Y 2020 Earnings Call

Company Participants

- Ruy Kameyama, Chief Executive Officer

Other Participants

- Alex Ferraz, Analyst
- Andre Mazini, Analyst
- Daniel Gasparete, Analyst
- Fanny Oreng Avino, Analyst
- Gustavo Cambauva, Analyst
- Marcelo Motta, Analyst
- Nicole Inui, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for holding. At this time, we would like to welcome you to the BR Malls conference call to release results for the fourth quarter 2020. Today we have with us today for the presentation Mr. Ruy Kameyama, Eduardo Langoni, and Derek Tang. We would like to inform you that all participants will be in listen-only mode during the company presentation. Ensuing this, we will go on to the Q&A session when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements made during this conference call referring to the company's business outlook, operating projections and goals are based on beliefs and assumptions of the BR Malls' Board as well as on information currently available to the company. These forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore, depend on circumstances that may or may not occur.

We would now like to give the floor to Mr. Kameyama. You may proceed, sir.

Ruy Kameyama {BIO 16672412 <GO>}

A good day to all of you. I hope you are all well, and thank you for participating in our fourth quarter 2020 conference call. We begin the presentation on Slide number 2. We began the year 2020 with a good outlook, with the best rate of occupation in the last six years and portfolio improvement. However, beginning in March, we were impacted by the

COVID-19 crisis throughout 2020. We managed the short-term impact helping our tenants, but we continue to move forward in our long-term goals to make BR Malls ever more fit for the future. In the balance of 2020, we had significant progress in qualifying our portfolio, setting ourselves aside with our malls' digital transformation, culture, team and ESG well, we protected our balance.

In Slide number 3, we highlight the activities geared towards the recycling and strengthening of the portfolio for the year. We acquired an additional stake in two core malls for the company and disposed of our stake in shopping Via Brasil. The weight of the State of Sao Paulo is equivalent to that of Rio de Janeiro, and I would like to highlight that the weight of the Central Western region, because of the Cuiaba shopping goes beyond the weight of the North and Northeast in our portfolio. In terms of multiple use, we had the inauguration of the Campo Grande shopping, Bourbon Hotel and shopping Catuai Maringa. To reinforce the entertainment pillar, we inaugurated, on November 2020, (inaudible) in the Mooca Mall and Taste Lab in the NorteShopping.

Going on to Slide number 4, our digital transformation strategy has the goal of evolving our business model to a powerful platform, bringing together sellers and buyers and making us necessary for both. In terms of how we monetize this, we will do it through the traditional real estate lease and occupancy rate and also through other forms of monetization through our relationship with consumers and segmented digital media. In the year 2020, we gave priority to investments in loyalty, omnichannel and media. The objective of investing in loyalty is to increase our share of wallet and our moments of interaction with our customers. After four months of RBs [ph] of our loyalty program, we obtained 500,000 notes passed [ph] with a spending average of BRL1,821 per member. In December, we were able to identify another BRL100 million in purchases carried out, representing 40% of the total GMV, where VIVA is present.

Media is strategic and will continue to be an important source of revenue for BR Malls. We are the best player in digital media specialized in malls. And this will be the base for new ways of monetizing this platform. In terms of the omnichannel, we concluded 26 malls managed and integrated in the delivery center platform. In 2020, because of COVID, it became very clear to have last mile logistic solutions in the connection with sales channels. In the fourth quarter, we had a significant advance in the sales. And the future is omni and altogether, we reinforced our digital skills. And if we use e-commerce, we now have a new Executive Director for Technology and Strategy, Eduardo Langoni, who was a former New Business Head, B2W and Lojas Americanas, and Vanessa Amorim, (Technical Difficulty).

(Foreign Language) Now we had a reduction of 2.2 percentage points in terms of delinquency and an average of 5% when compared to the previous quarter. Now the level of payments in delay had a reduction of 1.0 percentage point vis-a-vis the third quarter, totaling 11.5%. Now we have the provision of losses expected, and in the fourth quarter represented BRL15.9 million in our constitution for provision for bad debt, which is a reduction of 42.8% when compared to the third quarter '20. BRL9.3 million were the result of anticipation of the provision and thinking of a possible default of these bills, and we take into account not only the percentage on the maturity ranges, the rate of occupancy had a level of 9.5% during the quarter, a reduction of 0.5 percentage points when compared to the fourth quarter '19 and 1.0 percentage points when compared to the third quarter '20. The control and preservation of these indicators are the result of our trade policy applied since the beginning of the pandemic and has enabled us to accelerate the resumption.

In the next slide we show you the main financial indicators for 2020. Due to the restrictions imposed, we had a reduction of 23.8% in net revenue of sales totaling BRL267.7 million, a reduction of 24.8% in net operating income. The adjusted EBITDA reached BRL154.7 million, a reduction of 32.4% vis-a-vis the fourth quarter '19, an increase of 38.3% when compared to the third quarter, as the impact of doubtful payers and financial expenses during this quarter were lower than in the third quarter. Compared to the second quarter of 2020, this indicator had a growth of 318.4%. Our adjusted FFO represents BRL72.6 million with a reduction of 58.9% in the quarter when compared to the same period the previous year. When we compare this to the second and third quarters of '20, the AFFO had an increase of 397.6% and 58%, respectively.

In Slide 11, we show you the main strategic initiatives for the long term. We maintain our focus on our strategy carried out by the company during the last three years to make our portfolio qualified and differentiated. We have 94% of our net operating income concentrated in Tier 1 and 2 malls, which is the focus of the company to make BR Malls ever more stronger with a physical and digital platform. We will invest in new solutions based on the three main pillars; loyalty, media and omnichannel. All of this is sustained and built by people. Regarding our culture, we worked a great deal on updating it, focusing on the long-term collaboration and offering more attention to our customers. We also had significant evolution in the ESG pillar, which is a long-term focus.

Finally, we will continue on with our clear strategy of strengthening our financial position. This will enable us sufficient tranquility to face these scenarios of uncertainty and enable us to invest. We continue to have confidence in our strategy and our ability to execute. We are convinced that we are on the right path to make BR Malls ever more fit for the future.

With this, we would like to end the presentation, and we are at your disposal for the Q&A

Questions And Answers

Operator

We'll now go on to the question-and-answer section. (Operator Instructions) Our first question comes from Nicole from Bank of America. You may proceed ma'am.

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning, and thank you for the call. Thank you for taking my question. First of all, I would like to hear about the sales scenario in the fourth quarter in the North, Northeast and Southeast. We saw that there was an increase. Now if we look at January and February, do you still have this increase in your sales rate, or is there a slowdown in terms of the South and Southeast? And we are now being faced with a new lockdown. I would like to know how you're going to face this with this new segment. And also, are you going to continue doing what you did last year or will there be another reaction? Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Nicole, good morning and thank you for the question. First, regarding the regional sales differences, we have been speaking about this through the quarters, and, of course, speaking about these regional differences with every release. In our understanding, all of this has been given thrust by the coronavirus, and vouchers since last year, and we showed you the impact that this had on the number of families and an increase in their revenues, much stronger than the -- both our Bolsa Familia or family stipend. The North or Northeast was able to mitigate the impact once again because of this emergency assistance offered last year. We still do not have a very clear reading of what will happen this year. Especially during this period, we were left without the emergency assistance. And subsequently, when this assistance will return perhaps in lower volume. But yes, there was an additional incentive because of this. Now the regional sales were favored by the policy of the government, and we were able to show in the previous quarter that this happened and it tends to become more normal as the government assistance is decreased in terms of the discount policy in the second wave that we're undergoing this week. We're dealing with each case individually.

Last year, we had to help the tenants more because they have less availability of other sources of capital. It took the government some time to offer help through official programs, such as (inaudible). But at the end of the year, this aid was also available. The retail supply chain also helped our retailers during the year. The franchisers also helped their franchisees and this was very important at the initial stages of last year until everybody was able to understand how other sources of credit and help to tenants became available. As we begin the year 2021 with these additional sources of resource, our help will have to be on a one-time situation for those tenants who really need this. The pandemic has not impacted all segments equally and we also have a background of very good performance. We know that they are good operators. So if we adopt a long-term view, I think this is important when it comes to our rate of occupancy, which was very strong in the fourth quarter. And we have to see what will be best for the long term to preserve our tenants who have been our partners for very long time, and they had a strong resumption this year and the coming year. We want to preserve this long-term strength, but we will be helping those tenants who require more aid because of the context that we live in. To summarize, it will be different than the policy adopted last year. Last year, this help was more automatic, we will now be ever more selective because of the availability of funding that I mentioned at the beginning.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you. Thank you very much.

Operator

Our next question comes from Gustavo Cambauva. You may proceed, sir.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hey, good morning. I would like to pose two questions. First, if you could speak about the increase in the occupancy rate, which has been the dynamic with the entry of these new tenants. Perhaps the level of leases that you are charging and the key money has changed and -- which is the impact that this could have in terms of the spread of profitability of your contracts?

My other question refers to the digital initiatives that you mentioned quite thoroughly in the release, the loyalty program, VIVA. I think that adherence to this was very strong already at the beginning, and I would like to further understand the strategy of this business if you're going to manage this within the company itself or if you're going to make partnership with other companies because other companies tend to outsource these loyalty programs. So I would like to gain a better understanding of which is your strategy with this type of business. Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Hello, (inaudible) and thank you very much for the questions referring to the increase in the occupancy rate and how this came about. Last year, we saw a bit of everything, there were very different moments that we faced at the very beginning of the pandemic in April and May, where we had very little visibility. It was very difficult to attract tenants and convince them to take on the risk of opening new businesses because of that lack of visibility. During that period, the lease was lower and the spread, of course, was negative. Once they saw how everything was working that they would not have a significant drop in sales because of the new channels and omnichannel and as we help them with delivery, they were able to see that there was a more flexible work for -- as they returned, and despite all of the efforts to reduce costs, we maintained our commercial team. We understood that we had to get ready for the resumption. And this happened, of course, during the trade proposals that we received.

Now in the fourth quarter, we set up this process, and because of the percentage of hours that we were opening and because of the outlook for the vaccine, everybody was more enthusiastic. We saw that it was a good moment and everybody returned. There was a drop in the SELIC rate and this was important for B2B. It was a combination of these factors, now SELIC, the vaccines. Acknowledging the new digital solutions as one of our differentials increased the demand during the year and we ended the fourth quarter with positive figures, and this is what we have seen at the beginning of the year. Despite this second wave, the tenants are aware that the vaccine is coming, the resumption will happen. It's a matter of time. We will have some months of uncertainty, but the decision of opening a store is a long-term decision. And we see a positive spread for this year despite the news of the second wave. Everybody has understood how we operate, how everything is going to proceed. And if we look at the recent cases of recovery in Israel and the United States, for example, everybody has their look set on the long term and resumption should be consistent when it comes to marketing. This is our outlook.

In terms of our loyalty program, VIVA, simply to give you more color in terms of what we believe, we think that there is a value that has to be unlocked based on the physical attributes of a shopping mall. Our digital transformation is not geared to creating a new digital business that is set aside from the malls when we are going to unlock the value that already exists in the brick and mortar assets that we have. And in our portfolio, we have almost 200 million visits per year, but we know very little about these visitors so far. And on the platform, we know everything about the sellers, the brand, how many we have, how they make up a mix, but we know very little about the buyers. This is a traditional model of shopping malls.

And we foresee very great opportunities if we are able to identify and make loyal everybody that comes to buy with us, so that we can have more relevant offers, more relevant journeys, and we will become ever more efficient in terms of reducing churn, improving their spending by making more segmented offers when we understand their lifetime value, which is something we do not know so far. And this will enable us to work better and see what we can do with their lifetime value. So this would be another approach when we speak about our base of consumers. And once we have this super CRM in-house, we're going to monetize this through digital media. And this is why we present this. We have that loyalty pillar, which is our way to digitize a base of tens of millions of consumers and the omnichannel to increase our value proposition for sellers.

And in the middle of the road, we have the media, and everybody has seen the impact as a percentage of revenues, like Amazon and other companies, something we already believed in for the last three or four years, and we're speeding up this process because we have a very clear thesis that we are exploring and that we will better monetize that base of millions of consumers that we have. So this will be the foundation of our digital transformation. And the loyalty program is important. It has been very attractive, we have been working on it for some time. We're quite satisfied with the results that we saw at the end of the year. We're on the right path.

Now when it comes to outsourcing this, as other brands are doing or creating associations, this is not the path that we would like to follow. Other players have decided to outsource their digital media. We have done the contrary, we are strengthening our own digital media, and we have a circuit of almost 58 shopping malls throughout Brazil. And loyalty will become a core competency of the company and that is why we have a new Marketing Director with a background from this. She has a great deal of knowledge in this type of program, because we believe it's a core program, and it would not make much sense to outsource this. And many of the players that outsource this perhaps do not have the frequency, the recurrence, and the capillarity that we have. If you have a single brand, it's very difficult to work with the loyalty program. Consumers don't come to your stores so often. Now in shopping malls, we have 200, 300 brands, 3 or 4 times more consumers coming. This allows us to have a great capillarity of brands, and we think that shopping malls are stronger than the sum of individual brands. And the loyalty program, therefore, belongs to the mall, and we have no intention about sourcing this. Thank you.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you very much. If you allow me a very quick follow-up in terms of the spread that is already positive. When you say positive, is it based on the values of 2019, because there was that interim in the middle that was not fully transferred?

A - Ruy Kameyama {BIO 16672412 <GO>}

Yes, it's based on the 2019 base.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you. Thank you very much. Have a good day.

Operator

The next question comes from Alex Ferraz from Itau BBA. You may proceed, sir.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning Ruy and team. Thank you for the presentation, and I have two questions. The first is a follow-up of Mr. Cambauva's question about your loyalty platform. If I look here, we also have a lever in the online part in the marketplace. I would like to know about the performance of the shopping malls, if the GMV growth was similar -- a growth similar to what you have shown us? And a more specific question requiring [ph] equivalents, it was much heavier during this quarter. And we know the reasons, but I would like to know if it had another effect this quarter due to the equity profit.

A - Ruy Kameyama {BIO 16672412 <GO>}

Now when it comes to this and our marketplace, our shopping malls, this is part of our goal of interacting better and better with our consumers. Now the extension of the shoppings have greater dominance -- local dominance in a radius of 10 or 15 kilometers, servicing our customers in a more complete way. Our strategy regarding this does not mean that the e-commerce marketplace will cover new territory or new geographies where we are not present. This would lead to a very expensive war and a (inaudible) where we have players with a super eagle [ph] convergence, everybody fighting for the same goal, which is to have a larger consumer space outside of this war. That's not what we want. We believe that in the neighborhoods in our areas of influence, we have the preference -- we have that preference and recall of our malls that is very strong, and our shopping malls is a way of servicing our consumers. We can also service commercial buildings and this will increase the share of wallet of those who are already our consumers.

When it comes to the growth of the marketplace, there was an expressive growth, we have very high metrics, but based on a very low comparison base. It continues to be the focus of the company. We had significant progress in the year 2020. We increased this by thousands of SKUs. It is very difficult to make these local products available, and we have had growth. All of this given thrust by the delivery center and sales because of a greater recurrence, because of the VIVA program. We truly believe in integrated solutions, delivery integrated with the marketplace and as VIVA escalates, this will help the shopping malls.

Regarding your second question about the equity balance, this semester, we did have an impact greater than normal. We have this disclosure in the release. But it reflects the acceleration that we have in the coverage of the delivery center. If we move forward in the installation of new centers, this has an impact, but it's a nonrecurring impact. It was due to the delivery center. And most of the impact of the delivery center is nonrecurrent and refers to that moment. COVID is something that has become very clear for all tenants and consumers, and it's important to have something structured in omnichannel in connection with third-party marketplace, and also integrated with logistics and the last mile. It was important to accelerate the delivery center. We supported them in this incentive. Of course, we have a certain impact during the quarter. But going forward, it should be less.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you. Ruy that was very clear.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Alex.

Operator

The next question comes from Andre Mazini from Citibank. You may proceed, sir.

Q - Andre Mazini {BIO 20377100 <GO>}

Good morning, Ruy. Thank you for the call. The first question refers to the personal shopper solution that you're rolling out. You mentioned that you don't have additional costs, either for the tenant or for the consumer. This will be paid for by the shopping mall condominium and -- well, personal shopping is nearly beginning, but it could become a huge traction. And of course, these have grown a great deal, and we now need this solution. Now what are you going to do with the delivery center if you're going to create a house for this?

We're suffering for obvious reasons throughout the world. What is going to happen with the cinema theaters and the malls, you have a great number of these cinema theaters. And of course, cinemas are important for the shopping mall profit. Now does it make an intent to do away with this footprint? What do you believe about this? Perhaps a reduction would make sense. I would like to understand your opinion in terms of this chain, the films chain and perhaps some shopping mall will prefer not to have the cinema theaters as part of their footprint because of the enormous space that they occupy? Thank you very much.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for the questions, Mazini. We see this as a complement to the initiatives that we're carrying out. Some consumers are autodidactic. They resolve everything by themselves, they go into the site and complete everything without a human interaction. But for many, the human interaction is important. It is a differential. And we look upon it very positively. We're able to clarify doubts and this is what a shopping mall is about. It's part of this advantage, this experience, and we want to accelerate this because of the penetration that we have seen. We saw that the Whatsapp network has gained a great deal of traction in the year 2020.

It's good for the store owner as well as for the consumer. And of course, this is a complement to a different way of interaction when we think that it doesn't add additional cost, neither for us nor for the tenant, who have a small fee that is paid for the consumer, it makes the journey very important. And this is how we communicated this in the release. This could be done, of course, by the delivery center. We're studying all these possibilities. It's important to understand, which is the pain that the consumer has, and then we will see which will be the most efficient way of resolving that pain. It has had an interesting acceptance as a solution, and we're thinking of the best way of escalating this for the company.

Secondly, about the future of cinema theater is an excellent question, and we need to better understand how this is going to operate. What do we believe? On the one hand, that consumers like the program. Of course, in present days, because of the pandemic, it is a source of concern. You require greater care, but post-pandemic, what we believe is that entertainment, not only cinema, but games and restaurants will end up having a boom, a strong return for people who want to socialize, and we believe that what we have is a repressed demand for socialization, entertainment and fun. And this is going to be important for restaurants and entertainment centers. We believe that the demand will return. Now the issue is the supply. You spoke about streaming and other alternatives. And we have our doubts in terms of the behavior.

We have some declarations from Disney, seeing how important Disney Plus is that they wanted to put new titles in their streaming platform. We can understand this because of the way this conglomerate operates. But we know that for most of the Hollywood studio, the cinema is still the most monetized and important channel, especially in international market. This is the main source of monetization. It's difficult to imagine that studios will not protect this channel, which is the source of their income. Now perhaps the window will change, the exclusive films and cinema perhaps will change. We don't know what will happen.

Our portfolio is eventually, we have to make adaptations and reduce the number of cinema theaters. We can do this easily in the shopping malls and change them for other anchors. There has been a huge demand for mega stores and anchors and shopping malls. And eventually, if we have to change this destination, it should not pose a problem. It's simply a change of mix and we have already done this in the past. We truly do not know what will happen with cinema theaters. We believe they are important for the mix, and we're following up closely on this to see what happens in the coming months.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you, very clear response.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you and have a good day.

Operator

The next question is from Morgan Stanley. You may proceed, sir.

Q - Unidentified Participant

Good morning Ruy. Good morning to all. I have two questions, one for the short term and another for the long term. In the short term, I would like to understand how you're going to deal with the leases for tenants for stores that have to be closed because of the lockdown at present?

A - Ruy Kameyama {BIO 16672412 <GO>}

(Technical Difficulty) and which is the impact on the margin cash flow, where the paints are greater. It's about the value of the lease, cash flow and deferment. All of this could resolve the problem. There isn't a single solution. One size does not do all the work to sit down with the tenant talk and find a solution that will work for them as well as for ourselves. It's a combination of offering a discount, a deferment and we're going to deal with this case by case, mall by mall and tenant by tenant. Referring to accounts receivable, we're very comfortable with our provisions, something that we adopted during the year 2020.

In the second semester, perhaps we were the most conservative company overall. We were very conservative in terms of our provision because we based ourselves on the understanding that what has happened in the second quarter pointed towards difficulty. We had a recovery in the third and fourth quarters in 2020 [ph]. Tenants have to pay their monthly bills, they have to pay their backlog in 2020, and it will be more difficult for the tenants and the risk of provisioning for tenant is greater in our understanding and we have to improve the volume of provisions that we have vis-a-vis what we have.

In terms of accounts receivable, we have to have a percentage that will offer us great comfort because we do have a conservative policy. And that is why our provision levels in the third and fourth quarter decreased. Although in the fourth quarter, we had the lease of December, and we have a higher level of invoicing, but we were working with a conservative policy in the critical months of the pandemic. This allows us to be very comfortable with our provisioning levels in 2021 as we head towards the trajectory of normalcy. If we look at the big picture and if we look in the long term until the end of 2021, 2022, we expect to have normalcy according to the standards of 2019.

Regarding your second question, the percentage of future revenues that could be represented by omnichannel. This effort is a way of indirect monetization and whenever we put together the omnichannel solutions, the last-mile logistics integration with marketplace and other means of fulfillment, consumer data, all of this will enable us to know the preferences of a tenant if a tenant is in BR Malls and has this complete proposition. If there is another shopping mall without the solutions, it remains very clear where you're going to want to put up your stores. And the contract is of at least five years, and we're going to see the change in the consumer, a very speedy change, and everybody will have to implement new solutions.

We have no doubt of this that we now have become the preference of brands in an indirect way. This translates into a better occupancy rate, a better spread, a lower churn, all of this indirectly in our present day business model. And directly, where we increased visibility through media, this is a new source of revenue, it is incremental revenue that we have. But we see that brands and tenants are interested in having access to our consumer base. This has been happening for the last four years.

If you look at 2017, the percentage on revenue was much lower and this has increased two-fold throughout the three or four years. It is still very low, but it is the fastest-growing revenue in the company. We have a specialized team focusing on this type of issue. And it is important to have scale. When we marketed to 20 shopping malls, we weren't that relevant, but nowadays, we have a circuit of 58 shopping malls in the fourth [ph] quarter. Well, then we do have the preference of advertisers because we cover an enormous geographic area.

Now out-of-home is a relatively small business compared to traditional business. If you are a small vehicle, out-of-home, it's difficult to be relevant. But in out-of-home, we have become a relevant large vehicle, and we're able to have access to a larger pool of advertisers. From the viewpoint of stores, it's important to have a customer acquisition part that will make your business visible. And this is one of the great problems of pure e-commerce, the CAC is very high. It depends on social media and pure e-commerce faces difficulties. And that is why, after some time, they end up opening brick-and-mortar stores to improve the brand visibility and the CAC. And with us, the conversation has been that they see a great deal of value in being able to directly access our CRM consumer base.

The brick-and-mortar store is a CAC for them as well, and what we're offering is something of high value. They're able to reach the consumer directly, a consumer that likes their brand when this consumer is in the shopping mall. This has a great deal of value, and we believe in the potential of creating a new revenue stream based on media as has happened with Walmart, Amazon and others with a large buyer and seller base, and it's a natural way of monetizing this potential relationship. We have been working this way in the last four years, and we now have a proprietary platform. We're rendering media services to third-parties with very good acceptance. The value has been incremental.

Your question is if other omnichannel services could be offered to third-parties? I would say that this is already happening. It's another option that we have. But of course, the focus is to create ever more value in the assets we have in BR Malls. Thank you.

Q - Unidentified Participant

Thank you Ruy, very clear.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, (inaudible).

Operator

The next question comes from Daniel Gasparete from Credit Suisse. You may procced, sir.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Hey, Good day to all of you. Thank you for the call. I have two questions. The first about what you commented in your answer. Those BRL18 million that you mentioned, do they belong only to the BR Mall or if they're associated to the recovery of the write-off segment? And which is the potential of this operation? And what is happening with your online operations and initiatives outside of the shopping mall?

The second question is about your leverage trajectory. You're very close to 3 times net debt EBITDA. How do you look upon the trajectory of this and -- which is a relationship of this with the company covenants? Thank you.

A - Ruy Kameyama {BIO 16672412 <GO>}

Gasparete, good morning and thank you for the question. In terms of the delivery center, this refers only to the percentage of BR Malls. We haven't had any write-off this quarter. What we did have was an acceleration in the fourth quarter because of the implementation of new units. And of course, this has an impact. And when it comes to the potential, what we foresee is the following. Clearly, there is that pain in the retailer and in the consumer. We have always believed that the consumer wants to have another convenience. They don't want to wait 10 minutes for an Uber. They don't accept 2 minutes of interruption in a bank app. And e-commerce is following this.

In this quarter, the large retailers have mentioned that it is important to have a highly efficient delivery. And in terms of the time to reach the consumer and at a low cost, this is a differential. This is one of the pains of the retailers and consumers and shopping malls because of their location are the most convenient first mile to service the customer. There's a huge potential for delivery centers. We can speak about specific issues directly with them. So we see that there is a great deal of potential from what we hear from marketplace. Several marketplaces have connected with the delivery center. We also see potential on behalf of tenants and consumers.

In terms of our leveraging, what happened during the pandemic is that our net nominal indebtedness did not have great variation. What had great variations was the EBITDA that had a temporary impact. And the indicator reflects the impact of EBITDA and now a recovery and not the absolute level of indebtedness of the company. We ended the fourth quarter '20 when we look at the covenant effects that we show you in the release at 3.1 times net debt over EBITDA. And EBITDA is the adjusted one for the quarter. As part of the covenant, we have the quarterly one, and we annualized it. We ended up at 3.1, which is one of the details in the release, and this gives us comfort regarding the company covenants. We have no concern in terms of this.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Thank you Ruy. Thank you very much and have a good day.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Gasparete.

Operator

The next question comes from Marcelo Motta from JPMorgan. You may proceed.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. If you could speak about the schedule of operation, what is happening with your sales? In the fourth quarter, you reached very good level. If you could give us more color, perhaps, and if you have any concern in terms of the restriction of operating hours, if it is somewhat below what you expected. When we think about a more stable market this year in the coming quarters, perhaps you will have better leasing revenues in the fourth quarter. And if the tenants will be able to adapt to all of these changes?

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you for the question. It was quite difficult to hear your question because of the call. I think I was able to understand it. In terms of the hours of operation, what we saw last year was a clear trajectory for recovery, linear, month after month improving between April and October, and then in November and December of stabilization. In December, we had a certain level of restrictions in Sao Paulo and other cities. In January, we went back to other restrictions in several cities such as Manaus, which is perhaps a serious situation.

In Manaus, the shopping malls have opened again. What we had there was a social tragedy in terms of health. And after some time, things become more normal and the shopping malls have reopened in Manaus. Without a doubt this quarter will be a step backwards compared to the fourth quarter '20. In our portfolio, we have 12 shopping malls of the 31 that are open, and they represent approximately 57% of the net operating income compared to the 2019 base. More than half of them are closed, but we have 57% in terms of net operating income. Of course, there will be an impact on the second quarter. This is very sad for the Brazilian society. It ends up having an impact on business. And it's a pity because shopping malls are highly organized. It has become very clear to the population.

The shopping malls are some of the most controlled environments in Brazil. If we compare this to supermarkets or airports, shopping malls gave an organization show. We've carefully followed the protocols of distancing and sanitation. This is what happened last year. But these restrictions do end up impacting the entire economy, which is a pity because shopping malls should be set aside. This is where contamination is not happening because of our protocols. Now having said this, there will be timely difficulties during this first quarter. We have already gone through this. We know what we have to do, what we have to do in terms of the tenant operations.

Tenants also know how they have to operate, how they're going to do with omnichannels and deliveries. The learning curve helps everybody. It helps us as managers, and it helps tenants to operate and keep themselves active despite all of these restrictions. We tend to look more towards what is happening in the future that is clear. When we look at what happened quarter after quarter in the year 2020, it was a clear film about recovery. The stores opening up, the tenants beginning to perform and the shopping malls performing as well. Now if the foundations are sound, we can bet that this trajectory will continue, and the foundations are very strong. This has been made very clear. Consumers want to go back to shopping malls for the shopping part and to remain in shopping malls. Shopping malls are very important for consumer malls, and they are -- shopping malls are the best channel for expansion in Brazil. They will continue to gain share from street stores because of fiscal issues and because of the difficulties of city halls in maintaining everything operating. Shopping malls have become a natural destination for consumers in the long term.

And I think in the long term, this will be developed by omnichannel, and it will be the solution for channels. When we look at our foundation, we feel calm. We will have a difficult quarter in the first quarter of 2021. We cannot deny this, but things will come back to normalcy as the vaccine is there at our doorstep. By the fourth quarter, we will have a greater scale of vaccination in Brazil. The occupancy in hospitals will doubtlessly improve, and this will enable the power -- public power to make the restrictions more flexible and purchasing will return, shopping malls will come back with greater strength. We hope that in a short period of time, we will be able to return to the levels of 2019. Thank you.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you, Ruy. Thank you very much.

Operator

The next question comes from Banco Santander. You may proceed, sir.

Q - Fanny Oreng Avino

Good morning Ruy. Good morning, Derek. I have a question that has been partially responded. If you could say if these lockdowns in the first quarter are worse than we expected, does this change the renewal of the assets that you carried out? And if you could speak about the rollout of marketplace and the shopping malls, how many that we should expect until the end of the year? And I don't know if you're going to roll this out to all of them. If you could give us the backdrop of how this is going to happen.

A - Ruy Kameyama {BIO 16672412 <GO>}

Good morning. Fanny, thank you for the questions. Regarding the first question, how the lockdown and the second wave impacts our renovation plan for this year. There will be no impact. We're maintaining our retrofit program. This is a reality because it is very important. If we think about BR Malls in the last two years, we have made significant enhancements in our portfolio and in the quality of our assets. As part of this, we sold 15 shopping malls during the year. They were noncore in smaller cities. We have concentrated our capital on the larger shopping malls, working with retrofit, improving the anchoring, the mix, a great deal of capital allocation and a redefinition of strategy to improve the quality of our assets and portfolio. And retrofits are important for this. And in the last few years has been a move forward in the new solutions leveraged by digital transformation.

Now these two pillars continue to be important in the long term. We're going to maintain our retrofit program. Of course, we have to look at the intensity. We have to see our ability to invest. It has been very good based on our levels of liquidity, and we will maintain the retrofit program for this year. In terms of rolling out new solutions, this is the goal. We will have these services that are being very well accepted by tenants and consumers. We want to continue on with this rollout, and there is a timing according to the location of the shopping mall and where we need better solutions. But in coming quarters, we will increase coverage.

As we increase the coverage of the delivery center during this quarter, we have no intention of doing a big bang. We're going to do this with quality. We want to work on and off, not purely on, on. And whenever we implement an e-shopping or a loyalty program, it is -- there is a great deal of physical local activation. We want to do this well cautiously to have the necessary engagement of tenants as well as of consumers. So we plan to roll all of this out to our full portfolio in the coming quarters. Thank you.

Q - Fanny Oreng Avino

Thank you very much, Ruy.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you, Fanny.

Operator

Thank you. As we have no further questions, we will return the floor to the speaker for the closing remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you all for your participation in our conference call. All of our IR team are at your entire disposal for further classification. Thank you very much.

Operator

Thank you. The BR Malls' conference call ends here. We would like to thank all of you for your participation. Have a good afternoon.