flow. This is our main indicator.

Every day, we pay attention to this, and we base all of our decisions based on this, especially now in the middle of a pandemic. But yes, income is a consequence. But I believe that we will have changes in the future. I do not see any changes in the short term right now.

**Maycon Jefferson da Silva (via webcast):**

What kind of customer profile will you focus on? High, medium income or Minha Casa Minha Vida customers?



**Augusto Reis:**

Our strategy is based of what we have in terms of land bank. The resumption process has to undergo our macro strategy, which is focused on what we have in-house.

Because we do not want an injection of capital to buy new plots of land. In the beginning, when we see our land bank, it is more concentrated in the medium and the high-medium income. We no longer have products of Minha Casa Minha Vida, all of them were delivered. So the strategy of the Company is to work with the products that they have and in-house focus mainly in São Paulo.

**Saul Martinez (via webcast):**

Congratulations for the results that you have attained. Do you expect the sector or the segment to consolidate itself?

**Augusto Reis:**

Thank you very much for recognizing this. This way, we know that we are on the right path. I do not have this expectation. Perhaps, there is a certain movement. But I believe that this will be very specific.

We see that the companies are going towards IPOs. Perhaps this will happen, but my expectation that if this happens, it will not be systemic, at least I do not have this expectation when I see our segment as a whole.

**Operator:**

Our Q&A session has come to an end. I would like to hand it over back to Mr. Augusto Reis for his final remarks.

**Augusto Reis:**

I would like to thank everyone for participating. I believe that our conference call has been very active. The level of questions has shown that all of you have recognized our effort here in recovering the Company and resuming our activities, this strengthens all of us, and this shows you that we are on the right path and there are still difficult things that we will have to overcome. I trust our team, and I always say that we are highly aligned in terms of values.

The team, as a whole, strongly believes in the resumption of the Company. Everybody that is here has faced the difficulty and has not backed off and people here have been very resilient to overcome all of the difficulties.

So after five months, where many companies are facing difficulties, we are also facing difficulties. But after five months, we have been able to see that we are on the right path and this encourages us to continue.

And so I would like to thank you, and I hope to have you with us during our next conference call.



**Operator:**

Thank you very much. The conference call of the 2Q and the 1H20 of PDG has come to an end. Please disconnect. Have an excellent day, and thank you very much for using Chorus Call.

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