Operator:

Good morning and welcome to PDG's conference call to discuss 2Q19 results. Here with us we have Mr. Vladimir Ranevsky, CEO, CFO and IRO.

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

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

The audio and the slide deck are also being broadcast simultaneously over the Internet at www.pdg.com.br/ri, where you can also find the respective slide deck.

Possible forward-looking statements made during the call concerning the Company's business outlook, projections and operating and financial targets are based on the Management's beliefs and assumptions, 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 materialize. Investors should understand that general economic conditions, industry conditions and other operating factors might affect the Company's future performance and lead to results that might differ considerably from those expressed in these forward-looking statements.

I would now like to turn the conference over to Mr. Vladimir Ranevsky, CEO, who will begin the presentation. Please, Mr. Ranevsky, you may proceed.

Vladimir Ranevsky:

Thank you. Good morning, everyone, and welcome to our earnings conference call related to 2Q19 and 1H19. We will begin on slide 4, where we have the executive summary and the main highlights for 2Q19 and 1H19.

The Company's gross profit reached R$30 million in 2Q19, representing an adjusted gross margin of 51.4%, compared to a gross loss of R$45 million posted in 2Q18. Gross profit totaled R$13.6 million in 1H19, representing an adjusted gross margin of 19,2%, compared to a gross loss of R$50 million recorded in 1H18.

The Company's legal loss fell for another quarter. Year-over-year, loss fell by R$91 million in 2Q19, or approximately 30%. In 1H19, loss fell by R$111 million, or 18%.

Net sales increased 63% in 1H19, from R$43 million in 1H18 to R$70 million in 1H19.

We continue focusing on adjusting our structure to the size of our operations. Thus, general and administrative expenses were reduced by 47% between 2Q18 and 2Q19. In addition, our administrative costs, or G&A expenses, fell by 19% in 1H19 over 1H18.

Until now, we have paid R$265 million to our creditors as a continuity of our recovery plan, and that amount will increase throughout the year.

Cancellations fell by 18% between 2Q18 and 2Q19, and by 32% between 1H18 and 1H19.

On slide 6, we will talk about the resumption of the Palm Beach project, scheduled for August. As a result of the success of our long negotiations with banks and our commitment to our clients, we should complete the construction of this project, located in Manaus and aimed at middle-income residents, with apartments ranging from 71 m² to 86 m² distributed in two towers of 17 floors each, built on an area of more than 8,000 m². The project is scheduled to be delivered in May next year. There are 270 units of which more than 80% were already sold.

This resumption of this project is another important step in the recovery process of the Company's operations and reaffirms our commitment to maintain ongoing negotiations with banks and other investors in order to find solutions for unfinished developments.

On slide eight, we have our court-supervised reorganization program. The Company's debt increased R$23 million due to interest and inflation adjustment in the amount of R$32 million, and payments totaled R$9 million in 2Q19.

As I mentioned, payments will continue throughout the year, contributing to the amortization of court-supervised debt.

Consequently, at the end of 2Q, considering the capital increase and payments to class 1, 2 and 4 creditors, as well as payments already done, the Company has already amortized R$265 million in court-supervised debt.

Moving on to slide 10, we have our operating and financial results. Gross sales totaled R$53 million in 2Q19, 44% down from 2Q18. In 1H19, sales totaled R$139 million, a slight decrease of 3% from 1H18.

The decrease in gross sales in 2Q19 and, consequently, in 1H19, was mainly due to the change in the sales strategy, with a focus on the sale of immediate cash generating units. Of the total sold in 1H19, R$40 million refer to the sale of unencumbered units, which generate free cash for the Company.

Cancellations totaled R$40 million in PSV in the quarter, 18% down from 2Q18. In 1H19, cancellations came to R$69 million, 32% down from the same period in 2018.

We will maintain the strategy to prioritize cancellations of unencumbered units and units with better market liquidity.

Net sales totaled R$13 million in 2Q19, 72% down from 2Q18. However, due to great sales performance in 1Q19, net sales totaled R$70 million in 1H19, 73% up from 1H18.

On slide 11, we reviewed selling, general and administrative expenses. The reduction of costs in these lines and in expenses, and the adjustment of our structure continue among the Company’s priorities in order to optimize processes and increase efficiency.

Year-over-year, G&A fell by 47% in 2Q19, and 19% in 1H19 and this trend should continue in 2H19.

Selling expenses increased 44% year-over-year in 1H19, due to higher expenditure with property tax (IPTU) and condominium fees of units in inventory, as well as higher expenses with digital advertising.

General and administrative expenses plus selling expenses, or SG&A expenses, increased by 2% between 2Q18 and 2Q19. However, G&A expenses fell by 3% in 1H19 compared to the same period in 2018.

On slide 12, we see that the market value of our inventories totaled R$1.8 billion at the close of 2019. The total number of units in inventory fell from 4,570 in 1Q19 to 4,491 in 2Q19, or 2%. Compared to 2Q18, the number of units in inventory fell by 15%.

At the close of 2Q19, the states of São Paulo and Rio de Janeiro accounted for 70% of the Company's inventory, excluding commercial products. Of the total available residential inventory, 46% is concentrated in projects with sales above 60%; in other words, with good liquidity.

Of the total concluded inventory, i.e. R$512.7 million, 73% are located in São Paulo and Rio de Janeiro, of which 74% in projects with sales between 61% and 99%, and 64% in residential projects, excluding Minha Casa Minha Vida, developments and commercial projects.

On slide 13, we present the Company's court-supervised debt, which increased R$77 million, or 3%, between 1Q19 and 2Q19, as a result of interest and inflation adjustment in the period, of R$119 million. Principal, interest and payments totaled R$42 million in 2Q.

To conclude, on slide 14, we present the income statement, highlighting a gross profit of R$30 million in 2Q19, and R$13.3 million in 1H19. Accordingly, the Company's adjusted gross margin was 42.7% in 2Q19 and 19.2% in 1H19.

Because of the great volume of write-offs of fixed assets in 2Q18 and 1H18, depreciation and amortization slightly fell, positively impacting the results of 2Q19 and 1H19. Consequently, the Company's net loss fell another quarter, from R$339 million in 2Q18 to R$249 million in 2Q19, a decrease of approximately 30%. In 1H19, net loss fell 18%, from R$489 million in 1H18 to R$600 million in 1H19.

Before ending, I would like to emphasize that we reviewed and continuously improved all Company processes, controls and structures. The result of this work may be seen in recent reports issued by the Company's independent auditor, which have been continuously reflecting this improvement in PDG's controls and processes.

In 1H, we paid special attention to concluding the Company's short- and medium-term strategic planning, which began at the close of 2018. One of the main focuses of the planning was to identify new opportunities that allowed PDG to diversify its products and services, generating additional recurring revenue to strengthen cash.

As a result of this work and in line with PDG's important recovery and its new operational phase, we should soon launch a new brand in the market, possibly in 2H, focused on various real estate products and services. Soon we will bring you more information on this matter.

With that, I close my presentation and remain available for questions.

Patrícia Cortez, DynoInvest:

Good morning. I have a question about the new service company. When do you plan to launch the company and what services will be provided?

Vladimir Ranevsky:

Patrícia, as I said, we should launch the new company by the end of the year. We are basically talking about services aimed at real estate management. After so many years operating in this field and the large number of properties we own, the Company's structure has a lot of experience in this matter.

We plan to extend this business to the market in general and this involves real estate sales. We should also have an engineering and maintenance area that is expected to provide services to the market.

Patrícia Cortez:

Thank you. I have another question about the resumption of works of the Palm Beach project. Are there new works on the pipeline to be resumed this year?

Vladimir Ranevsky:

Not at the moment. We were able to renegotiate with banks the resumption of this work specifically, but we are trying to resume other works with banks that hold these PAs. That is all information we have at the moment.

Patrícia Cortez:

Thank you.

Bruna Campos, Platinum:

Good morning. I have two questions. The first is about what you said on returning with launches. I would like to know your EBITDA projection for said launches and what type of product and in which region you plan to focus.

Vladimir Ranevsky:

We have planned to launch one development by the end of this year. We are concluding negotiations with prospect partners for this launch, but this is not final yet. But we will basically focus in São Paulo, in one or two plots of land in the city of São Paulo. But we have not defined yet the region, the land. This is being discussed with these investors.

Bruna Campos:

All right. My second question is about the payments provided for in the plan. I would like to know if all creditors have already been paid and if there are going to be more payments.

Vladimir Ranevsky:

The payments are being negotiated and carried out. Many of them are still in progress. We have not finished to pay them all.

Bruna Campos:

Thank you.

Operator:

Thank you. The Q&A session is now over. I would like to turn the conference back over to Mr. Ranevsky for his final remarks.

Vladimir Ranevsky:

I would like to thank you all for participating in the conference call and emphasize that if you still have any questions, our Investor Relations department is at your disposal.

Have a nice day and thank you for your participation.

Operator:

Thank you. PDG's earnings call for 2Q19 is over. Please, you may disconnect your lines now.

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