

## Q3 2019 Earnings Call

### Company Participants

- Armando d'Almeida Neto, Vice Chief Executive Officer, Chief Financial and Investor Relations Officer
- Jose Isaac Peres, Chief Executive Officer
- Unidentified Speaker

### Other Participants

- Alex Ferraz
- Analyst
- Elvis Credendio
- Luis Stacchini

### Presentation

#### Operator

Good morning. Welcome everyone to Multiplan Third Quarter 2019 Earnings Conference Call. Today with us we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Hans Melchers, IR and Planning Director; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan website at [ir.multiplan.com.br](http://ir.multiplan.com.br). We would like to inform you that this event is recorded and all participants will be in listen-only-mode during the company's presentation. After Multiplan remarks, there will be a question-and-answer session, at that time further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Multiplan management and on information currently available to the company. They involve risks and uncertainties because they relate to future events, and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

This conference call will last 60 minutes. After this time, the investor relations team will be available for any questions which have not been answered.

Now, I'll turn the conference over to Mr. Jose Isaac Peres, CEO, who will begin the presentation. Mr. Peres, good morning. Thank you for the opportunity. You can begin the conference.

## Jose Isaac Peres {BIO 15388489 <GO>}

Good morning all. All of you, who are listening to us, thank you for your patience for being with us. I'll try to be to the point very straightforward, today.

Mentioning just a couple of facts from the past that allow us to work on projections about the future and then focus more strongly on the future what we have ahead. For the last 10 years, we've been through a difficult phase in the country and I revisited that note I had that 10 years ago BRL534 million was the company's revenue, and today, we estimate revenues of BRL1.450 billion. So in the past for the last 10 years which were tough really we increased on average 17% in terms of the company's revenues.

We have many projects at the company level. We have 1 million square meters of projects in fully paid property owned by the company, but I'll be very objective now. What do we foresee for the next three years? I'm not going to work on long-term projections though, being more conservative, considering that the economy is improving, we are feeling this already. In October for instance, we project between 8% and 9% growth according to the first data that we got, allowing us to project sales, forecast around this order. We had been doing about 5% along those lines, but we already begin to see some signs of an upturn and acceleration of the company. I can see tenants more optimistic and I think that that depression scenario is finally coming to an end. We haven't reached euphoria, but we can still -- at least we can start smiling now.

Barigi for instance, we're expected to working on an extension, another 15,000 meters and also Jundiai, Barigi will turn out to be maybe the greatest shopping center in Parana state, sales are really high close to BRL1 billion sales approximately. I'm speaking some data here, but Armando and our colleagues, that are here with us, they can correct me if I'm wrong.

Jundiai, we also have an expansion pretty much targeted to nature, it is our model design that we have included right now. So it's the tripod nature, entertainment and sales. Pretty much supported by something that is millennial and naturally never ends. So, we are increasingly coming back to thousands of years ago in which mankind always needed to include pleasure in his life. Entertainment is also another source of joy. We don't have a circus podium in the mall, but we're getting close to it.

Morumbi is another one. We also have an expansion for the next three years. It's in our pipeline. Sao Caetano, Sao Paulo is another one another 10,000 meter. Jacarepagua, we expect to close next year. So 83,000 square meters in total. This does not include an icon project, we have in Rio, which is the integration of Barra Shopping with VillageMall.

They're very close to one another and therefore we managed to design a project with a lot of playful impact. Maybe it will turn out to be an icon in Brazil and a monorail connecting

both, a total distance of approximately 1 kilometer in 3 minutes taking 80 passengers in a car with air conditioning. So it's something unique. We know these playful things are really helpful and they also help because they are synergistic. Whenever we put two attraction hubs together, the summation is always greater than two separate parts.

And in Barra Shopping another example, when be connected New York to Barra Shopping, it's amazing to see how much they grew after the integration, and also because they add to one another. One shopping center is more focused on leisure, the other more on sales and now we have a high-end shopping mall. So we really have an increase in people flow, sales are also improving a lot.

And once we put them all together, there'll be more convenience to consumers. Just three minutes to cover a long distance without having to get into a car to move from one to another. Maybe 400 meters that's the distance. But if you consider all the streets, it's almost 1000 meters. So we're going to work on this project on the monorail. It's an icon. And I'm very confident that there will be a huge impact for both ventures, for both projects. So another one if you consider the company's organic growth. If we go back to it, it has been growing for the last 10 years on average 17%. So that's our projection for the last 10 years. It was the toughest of all years.

We still have a project in Sao Paulo, which has been developed for a while now. And it's about to be concluded. It's ParkGlobal. It's a shopping center, I mean, it's a park in Sao Paulo close to the river side drive. 50,000 square meters also integrating of urban planning project. And it's one of the most significant designs in Sao Paulo. ParkGlobal will have 50,000 meters GLA and our stake is 60%.

I would also like to talk about real estate now. When we have raised that question about the termination which was something so different, once again, we had justice involved and many companies lost a lot of money, others went bankrupt. The real estate sector was extremely weak. And when faced to that scenario, we limited our action in real estate, even though we had pretty good areas, and projects and designs. But now we'll go back to that segment.

So much so there is a decisive factor to the real estate business, which is interest rate. Interest rates, by the way are very competitive and they're allowing people to buy a property, perhaps pay in installments equivalent to the rent fee, the rent rate. I have over 50-year experience in that area and it's very attractive to consumers and buyers, giving them the feeling of being assured, they feel assured, it's reassuring. So we have 1 million square meters and we selected for instance for the next five years.

Those projects in design with a higher potential and higher liquidity as well. From 1 million we estimate to have 300,000 square meters. So, I have an extremely low price, BRL9,000 per square meter. It expected to be more, but I don't want to have too optimistic projection. So you always see the company as a company that delivers over the promise. So that's how we manage the company. We want to surprise everyone.

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So we believe that under these conditions, we're going to have BRL2.7 billion sales, which might generate well an estimated margin of 20%. And now let me make a remark here, because our real estate projects, our previous ones at the company will have a margin over 30%. As you can see, I'm being pessimistic here, because I don't want you to tell me tomorrow that I failed to deliver my promise. So, it's expected to be more, and if it comes, it will come from heaven.

But if we add it all together, we have a company which today is at BRL7 million assessed or evaluated by the stock exchange. And if you do the math, the total revenue of the company or part of our asset is still in the hands of investors, particularly pension funds, minority, minority holders. But this accounts -- well, we have BRL1.4 billion and the total is BRL1.8 billion, that's the total of the income of our shopping mall. That's an estimate, pretty close to that number.

And I did the math, net of 6% rate, just to give an idea of the value of our assets. Today in order to generate this income, nominally speaking, we would have BRL30 billion, we would need capital of BRL30 million, if there was an income for instance of 6%. So we would need 30 billion to deliver the same income, we already deliver today. And our company is assessed at BRL17 billion. I think it's also important to take into account, what do I mean by income? I'm speaking of real actual income because our assets are adjusted. So 6% as real income is something amazing. There is no other investment today delivering the same. So I believe the company is doing a good job.

Possibly this year we're going to deliver good results. And I'm also confident that this year, well or in previous years, I guess for the last five years, we invested BRL2.5 billion. Am I right Armando? Right, BRL2.5 billion, including shopping mall maintenance, turning shopping malls more attractive with further expansions, et cetera. So it's also important to let you know that we are investing very heavily in IT.

My strategy is to provide tenants, both brick-and-mortar store and an online store. So if they rent a store they get the other one for free, absolutely for free, because we're not going to charge anything. We're not going to charge any percentage for the online store. We are investing in order to turn service to our customers and consumers more convenient and to give more strength and power to our tenants. We are not an e-commerce company. We are a shopping center company, which is a different product with a best and prime locations in the main cities in Brazil. Therefore when we say that BarraShopping, for instance, gets 30 million people for a year, just amazing. People who come and go in our mall approximately 180 million people nearly the whole Brazil getting into our shopping malls.

So, what's the idea, possibly next year we'll begin to deploy the system. The pilot system is BarraShopping is one of our designs allowing us for 1 hour to deliver consumers in a radius of 1 hour more than 2 million people. So people know who is sponsoring e-commerce, which is Multiplan. It gives some credibility. There is no risk. So anything that happens they can come to Multiplan, Multiplan will be in charge.

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On the other hand, we're going to provide consumers with an option or the right to go for different prices of apparel, footwear, sandwiches with several alternatives. Several different retailers that are selling these products with their corresponded prices, with a faster purchasing process for consumers. Consumers may buy and the product may be delivered within 1 hour or they can buy and go to the mall. So I believe, this thing about going to the shopping mall versus e-commerce, well, it goes as follows. I think I said that before, but I think it's always worth highlighting it again.

We live in the real world, we don't live in the digital world. People live with people. People live with things. IT is quite a key tool in order to provide convenience and make people's lives easier, but that's something that it's not convenient at. Steve Jobs was a genius, when he designed the iPhone. So the strongest of all fears of mankind is loneliness. And with a mobile phone, we have the feeling that we have a 150 friends, some people say they have 300 friends, but you know that good friends are just in the palm of one hand. But that's the fact today, right?

So this feeling of people of not being alone because they can see an image, they can listen, you can be in the middle of the Amazon region, but you don't feel lonely because you can talk to someone via mobile, which is good, providing information is good. But naturally at the same time, well, mobile technology made people more lonely. I know it sounds like a paradox. At first there was the feeling that people were not alone, but now people are more alone at home at their computers, their iPhone.

So shopping malls are growing. The flow is growing. Armando can show you the figures. Firstly, because we're also an island, in a chaotic urban system, not, if it were and for shopping centers retail would have stopped growing a long time go.

Secondly, people like to count on people, think about it. The greatest organ of the human body is the skin. You need contact. And mobile phone is not going to give you that contact. So, our sales have been growing, we are working on this, we're working on IT. I don't expect it to increase sales once it's deployed over 10% or 15%. But if that happens, it will be great. So we're constantly being adapted to different times, conditions, anticipating consumer's demands for the future, consumers' desires. And we'll bring in a new project model, pretty close to Canoas, which is a shopping center that has been growing on a monthly basis, or a year basis around 23%.

This year sales increased by 21% and Jacarepagua is an important area, an important consumer area with about 600,000 people. And they didn't have this kind of equipment. So next year, I believe, we're going to give a gift to Jacarepagua area. So this project will give you a new perception on what our motto is all about, our business model, our current business model.

So, I thank you all. And I really thank you for your trust and rest assured that we have a very skilled team. If one day I'm not here rest assured the company will survive well. Thank you.

**Armando d'Almeida Neto**

Bloomberg Transcript

Thank you, Dr. Peres, and good morning all. You will stick to us for a long time, I hope so.

Okay, just some brief comments. First with regards to operations in addition to the highlights already mentioned by Dr. Peres, I draw your attention to Canoas sales performance. Like he said, this quarter, increased by 22.9% this quarter and 21.2% in the first nine months of the year. And Jundiaí Shopping and Village Mall of a younger generation in 2012, they faced tough years of consolidation owing to the economic scenario, but posted sales growth this quarter and full-year above 10%.

Sales growth stems not only from the gradual economic upturn, but also from the proactive change in stores, which totaled 44,000 square meters of turnover in the last 12 months, more than 300 stores changed in the quarter that ended September in addition to rent in Jacarepagua and expansions over the quarter.

Rental revenue increased very strongly by 8.9%, there were several factors involved. Firstly, the acquisition of 20% stake of BH Shopping in the second quarter of this year. In addition to the on lighting of inflation and also two highlights which is growth of 10.3% Morumbi Shopping and Barra Shopping 8.8%. And I would attribute this strong performance to the change in the mix. We already discussed in several calls, the change in mix and opportunities of stores which left and the improved mix, given good results in our rental revenue, which is our main revenue.

Several of our properties we had 10 properties, posting above 2% revenue growth, two-digit revenue growth. And more specifically, once again, I'll draw your attention to Park Shopping Canoas, which we'll complete in the second year of operation on November 23rd and rental revenue increased 14% this quarter and 19.9% or nearly 20% in the first nine months of the year.

Still about rent, this time on same-stores rent a robust increase of 10.8% and real growth of 3.1%, which is the highest growth rates on a nominal and real base of the last five years.

When we speak of results and now changing gears, I would like to highlight the effect of mark-to-market of our shares, owing to the rise in the appreciation of stores, which had an impact on the third quarter, an impact on the result. But despite all that, did not prevent both EBITDA and FFO and NOI to grow again. I'm not going to repeat the numbers, they're all on the slides.

Lastly, the capital structure. This quarter, we had a new financing precisely with Jacarepagua BRL350 million, 15 years of amortization after the grace period. And rate not back to TR, but rather to CDI at 105.85% CDI. Net debt is 2.4 times EBITDA of the last 12 months, a small drop vis-a-vis the previous quarter at a cost of 6.59% per year. The debt index to CDI amounts to 71% of the gross debt and is expected to be growing. Owing to TR financing, which are amortized on a monthly basis and further benefiting possible new cut down on the base interest rates.

I'll end up here. Thank you very much for your attention and let us begin the Q&A session. Thank you very much. Good day.

(Question And Answer)

## Operator

Right now, we are going to open a Q&A session. (Operator Instructions). We already have some questions coming in. So, let us begin with Mr. Victor Tapia with British gold. Victor. Good morning.

## Analyst

Good morning, everyone. My first question could you give us more color about Parque Global? What about a CapEx, considering the CapEx, that were allocated in new projects this quarter approximately BRL35 million? How much was earned marked to Parque Global? And maybe more color about the timeline of the project. And my second question, we noticed that revenue is gaining momentum increasing more compared to previous quarters. However, when you focus more specifically on parking lot revenue there was a drop. Flow is still increasing around 4% year-on-year that's about it. However, what about the future? Do you think there is room to further increase and have more price adjustments? Or do you believe this revenue of parking lot will depend on higher flow and average time in the parking lot. Thank you.

## Jose Isaac Peres {BIO 15388489 <GO>}

Victor, Jose Isaac Peres speaking. Let me answer your question. Parque Global is a project, which naturally includes an integrator urban design. May be one of the most significant projects and designs ever worked in Sao Paulo. It will be something similar to a new business hub. It's a long-term project. The project that we approved was submitted to changes, because there were problems, legal problems related to the property and they were just overcome. So, now we revisited the design to be more in concert with the current times. And within our philosophy of heavily investing in entertainment, nature and sales.

So this design is just about to be concluded. So, we don't have a budget yet. But certainly, it will be in progress next year that's our forecast. I cannot give you further information right now. The total area is 50,000 square meters. I think there is still room for growth, which is also significant. But as we go step by step as demand comes, we expand etc. As for parking lot revenue, it is growing, growing little but it's still growing. And what happens today naturally is that municipalities and towns are beginning to understand that with a more efficient transportation system, particularly Uber and other types of vehicles certainly the shopping mall will possibly have more areas to activate new business and new business areas. Not only commercial areas but medical centers. That's what we expect to see in quantities is the largest medical center.

By the way, the last congress yes, I concluded that medical centers are important in shopping centers and I'm happy about it, because we were pioneers about 25 years ago or slightly more than that and it proved to be an amazing success. We also did it in Ribeirão Preto. It's doing well and naturally in Curitiba. And why is that? People who go to the

shopping center on a daily basis, they understand it so convenient to see a doctor in the same site. I don't have to think about much.

On the other hand it's easier to see a physician or a doctor in a shopping center compared to going to a hospital or clinic is more pleasant at a shopping center. In our philosophy once we proposed this 25 years ago to physicians. Our philosophy was that pain and pleasure are two sides of the same coin and it hurts to go to the doctor, but it's pleasant to go to a mall. A doctor's physician is going down over the years. So if you feel more excited and if the clinic is crowded, you can be there shopping center and you're contacted via mobile, when your appointment is ready.

We have 42 medical centers, 2 big diagnosis center, one day hospital. Getting approximately between exams and appointments on a monthly basis 200,000 operations. So it's truly something important, people are getting older and they really need to take better care of their health. Coming back to parking lots. If they are left empty, there will be an additional gain to shopping center companies, because they already appreciated and that we can have a more efficient multi-use approach. I don't know if I answered your question.

## **Armando d'Almeida Neto**

Just adding to the comment Dr.Peres and answering your comment. In your earlier remarks cost flow increased 3.7% this quarter year-on-year. And a revenue increase 7.9%, so there was significant growth. This higher growth I would say stamps from three components.

Firstly, more parking spaces we'll have additional more than 500 new parking spaces in our network particularly in Canoas. Halfway through the quarter, we don't even have the full effect. And secondly, because we see people spending more time at the shopping center because now we have more leisure, more entertainment.

## **Analyst**

So over the years, you can clearly see people stay in longer. Not to mention there are more services, right? And also the change in the mix.

## **Armando d'Almeida Neto**

It's not a change actually. Naturally, we are being adapted to times. If you don't adapt yourself you die. Thirdly is the change in the rate for the parking fees. We have to be adapted, when we have a strong commercial centers, so naturally we have to be selective, otherwise the parking lot would be crowded and consumers would never get here.

So we are more optimistic about it. Even though, we know, there is this trend like we said before of using this area for different things. Like urban planning with alternative



transportation. As for park global CapEx, this quarter was nearly zero. Only expenses with a design. Well, it's not zero but it's very low related to design of projects.

## Analyst

Okay. Thank you. Good morning.

## Operator

The next question is from Luis Stacchini with Credit Suisse. Good morning Luis.

### Luis Stacchini {BIO 18717891 <GO>}

Good morning. Thank you Peres and Armando for the presentation. I have two questions. The first question has to do with strategies and capital structure. Could you give us more color on the company's appetite for leverage? Dr. Peres was right to say or to mention a leverage that is more conservative vis-a-vis the market average. I would like to understand, if interest rate, lower interest rates scenario maybe on a longer basis, does it make sense to have a higher leveraged multiplan? and along the same lines, do you envisage the use of net debt over EBITDA ratio as it means to have more feasible projects and acquisitions and the cap may be slightly more squeezed. Could you tell us more about the leverage strategy and the potential for acquisition?

And the second question has to do with tenants appetite. How do you see this dynamic moving forward? We can see that commercialization level is pretty strong. But you had significant brands coming out and maybe it has an impact on vacancy. Do you think this, we continue to have stronger rental services, bringing pricing power to the company, spreads that are stronger. Just to have a better reading of the rent and also a strategy to announce projects with better rank conditions to you.

### Armando d'Almeida Neto

Thank you Luis. Good questions. Peres ask me to answer this question. I'll go in to share my perception, as the many charged for the finance department what maybe I can add something later on. Okay. He doesn't like that, but he loves great projects. And whenever he sees a good use of capital, he knows it takes leverage. For a while you thought our debt would be zero and we said it wouldn't and we started to distribute more money thinking about shareholders less to CapEx owing to the economic space and distributing more money and then lower than two and recovery. But the company always had more projects than capital and it remains as such.

With our IPO, we could have faster project and leverage the company more often to run these projects, from the moment the interest rate is more adequate to our activity. And by the way it's no use saying I have very low interest high volume and the financing term is always short-term. It doesn't make sense to our business, but what I see is the opposite capital markets in Brazil, developing, offering, financing loans, capital markets operations from all sides, including long-term which is very good. And prices at world levels, very attractive and appealing.

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So we can see the economy improving and we have good projects, so we may leverage not because interest rates are cheap, but rather because we have good projects. In my life. I'm an entrepreneur for many years now, but I recall that in 1984 that was a remarkable year in my life. Multiplying at that time was still in the development phase, so I was fast and managed to build a shopping center, by the way three shopping centers being the latest in Brasilia. Brasilia by the way was opened by president Figueiredo that time. And on that occasion just to give an idea, when we don't have money, but we have this momentum to do things when you are younger for instance.

I was had my soul in debt, I had 10% capital and 90% debt. And I'm just not saying 6%, 7% interest rates, but 200%. So in addition in debt of 200% per year, if you consider restatement. So in 1984, I remember there was a drop of 3% in GDP, and the country faced a problem of foreign debt. It was a severe problem. Brazil had no currency. So it was the worst scenario at that time. I guess, it was one of the latest years of the military regime. So the military regime many people say what they lived with, and I can say that I lived the 10 first years of my life as a businessman during the military, regime and I never grew so much in my life, so much, so that I -- I was 22 in college and I established this real estate company and 8 years later the company grew so much that I was going public in the stock exchange in Rio at that time. So it was so good, Brazil was growing by 10% or 11 %, it was just amazing.

Argentina were had a flow and foreign exchanges favorable to Brazil would flood. Argentina with Brazilians and -- was a genius, the economic genius at that time according to the Argentinians. However, naturally, we got into a foreign exchange crisis and inflation can imperial but foreign exchange may kill you. So the government neglected this at that time. But just won't cave it. At that time, the oil crisis if we consider Brazil's export income, the oil sector would take temp 70% of the currency so Brazil didn't deliver oil. And today we are in a different scenario. We are exporting and the prognosis is that petrobras for the last 10 years. We will be delivering 3 million barrels per day. So this is really good pre-salt is going to deliver great results.

Now coming back to the debt today. Well those who went through those turbulent times in the past and sold their soul, know how much the suffering is, with physical and psychological consequences that kills you not only physically, it also kills your soul. But luckily, we designed an investment model for pension funds at that time, and it was one of the main investors, pension funds were one of our main investors and that allow us to sell part of the stake of the shopping center to pay the debt. [ph] is be a shopping which turned 40 recently, there was a time we only had 35% stake. And today we owned a 100%. We're back. So we're buying our assets, which are high performing assets.

Just to give you some information, you may not know this but this shopping mall cost \$12 million at that time. There was no credit and I had to plead Citi Bank to fund me and Citi bank had never finance a shopping center. nowhere in the world. What about Minas Gerais State. In a freeway, 8 kilometers from the city they thought it was a lunatic. So, the shopping mall that cost \$12 million at that time is turning \$40 million today and we acquired the last stake from Usiminas. How much was that? \$469 million.

## Unidentified Speaker

We acquired 20% right?

Right.

So the income is a 100% doubling in 40 years the investment of doubling nearly every year. So what I'm trying to say is that investment is good. However, we myself our company turned out to be a more conservative company. We've been through Sarnia administration, we've been through the live revolution collar administration, which was also tough. Seizing everybody's money we being through tough times, but we survived. We also invested abroad. What I'm trying to say is that Brazil is a country that is a rich country, but unfortunately the people was poor. So out of a structural fame naturally the flooded state cost a ludicrous cost to the nation and therefore domestic companies become less competitive, but despite of that, there are plenty of opportunities in Brazil.

Now, my current debt model is the following. My current net debt today is approximately BRL2 million and I have this project they knock on my door offering 1.8 to and I say well if import I can sell that project and I can zero the company's debt. But it's not worth killing the hand or the chicken of the golden eggs. The debt is low and think about the business because our business is far more profitable than 6% or 7%. So we have a good structure for loans, but I'm just explaining what it means to be affected to believe in that you're not going to have money enough to pay your children's education. I've been there before, but luckily today things are different. You can even buy this school.

We can pay other people's tuition. What about us and showed, we don't see any reason to change yet. We still believe we can have results with these projects even at lower interest rates. By the way, it's the opposite. The value generator to shareholders increased even more. When you have NYO of 10% or 11% in the third year. The nominal interest rates are 14.5 is one thing and when it's 5% and 5.5% or even lower than that and you keep on adding 10%, 11%, so it's much higher.

And lastly about tenants appetite. Let me share something with you. For five years, what was the change in stores. In five years, not even five years actually because we don't have a full year, we have nine months of 2019 only. 1,776 stores a 130,000 square meters 4.5 big shopping centers. Shopping centers like Jacarepagua for instance. So if we say there is no tenant appetite. What are these numbers then? So it's the opposite, we have tenant appetite for good shopping centers for icons. What about Jacarepagua rent nearly 60% of the air is already leased already rented in Jacarepagua.

Well, it's not easy, but what is the challenge? The challenge is not to have a 100% rent. What we need is the good quality of stores the right mix with the return expected. So that's the challenge, not really renting a 100%. So the appetite is gradually improving, we are changing tenants, sales are growing and remaining at a higher level and certainly, this will bring more room for better negotiations and we have 97.6% of occupancy rate. Considering everything all the time. Technically it is very hard. So, there is no -- there's room that's what I mean.

**Luis Stacchini** {BIO 18717891 <GO>}

Thank you Peres and Armando. Thank you for the explanation. Good morning.

## Operator

The next question is from Dan McGoey with Citibank, and Dan good morning.

## Analyst

Good morning, Dr. Peres and Armando, and team. Thank you my first question is about Canoas, you added 517 vacancies an increase of 22% in the number of vacancies in the shopping center. On the one hand they have the Uber event, but that shopping mall need more parking spaces. Jacarepagua, what about what GLA 39,000, 10,000 parking spaces, it is lower compared to Canoas before the increased. Do you believe you're going to increase the number of parking spaces at Jacarepagua? or it's only about Canoas, where people don't take Uber so much. It goes against what many people believe in terms of a reduction in parking spaces in Canoas.

And my second question is about a Monorail, a potential monorail from Barra shopping to Village. If you follow the company for a while, we know that Barra, we had Monorails from 1996 to the year 2000 it was paid and it lasted four years. So now with the new Monorail would it also be paid? What is the different compared to the old Monorail? That was the activated in the past. Thank you.

**Jose Isaac Peres** {BIO 15388489 <GO>}

Andrea, good questions. Jacarepagua is located inside a densely occupied at neighborhood with 600,000 people at a very good location. So, many people will walk to the mall, many will drive to the shopping center. But what I'm trying to say, is that a like Canoas we went to the middle of the forest, and we opened avenues, we opened access, we build kilometers of paved roads for people to get there and it was a risky bet. Canoas is significantly smaller than Jacarepagua. And the purchasing potential is also smaller. So what happens invited to seniors over the weekend for instance. People come from remote areas from aboard go Porto Alegre, Porto Alegre is not so far away 15 minutes. I never thought people from Porto Alegre would come to the shopping center. So in 15-20 minutes, you can get out of the North zone of Porto Alegre and you reach Canoas region.

So it was a peripheral shopping center a like Jacarepagua. So public transportation in Canoas is harder so car is the main transportation option. As for Jacarepagua they have better transportation conditions bus, Uber. So that's not a high demand in Jacarepagua, but if tomorrow we need more parking spaces we have the area to do it, and it would be very good, if we feel the demand is so huge that we have to build them. That's all I want to have in the world. I don't know if I answered your question.

Okay about the Monorail, Bahia Monorail has this following purpose in mind. When I thought about the Monorail, we nearly doubled the extension of the mall end to end

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Bahia shopping nearly 1 kilometer and I wondered -- I wondered if people will go to the expansion. So I imagine that from the entertainment viewpoint for children for instance and even the elderly people having a Monorail would be good, but the monorail that we had at that time was just for marketing purposes, something playful so to speak, but it was not so effective because the equipment was not so good, but the one we are designing right now the equipment will cost around BRL200 million. Just to give an idea. This is just for the access and the operation, so it's pretty close to what you see in village and there is a clear purpose.

It has a clear function of adding convenience to life and have a synergistic effect between both shopping center. Sometimes you go to Bahia, you want to go to village, but you want to take your car from the parking lot because the traffic is heavy and all the way around. But this time rather than having about 500 stores, you're going to have 700 stores with an extremely comfortable system and also pleasant to see the landscape of the Lagoon in Barra. So in this Monorail, we don't expect to fail but the important thing there will be a synergistic effect that will be very good. Great equipment and would also be an icon this is unprecedented in the world.

## Analyst

Are you inventing something?

## Unidentified Speaker

Yes. I invented a medical center in the shopping center. People said, I was crazy, and now, CSI admits every shopping mall should have a medical center because people are getting older, and they will need it. So envisaging the future and going beyond the current reality bring some discomfort -- discomfort at first, because it takes a while for the dream to come true, when I came to this area Bahia shopping well, in the past there were 40,000 people now 500,000 people we didn't even have public lighting in Americas avenue. Quite an adventure and be shopping as well. The five first shopping malls were all adventures and the five shopping malls account for nearly 50% of our income. Just imagine things that are apparently are something or higher risk in the end they deliver and in the surrounding areas will have big cities not Brazilian, naturally we have this complex urban planning. But it works because if people don't drive they won't get anywhere, but other cities don't have the same case [ph] on player to a real Sao Paulo and Belo Horizonte and the age today, around of more, you'll have 150,000 people, living in the area.

In the past, there was nothing. What I bought the land, it belonged BNG Dr.Flavio, already told me the following. He didn't believe, I was going to build a shopping center there and he told me Pares, what are you going to do there? That was when we were going to sign the trust deed. I said, I'm going to build a shopping mall and he asked me why you're going to build it there? All you have are goats and donkeys. It's true. There was no public lighting. There was just some basic structure, but we sowed the seed of a new city.

The shopping center has this multiplying effect because in the surrounded areas it would generates a neighborhood Jacarepagua for instance was already positively affected

properties that were sold for a specific amount and they paid twice as much. So we still have this mission to improve services provided in big cities [ph]. The Monorail will not be paid, that's the answer.

## Analyst

Okay. Thank you crystal clear.

## Unidentified Speaker

And it will connect not only to village mall, but also the village mall expansion, which expands retail with the mall and also corporate or office towers. So it's a greater area. It's not only connecting Bahia shopping to village mall. It's a greater scope.

## Analyst

Perfect. Thank you.

## Operator

The next question is from Alex Ferraz with Itau BBA. Alex, good morning.

## Alex Ferraz {BIO 19294308 <GO>}

Good morning. Peres, good morning Armando, thank you for the presentation. I have just one question. It has to do with a real growth of the same store rent for some quarters now, the company has reporting healthy growth. And in this quarter, is based on a strong inflation rate. I'd like to better understand if in this current quarter, we begin to see a drop a stronger discount drop to explain the 3% real growth or if it's tenant anniversary or specific event. Why did we have faster growth of real growth on top of the same store rent of the company?

## Unidentified Speaker

Alex, that's an easy answer. It all boils down to efficiency. I'm could explain this in a thousand different forms, it's very complex. What we've been doing is to be efficient, change in stores that were under performing and having stores that have better sales or more adapted to the current reality. The shopping body is a living body. So now in Belo Horizonte, we saw the shopping center that was born with 124 stores and now, the total is 400. And for 40 years, what we have our 10 tenants. From the original one, so this mutation is only natural companies that open the business, others go out of this business and some persist. That's natural.

Just adding to the comment Alex. We have step-ups more than discounts. There was a reduction in discount. Discounts are gradually going down. We never believed discounts would come down fast quite the opposite and they keep on going down. Now curiously enough, so we first think about the third quarter 2018 conference call, one of the

questions raised at a time if I recall it well, was if in the following year considering we would have higher on lending of inflation. If we could do this on lending on a full-scale. So now we have three months of the year, not only transfer inflation, but also posting this quarter a higher growth one of the highest of recent years. And in all quarters this year we posted real growth on top of the inflation adjustment effect.

**Alex Ferraz** {BIO 19294308 <GO>}

Thank you. Perfect Peres and Armando,

**Unidentified Speaker**

Thank you, Alex.

**Operator**

The next question is with from Joe dowdell[ph] with Morgan Stanley. Good morning, Joe dowdell.

**Analyst**

Good morning, everyone. I have just one question. Historically, your portfolio has a sequential drop in rent expenses in the second and third quarter for instance for the last 12 years. The average drop was [ph]%. I'd like to understand how the dynamics change this year. There was a sequential growth in rent revenues, do you think we should consider this on a permanent basis?

**Unidentified Speaker**

[ph] we don't follow these standards or patterns believe in that every third quarter, there will be a drop in rents compared to the second quarter. It might happen, it might be a coincidence, but there is a number of factors that justify the use of this term coincidence for instance. If you'll begin to every five years, you have many contracts being renewed and they might have an impact. Another important factor is inflation, we transfer inflation of the last 12 months considering contracts that are terminating every 12 months. Things change and accumulated inflation raised in the third and last point, which I believe is the most important of all is that we keep on going, the economy is going on.

Shopping centers with high flow rates more cash flow and rents are going up, things are doing well. So I use this analogy with a trend, the first time the wheel turns it is more challenging, but once the trends gets momentum right, you have the inertia effect things get easier. So the trend keeps on moving. I don't think there is a logic explanation or a pattern of the third quarter with a lower rent, but just a coincidence and I hope I've managed to explain the reason to you.

**Analyst**

Yes, it's very clear. Thank you.

## Operator

The next question, Elvis Credendio with BTG Pactual. Elvis good morning.

### Elvis Credendio {BIO 20084266 <GO>}

Good morning, Peres, good morning, Armando. Just a question in the beginning of the presentation you mentioned, there was 8% to 9% sales growth in October vis-a-vis 5% in the third quarter. So what is the reason behind this? In the fourth quarter we don't expect to have a -- with a weak base effect as we had in July. Is there a positive impact of FGTS accounts release, anything along those lines that we will support tenants sales.

### Jose Isaac Peres {BIO 15388489 <GO>}

Elvis, firstly I'd like to say, that both of those administration or many people may not like it, but it's working. The economy is beginning to wake up over the last two months and there is more excitement on behalf of tenants to expand their activities unlike what happened in the first half of the year. It was something almost like look dimmick[ph]. So that's the first point. I don't know if you expected something else I was another explanation but there's something else we also do which is change in mix and big stores like Finac[ph], which naturally occupied an area and the income was relatively small compared to it, but it open room to have another 10 or 12 activities which pay a much higher rent. So big stores, which naturally open their space their area are being used now to renew activities that up to them, we didn't have enough room to do it and these activities start paying a higher rental rate. In addition, we always try to improve the environment, investing in quality, improving services. So if you put it all together at the end of the day, we can reap the fruit as of now.

### Elvis Credendio {BIO 20084266 <GO>}

Perfect, Peres. Thank you.

## Operator

So next question is from -- with Santander. Igor good morning.

## Analyst

Good morning everyone. Thank you for the conference call. I'd like to better understand your digital strategy. In the sense of designing a marketplace. Is it only for tenants? So that's the first question. The second question is about residential projects. The company already did something in the past and the market is improving. So, what is your appetite vis-a-vis this type of project? Thank you.

### Armando d'Almeida Neto



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-- Armando speaking. As in your first question about marketplace, it is not marketplace for say. What we're doing is to create a super app which contains, which includes marketplace. The utmost goal is to improve convenience and add convenience to consumers and it already includes marketplace, which can also be used for shops and for shopping and also to improve convenience and to extend store hours. If you want to buy a pair of shoes, the black top, you can browse by a computer and then you go to the mall. And marketplace is just one of the tools that is inside our super app, which contains many other facilities. And overtime, we expect to include new facilities as well.

As for the incorporation of residential projects. The market is a lot stronger more active, not only Sao Paulo, but also know the cities, And we're excited working in some launch in Porto Alegre. We have a priority design in real estate development. We already have 250,000 square meters of potential sales area and the first phase we'll have 34,000 square meters. We are working on this with a final detail and we hope that pretty soon we'll be starting a sales process and a lot for sales in this phase.

Like, Dr.Peres said before, we have nearly 1 million square meters. There is a breakdown and a release for potential real estate projects for sale beyond our area to work on expansions in new shopping centers. Well, there's something important here. I'm sorry to interrupt you. The accounting value is very low. So, the sale of property will generate a lot of income in the past, our margin was above 30%. I'm projecting additional gains of 20%, because I'm very conservative, but it could always be higher naturally project that for the next five years. We may have launched approximately 300,000 square meters of saleable area. That's very comfortable for us, to know that if we want, we don't even need financing to do that because we have an uptake at a much lower interest rates and sometimes we transfer to consumer at a lower rate. And often times, It may sell credits. So the company's financial position is very healthy.

I am a banker and I like to work on loans. It makes me very happy, but I have to say that we don't rely on financing normal and everything is here. All we were waiting is to bring the termination business to an end. Unfortunately, it was totally crazy because the last law was a federal one at judges starting amending things and creating a monster that's broke the market of construction companies in the country, so that's the problem.

But we are very excited with his increase. We see both sonatos administration, as a government that is doing a lot of things that I never imagined. I would see it administration doing after all this time that I lived. And they do everything to prevent him to rule the country and despite of that bo santos[ph] doing quite a lot. So let us close our presentation and I thank you all for your support -- your constant support. And our job is to make you be more profitable. Thank you very much.

## Operator

So this concludes the question and answer session.

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