Q4 2014 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial Officer and Investor Relations Officer
- Franco Carrion, Investor Relations Manager

Presentation

Operator

Good morning. Welcome everyone to Multiplan Fourth Quarter 2014 Earnings Conference Call. Today with us we have Mr. Jose Isaac Peres, the CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Hans Melchers, IR and Planning Manager; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan's website at www.multiplan.com.br/ir. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Multiplan's 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's 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 called results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Armando, in the name of Mr. Peres. Mr. Armando, you may begin your conference.

Armando d'Almeida Neto

Thank you. Good morning, everyone. It's a pleasure to be with you in this fourth quarter 2014 conference call. I will turn to Franco, he will read a message on behalf of Mr. Peres. Franco, please.

Franco Carrion {BIO 16449361 <GO>}

Good morning, dear shareholders. It is with great satisfaction that I host this call and announce Multiplan's results. In 2014, our shopping center sales grew by 12% reaching the figure of R$12.8 billion. The company's gross revenue increased 16% to R$1.2 billion. The EBITDA amounted R$794 million increasing 30% over the previous years, while net income grew considerably reaching the figure of R$368 million, 99% higher than the previous year.

Our performance may seem surprising given the country's macro-economic scenario. In 2014, we had events that interfere into retail performance such as the hosting of the World Cup and street demonstration. Despite its adverse environment, Multiplan has achieved exceptional results. Since 2007, when we went public, until last year, the company's EBITDA grew by 274%, the sales tripled from R$4.2 billion to R$12.8 billion. Net income grew 17 times, starting at 21 million in 2007 and reaching R$368 million by 2014.

Meanwhile, the company reached the market value of R$11.2 billion, almost four times the value at the IPO. These figures are the result of 40 years of experience in the intensive management of our company with several innovations introduced by Multiplan in the national and international markets, the excelling quality of our projects and in sessions work of improving the mix, making our malls everyday more attractive.

For another quarter, the occupancy rate hit a record; this time, a historical record. Average occupancy rates reached 99%, one of the highest ever recorded in the company's history. It is worth noting that the malls recently inaugurated and reported a robust sales growth.

VillageMall in Rio had sales grew 69% in 2014, while JundiaiShopping in Sao Paulo grew 22% and ParkShoppingCampoGrande in Rio again 16%. Parque Shopping Maceio in the Northeast of Brazil opened in November 2013 and has also shown a strong sales growth of 50% in December 2014, compared to the same month in 2013.

BarraShopping added in June over 55 stores reaching in 2014 a sales of R$1.9 billion. The mall holds now 700 stores totaling 81,000 square meters of gross commercial area, of which 9% corresponds to the BarraShopping Medical Center, a new and very successful experience in the world, representing over 200,000 visits and exams a month.

Other malls had also important contributions, such as RibeiraoShopping and MorumbiShopping, both with a similar 14% sales growth.

This year, we will have several novelties; a new Apple store in MorumbiShopping in Sao Paulo and two new Forever 21 stores; one in ParkShopping Barigui in the city of Curitiba and one in Patio Savassi in the city of Belo Horizonte. All of them opening for the first time in these states.

Recently, we also opened the first Matrix and Fragrance store of Christian Dior in the country, in VillageMall, here in Rio. Despite the current macro scenario, we are focused in a development of two new Greenfields; ParkShoppingCanoas with 48,000 square meters of GLA in the state of Rio Grande do Sul and ParkShopping Jacarepagua with 42,000 square meters of GLA in Rio de Janeiro.

Not too many years ago, our consumer left Jacarepagua neighborhood in Rio and reached BarraShopping in 15 minutes. Today, mainly due to traffic situation, it takes around

40 minutes for the same trip. This development should reinforce our presence in the west part of Rio de Janeiro, which is one of the fattest -- fastest growing regions in the country, comprising a population of about 1 million people considering only the Barra da Tijuca and Jacarepagua neighborhoods. The construction works of ParkShoppingCanoas in 19 shopping centers developed by the Group has been initiated. The mall will have 258 stores and like all of our projects will be born with a mixed-use development brand for its surroundings.

Morumbi Corporate, a complex with two office towers located across the MorumbiShopping leased 74% of its area and it's already contributed with a revenue of R$40 million in 2014.

In Porto Alegre, the two towers attached to BarraShoppingSul with a sales value of about R$265 million and with over 95% of its unit sold will be delivered now in February. During this period, both projects have benefited the company with high profit margin. Our efforts to integrate different projects to the malls leverages the consumer flow and it makes our mixed-use complexes more resilient in a macro economic downturn. Now that Multiplan has an average interest of 76% in its shopping centers and office towers.

Finally, I'll take the opportunity to read the comment of an analyst from an investment firm from Rio that reflects the philosophy of Multiplan. I quote, over the years, the Multiplan developed and became a reference in Brazil within the shopping centers sector. The architectural beauty, the size of its properties, the attention to the sales and excellent locations have become the company's trademarks. With a mixed-use concept, the malls are designed with a range of services and attractions, then increase the flow of visitors in the properties.

The company sees its malls like sculptures, in constant evolution, having after a few years different shapes, new activities and different exposure being molded according to market trends and consumer desires. The mixed-use concept is the best shopping center format enabling you to find everything in one place, being the perfect formula to tackle the problem of urban mobility.

Given this collates, we can say that Multiplan's properties are the last most that retailers would lease in times of economic downturn and their first they want to be in times of economic strength, unquote.

Finally, we want to communicate that we'll be distributing in 2014, R$174.9 million to shareholders, that is 30% more than in 2013.

I'll finish here and leave you with Armando, but first I'd like to thank the trust that you, shareholders and investors, have placed in the company for another year. Thanks to this trust, we are now part of the main stock index in the Brazilian Stock Market, the Ibovespa, a source of pride that shows we are on the right track. I also would like to thank our management, employees and stakeholders who are dedicated to grow the company without losing our most important pillar, the quality, following our belief of having everything done very well.

Finally, we thank the analysts and the journalists for your interest in the company. Now, I'll pass the floor to Armando, who will bring further details of our results. Thank you.

Armando d'Almeida Neto

Thank you, Franco; thank you, Mr. Peres; and again a good morning to all. We revealed that 2014 will be a year of challenges. In the list of questions were the facts of the World Cup, Elections, the expectations of a lower economic growth and the recent expansion in the number of shopping malls in Brazil. And this based on the existing challenge presented in early 2014 that we are pleased to present the results for the fourth quarter, and consequently the picture of the entire past year.

We will start with the operational data on page four of our presentation. The nominal sales grew 11.3% in the fourth quarter and 12.1% in 2014. Within the portfolio sales growth, we highlight the 9.5% increase of the five malls with over 30 years of operation, leveraged by the growth of 44.2% of the malls in consolidation with up to five years in installation.

From 2004 to 2014, we've doubled the number of shopping centers from 9 to 18 properties. And better than that, we presented an almost five-fold increase in sales of our properties, as you can see on the picture on the top right.

We also presented the strong results on the same basis comparison. In the fourth quarter of 2014, same-store sales growth was 7.9%, while the same-area sales was 8.8%, representing the highest increase of the fourth quarter since 2011. For the full year figure, the same-area sales growth was 9%, the highest growth in the last four years.

Although it is not in the presentation, I would like to give an example that past -- demonstrate the strong increase in productivity over the past years. Calculating the same-store sales from 2007 to 2014, we found a compounded average growth rate of 7.5% or in other words a 65.7% sales increase for those stores operating from 2007 and June 2014. Add to this the fact that the same-area sales outpaced its same-store sales in most of the quarters since then, in 2007. The result is a strong increase in productivity of tenants in our portfolio.

Even with the already high basis of comparison, we saw in the past month, in January 2015, a sales increase of 11.5% over the same period of last year. Another fact that is also not in the presentation but worth mentioning are the sales data of all the shopping centers released by ABRASCE, the Brazilian Shopping Center Association, the local equivalence to the ICSG.

2014 was another year where sales in malls grew more than the national retail, meaning an increasing in the market share of the shopping center industry within the national retail. There is a trend that we see going forward still.

But let me go back to the data on Multiplan. As pointed out by Mr. Peres and we can see from the chart on page five at the bottom of page, the average occupancy rate in the fourth quarter was 99%, the highest since the IPO in 2007 and certainly one of the highest in the 40-year history of Multiplan surpassing quarter-by-quarter -- quarter-to-quarter the occupancy rate since 2011. The occupancy cost as you can see on the picture on the top left remained unchanged for the same period of 2013, while the full year figure was 12.7%, 16 basis points lower than the previous year as a consequence of the strong sales growth.

The rent losses on the top right at 0.6% in the fourth quarter were almost half of what we saw in the previous year, while the picture for the full year remained virtually unchanged at 0.8%. We believe that the aforementioned operational data reflect the quality in resilience of our properties and the many model of Multiplan.

Let's now move to gross revenue on slide six. Gross revenue grew 20.5% in the quarter or 15.9% in the year, as you can see on the picture on the bottom part. No major changes. The rental income remained as the main value followed by parking revenues, services and real estate for sale. It is worth noting that the contribution of real estate for sale revenue should be reduced in 2015, since no new project for sale was so far launched by the company. And the projects (inaudible) in Porto Alegre will be concluded in the first quarter of this year.

In the five-year period between 2009 and 2014, Multiplan more than doubled the gross revenue from R$534.4 million to R$1,244 million. Rental revenue grew 21.2% in the fourth quarter and 18% in the year, not counting the non-cash effect, the tradeline effect.

Note that the effect of this linearity of this tradeline would have taken the increase in rental income to 12 -- to 25.6% and 18.5% respectively in the fourth quarter and the year, higher than the cash rental income.

Following the same analysis used for sales, in 2014, the malls with over 30 years in operation real rental revenue by 15.9%, while the other ones with less than five years in operation, real by 16% led by the growth of VillageMall and of the ParkShoppingSaoCaetano.

Morumbi Corporate Towers and I've referred to the picture on page six on the top right, there are other -- the twin Corporates across the streets of MorumbiShopping also had a significant contribution with a rental income of R$40.3 million in the year and growing quarter-over-quarter, as you can see again on the chart. This thus run a FIFO calculation if we multiply by four in fourth quarter revenues of 13.4 million, we will reach almost R$54 million or ballpark 13% over the total revenues in 2014.

On page seven, the same-store rent increases 9.2% in the fourth quarter with a real increase of 3.4% over the inflation effect or as we call the IGP-DI effect. For the full year, the increase was 8.8% with a 2.8% real growth surpassing this 2.5% real growth in the previous year.

Moving to page eight with a brief comments on expenses. In the fourth quarter, the shopping center expenses decreased by 23.9%, as you can see on the picture on the bottom left of the page contributing to a reduction of 14.5% for the full year figure.

Moving to page -- I'm sorry, G&A expenses increased 11.1% in the quarter and 8.3% in the year. The margin on net revenues was 10.3% that you have for the G&A was the lowest since the IPO in 2007. It is not in this presentation, but in 2014 the new projects for lease and new projects for sale, expenses dropped by 38.7%.

On the next page of number nine, we show the result of strong revenue growth and expenses reduction. The NOI plus key money increased 26.7% in the quarter with a margin of 88.1%, thereby 394 basis points. In the year, NOI plus key money grew 18.7% with a margin of 87.9%, 220 points higher than in 2013.

The shopping center EBITDA grew 55.2% in the fourth quarter and 23.4% in the year with a margin of 76.2%, the highest margin since the IPO. The consolidated EBITDA, as you can see on the page on the right, bottom right, grew 61.2% in the fourth quarter and 30% in 2014, which is R$793.7 million with a margin of 70.2%, again, the highest margin we present yet.

Page 10 shows the efficiency increasing over the years. The company growth was not limit to a strong increase in area and revenue, but also actually a significant increase in productivity. On -- the top chart is very easy to see in both charts but gross revenue growth between 2007 and 2014 was a 3.4 times, while the EBITDA growth was up 3.7 times, and net operating income, the NOI, four times. So showing the productivity increase, efficiency increase that was implemented in the company throughout those years.

Following now the presentation to the next page of number 11 on indebtedness. The picture at the bottom show that as a result of the funding strategy, the cost of gross debt at the end of 2014 was up 10.96%, 79 points lower than the selic rate at the 11.75 by the end of the year. The selic today is at 12.25%. The net debt corresponds to only 11.7% of the fair value of our properties and as of December 2014 was equivalent to 2.36 times the EBITDA compared to the 3.03 times in 2013. It was a planned deleveraging that opened the space to continue investing and also returning cash to our shareholders as we have been doing over the years and which can be seen on the next page, number 12.

Shortly to explain the pictures, the different pictures on slide 12 would be that between 2010 and 2014 the invested capital allowed us to deliver a growth of 71.5% in own GLA. We invested R$3.6 billion, while it's still returning 746 million to our shareholders and maintaining our financial discipline, but one that we think is appropriate to our company.

On page 13, also a very quick comment, we show the fair value analysis. The fair value of our property is at R$16 billion reflecting increasing in owned area and the strong growth in NOI over the years. We have more details on the model used in both our financial statements and the Managerial Report.

Finishing the presentation on page 13, we have a picture drawing of ParkShoppingCanoas that had shown a continued demand for space from past, confirming that we are following the right strategy and encouraging us to launch new projects. The slide also represents several other projects that we are dedicated too. One of them, the one in Rio that Mr. Peres mentioned on the call in Jacarepagua, also in the western side of town where we are.

On the one hand, this is a period of time with lower economic growth in Brazil, on the other hand this is also a time of big opportunities.

Before moving to Q&A, I would like to express our satisfaction of having entered the most important index in the Sao Paulo Stock Exchange, the Ibovespa, for the first four months period of 2015 and it was mainly due to the increase in liquidity of our share, the MULT3, that in the year or the past year actually grew by 19.3%, the average daily trade volume, and 30.1%, the average daily number of trader shares. In the fourth quarter, the year -- of last year, the average trading volume was up R$39.3 million per day.

Thank you very much for your attention, and especially the trust in Multiplan coming from our shareholders, investors and analysts over the past year. I'll now turn back to the operator to start the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now opened for questions. (Operator Instructions) I'll turn over to Mr. Armando d'Almeida Neto for final considerations. Sir, you may give your final considerations now.

A - Armando d'Almeida Neto

Well, before I'd say my final thank you I would like just to share a few questions we had in the Portuguese call, maybe it will be useful to our shareholders presented in the conference call later on. We had question on our expectations on the rental revenue increase in 2015. We explained that we do not make projections on how we see growth for the future or other near-term, but we feel very confident about the properties we have, the mix that was recently implemented and it's constantly implemented, constantly changed, we made our malls intensively in a daily basis.

So, we see the good result coming from the atmosphere inside the mall.

I mentioned that one of our target is to have the Main Street Downtown in our shopping centers to replicate that and we're being successful so far in having a really pretty good sales atmosphere in the shopping centre.

Also Morumbi Corporate, as the towers continue to lease again and grace periods are fading out, we see that as a significant contribution as I mentioned during through the call.

Last but not least, the new shopping center that was delivered in 2012, they now complete the second year, so there is contractor step up that can help us on this rental increase.

I was also asked, but just using the Morumbi Corporate opportunity about our view there on the region and was asked about, if we can share how we see price in there. Of course, we may not sharing our rental price review for the region due to negotiations, they are on its way, but we like to see what the whole region being transform into like a new center on services, on industrial demand for office space with the other offices that we view on the surrounding areas, the benefit for MorumbiShopping as well.

And we are confident that we can further increase the rental space, not the -- leasing percentage of space that are going to be leased throughout these years.

Also question in regards to VilaOlimpia, our ShoppingVilaOlimpia, that sales was strong, but rental was not as strong, just trying to understand and we explained that due to the change in mix that were implemented in the shopping center a new operations that opened specially on the fourth quarter like Forever 21 and there are new ones to open now in this first quarter, new restaurants and the new operations opened, that was really strong to state, particularly through the fourth quarter and with sales went up by 13.4% in VilaOlimpia in the fourth quarter. But also in all that you implement this changing mix you have a temporary loss in terms of rental from the old operations that were discontinued.

Also questions in regards to the increasing in terms of services, operation, (inaudible) asking and commenting that service operations be more demanded nowadays and certainly we agree and throughout the year more GLA has been dedicated to service and as well to entertainment and food operations.

And last but not least was the question, I'm just selecting a few ones, on the demand for space for new projects, we've mentioned that there are -- in Canoas, the project that we are preleasing in, we already started the construction, we've reached the 60% mark of the GLA leased, it was very important for us. If you're confident to deploy money on the construction and we are confident of opportunities that we have in Brazil moving forward. That's why we're already preparing Jacarepagua wide project in Rio and Jacarepagua should be preleased shortly.

I think those are most of the questions. I want to thank you all again for the trust. We are pleased to present what it was the best results in our history and so far, of course. And I want to thank you all for the time dedicated to us. We'll remain available in our IR Department for any questions that you might have. Thank you so much.

Operator

Thank you. This concludes today's Multiplan's Fourth Quarter 2014 Earnings Conference Call. You may disconnect your phone lines at this time. Thank you.