FINAL

Bloomberg Transcript

Q1 2018 Earnings Call

Company Participants

- Armando d'Almeida Neto, Vice Chief Executive Officer & Chief Financial and Investor Relations Officer
- José Isaac Peres, Chief Executive Officer & Director

Other Participants

- Alex Ferraz, Analyst
- Luis Stacchini, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst
- Renan Manda, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Thank you for waiting. This is Multiplan's First Quarter of 2018 Earnings Conference Call. Today, with us we have Mr. José 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.

We would like to inform you that the presentation that will be made maybe be accessed at ir.multiplan.com.br. We would like to inform you that participants will be in listen-only mode during the company's presentation. After Multiplan's remarks are over, there will a question-and-answer session when further instructions will be given.

Before proceeding, let me mention that forward-looking statements that might be made during this call related to Multiplan's business perspectives, operating and financial projections and targets are beliefs and assumptions of the company's management, as well as information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risk, uncertainties and assumptions, because they relate to future events, and therefore they depend on circumstances that may or may not occur. Investors should understand that economic conditions, industry conditions, and other operating factors could affect the results of the company and could lead to results that differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. José Isaac Peres, CEO of the company. Mr. Peres, good morning and you have the floor.

Good morning, ladies and gentlemen. Welcome to the Multiplan's conference call referring to the results of the first quarter of 2018. Today, with us, we have Mr. José Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Hans Melchers, Planning and Investor Relations Director; and Mr. Franco Carrion, Investor Relations Manager.

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Now, we would like to turn the conference over to Mr. José Isaac Peres, CEO of the company, who will start the presentation. Mr. Peres, you have the floor. Good morning.

José Isaac Peres

Welcome to the 24th conference call of the company and the company celebrates 44 years in probably next June. Well, I'm very honored for having participated in almost all the conferences we do. I would like to start my dialogue with you with a certain optimism and my conviction that prices are always just temporary and that Brazil from my viewpoint in a short while will be another country, I think it will be a country that will be more knowledgeable about the deficiencies and vulnerabilities.

As I have been saying repeatedly, in this country, if you just take for a crisis to be over, you will not accomplish anything. And over our life, we have been fighting hard those, sometimes institutional, sometimes economic, but we have been able to overcome the stumbling blocks with resolve and creativity, innovation. And this has been a very marked characteristic of the company in all these years. I remember that when I started to invest in shopping centers about 50 years ago, well, I'm not that old, but, 50 years ago, I started to have my first shopping center in another company that I had.

And at the time, the major entrepreneurs of the world, of course, Americans and with some exceptions, some Europeans, we had the opportunity to visit some developed countries to see how shopping centers could be because we didn't really have a concrete experience in this regard. And at the time, some things impressed me quite a lot. The first one was that shopping centers. In shopping centers, the movie theaters were in the parking area, and then I asked the developers, why. And they said, well, those who go to a movie theater don't go to a shopping center, and I found it very strange. But our projects have always been very much focused on seeking pleasure and entertainment and we did think differently – differently from them. And our shopping centers since their inception have had this specific design, which is a lot of investment in entertainment and leisure and very much focused on families, on children. And today, I see that the crisis that hit the U.S. was a consequence of their heavy a model that was very much consumption-based and not on pleasure-based.

And we believe that in this life, people have as their main drive of this search for pleasure. And people are like that and human nature is like that. And, of course, if we don't take this into account, we will be very much mercantalistic (00:08:53) and we have to look at the consumer and giving consumers pleasure and, of course, we want to sell, because many people say, well, why are you spending so much money in movie theaters, and some years ago things were like that. And they said, well, movie theaters are not very profitable. And it was as if the shopping center was just a cold thing only, profit-oriented, but we are Latin American and we are much more emotional within that. So, for this reason, we try to do things that can be attractive and pleasurable, and we combined this recently when we inaugurated the ParkShopping Canoas. ParkShopping Canoas is a totally different model of a shopping center and it really worked very well. And, we inaugurated it in full crisis (00:09:57), that is to say, last year, late November last year in fact. And it is proving to be a very attractive model with results higher than our expectations. It was not difficult to inaugurate it with about 90% of the stores already open right in the middle of the crisis.

Of course, we had to make a few concessions, but it was a very big hit. Because the financial part you can recover in the medium run, however, when you start a project and looking only on the bottom line and forgetting about people, then you might create an illusion that the cash flow, it's more flow than cash in fact. But anyway this never comes to fruition and it doesn't really go through. So we have always had attractive shopping centers. Of course, we had more conservative estimates but we give the consumer what the consumer wants, because we really have to take people by surprise. We have to be more and more creative. And this is the reason why our shopping center model, our most recent shopping is always the best ever. It doesn't matter whether the area where it is built is a poor area or a wealthy area, but it's very important for you to go beyond what you did last time and always focusing on the consumer, so we

place a very big bet, because our sector still has a long way to go, a lot of room for growth, and our ratio of gross leasable area per square meter is very low and Brazil has over 5,000 municipalities, and many people in many small cities and in Brazil don't really know what a shopping center is still.

Now, let me go back a little bit to speak about our recent retrospective, so to say. Just to keep in mind that in April last year, we already had strong growth in our shopping centers and I'm going to give you information about April last year. 14% increase in sales on a year-on-year basis in our shopping centers. And the macroeconomic conditions were defined. There was a proposal on the part of the government that was what I believe is what Brazil believes a proposal to carry out a reform of the social security.

However, unfortunately it has not materialized and exactly because, though in May last year, we were surprised with an acquisition by the Attorney General against the government, a very bombastic acquisition in fact and then President, think I have never been in the situation of the President to see attacked in the way it was. Regardless of the President, but in respect to the chair that is occupied and we believe that Attorney General should not offend the dignity of the position, but anyway time will tell. But we have to think about Brazil. But what happened was that the economy of Brazil came to a halt, and then after that it just resumed growth very slowly, and now it is growing a little bit faster. So I understand that this year most probably Brazil will close the year with 3% growth. I'm more bullish and I always be more bullish, and I think I was correct. And there is a saying that optimisms may make a mistake but pessimists always make mistakes. And I really fit into this first group of the bullish people and I think that the conditions are given, we have low inflation 3% a year, an interest rate that I have never seen in my lifetime, 6.5%. It seems to me that it will go down to 6.25% but it doesn't really make a big difference, 6.5% or 6.25% but during this financial markets have very sophisticated mathematics. I'm an economist as well, but I don't do exponential financial calculations in order to see what it will be in 10 years' time because it's really an exercise in futurology, our future, our future is based on principles and we have our principles and our principle is to make top quality project be it in crisis or in a underprivileged region. The presence of Multiplan means renovation to that region.

This was the case in all our shopping centers, the first five shopping centers that we built, (00:16:13) which is a desertic region. It was a desertic region and now you have a city around it and that really improved the quality of life of inhabitants. Then the Barra that had 40,000 inhabitants and it is the fastest growing region in Rio. And we are building another shopping center in Jacarepaguá. We want to be the masters in this area in the west zone of Rio that has the biggest population and it is the fastest growing region in Rio de Janeiro. Rio de Janeiro is squeezed between the ridge of mountains and the sea and those who do not know real might find it strange, but we still have very positive results coming from our shopping in Rio.

When you analyze the region or a state you have to look at the micro region where the shopping center is located for instance. Nobody is building anything in real, but we are building in Jacarepaguá and people say you're crazy, you're crazy, this crisis is very bad - the crisis is very bad and you need to keep your cash and sit on your cash.

If I do that, I will not do anything. I started my career in 1963 and in 1964 there was a revolution and then so many economic plans. I think about - if they have cut about 50 zeros in all these economic plans, it's really crazy. But the truth is that after a very deep crisis, the country had to rearrange the economy and then we had President (00:17:49) who had a good economic team, and that implemented the Rio plan and then we started to live with a more stable currency. But we had moments of 1,000% inflation rate. Can you imagine what an inflation rate of 1000% means? But we always think, well, we have to continue our path and during the (00:18:20) administration, there were so many plans and freezing of assets. And then we decided to go to Portugal and there was a French bank, Paribas, one of the minority shareholders of the company. And then we said, well let's do something in Portugal and they said that is after all, are you crazy to do this in Portugal, because inflation is 12%, the interest rate to 19% a year. That is like the Far West. And today in Brazil its 1000%, so of course, if we think about Portugal, this is great vis-à-vis Brazil. So we carried out this project in [Jacarepaguá] (00:19:07). We had a local partner that had never worked with shopping centers and it was a very good partnership and they loved the business and they are one of the most successful developers in Europe, as if it was an excellent partner that I had and that has always recognized our work. And when he came here, when the shopping center in Campinas was inaugurated in [indiscernible] (00:19:36) he said, everything that we do, we have learned from Multiplan. So it was a recognition and when I left Portugal, he said, it was the best ever business relationship that our company has ever had. But there are so many Brazilians going to Portugal now and I think well maybe the time has come for me to go back to Portugal because when I left he said - said is - there is one condition I will buy your stake in the shopping center. But you have to leave this with us as I said well I'm not coming back here. So, we can never say never. We can never say never again. Sometime we have to go back, but leaving aside this romantic issue, I would like to say, that the company is extremely mobile at a very big possibility of expanding abroad and the knowledge and the projects are internationally recognized.

And I am sure that Brazil with the next president whomever he may be, will not be able to escape the need for a fiscal adjustment mainly the issue of social security and will not be able to forget that we have to work now with low interest rates and low inflation rates. And I think that the economic conditions bring about a moment of opportunity. I remember that in 2008, we were in New York City with a major investment fund - 2009, and they said, well we could have major investments with you but we'd like to buy in the crisis that is to say, when the assets are cheap and we said, we have no cheap things to sell you, nothing inexpensive. But the important thing is that the company grew a lot and strongly and I think our capital was like $1 million at the beginning and when I see it reaching almost $5 billion market cap, I say, well those who placed the bet on this company and stayed are very lucky.

And I have been with the company since its inception and it is very much because of an affectionate thing than because of me because the people who are in Multiplan, they can do everything very well. And the company had maybe the lowest turnover in their head count and in the executive board. I have colleagues who have been with me in the company for 40 years. And for some reason or other I'm very sorry when things happen and I attribute a lot of value to the people who work for the company because they bring about a lot of knowhow, experience and knowledge and this is very important. Not everything that the company has is in writing. And I would say that the company doesn't have anything in writing. The company has people because without people we are nothing.

I would like to thank you and say a few things about a few things that you would like to hear. Seasonally speaking, this is always the worst quarter of the year. And I think we surprised you a lot in this quarter because the net income of the company grew by 8.8% on a year-over-year basis - 80%, did I say 8%, well, he apologizes. There was a zero missing here. 80.8% Mr. Peres apologizes. EBITDA grew 24.2%, and the FFO with a 10.8% (00:24:26) in this quarter. And this year seems to be a very promising year in spite of the elections, insecurity, the political issues, and the situations that we see unfortunately in the Federal Supreme Court. And I think they should be careful not to destabilize the juridical security because everybody has to respect the laws and not carry out some dealings in order to protect whomever is being brought to court.

But as I believe in Brazil and I have always believed in Brazil, we have already made endeavors outside, i.e., to say abroad, we grew in Brazil and something that is also very important is the fact that next year we will celebrate 45 years of uninterrupted activity. And the real estate has always been in my DNA, I have made more real estate development than shopping centers in my life. But we are concentrating more activity in developing shopping centers and multi-use project because what they do, they bring about a lot of appreciation in the surrounding areas and we have just built a very strong undertaking now.

I think next year, we should tap into the synergy even more. I think the real estate market was very much hit because of termination of contracts. But as far as we are concerned, we had very few terminations and our projects have the philosophy of which is the following: (00:27:01) we want the buyer to earn something. When we were developers of real estate projects, our philosophy has always been it is only good for those who sell if it is very good for those who buy. And this preoccupation on our part for people to really make a good deal and that is also very important in terms of our shareholders. We want to deliver the best possible results to our shareholders. And this year, the company is building the ParkShopping Jacarepaguá and it will be the 20th built by the company itself, the 21st built by the company itself because Cascai's was built by us as well.

And in my previous company, Vepan we've built (00:28:05) so that would be 22 as my experience in the sector and the company has this in its DNA. We are developers. We are not essentially buyers because I think people believe that well you should buy a company in order to grow. But we are growing consistently and soundly. And the company has a low indebtedness if you consider the value of our projects and this is much higher than the accounting value and Jacarepaguá has 500,000 inhabitants a little bit more in the West Zone of Rio and it has the fastest development in Rio de Janeiro. There is no more room for the city to develop because it's squeezed between the ridge or the mountain and the sea, which means that expansion has to be towards the side, that is to say sideways. And I believe, we have so many meters of gross leasable area I would like to reach in two years at least to 1 million square meters of gross leasable area.

And other undertakings will happen around their shopping center, and some may have 10, 20 years with a huge appreciation in the region. And the real estate area or segment was very much impacted, mainly because of the termination of contracts and the court ignored the laws in existence in the country in terms of these termination and I'm very much concerned with civil construction, because no country can grow when you have this bad situation in civil construction. I have never seen a country say, well, the country is growing a lot, but there are no cranes and no construction, because civil construction is a big driver of development.

Okay, I think I have already exceeded my time. I have ignored a little bit what we had in writing. So, we have agendas here in the company, so I really left this aside in order to speak about the things that I wanted to speak with you.

So we migrated from the real estate sector that bought and sold, bought and sold and built and sold, aiming at profits only, and the profits were not enough to buy another land. So, it's important to have project that really appreciate over time. And this is why we are much more focused today on shopping centers.

Of course, we are aware of the fact that the world is changing and this year, we expect to present to you a technological platform with the objective of making the shopping centers more accessible to our clients. And at the same time, creating a new channel for our tenants and the e-commerce companies, for instance, they do a platform and they earn a commission from the tenants, from the sellers. But the objective of our platform has a different objective. Our objective is to make our tenants sell more.

We are not going to be an e-commerce company. We will continue to be a company that has a philosophy and I deeply believe that the virtual world now is buy. As you know retail companies and they even want to buy shopping centers. But we started with the real world and there is a virtual world and our reality is not going to change, it will become better and better.

And as I said, in spite of the crisis and I would like to finalize saying that last year, we went through a crisis and we inaugurated this commercial project that was fantastic and we continued to place our trust in Brazil. We believe that this country will become more open, mainly because of the greater transparency and the (00:33:23) fight against corruption and very soon I believe that Brazil will have to forget its physical (00:33:30) barriers in order to become a really open country and the wish on the part of society as this one, people who are aware, entrepreneurs, everybody knows that it is no longer possible to continue to protect the Brazilian industry to the detriment of consumers. So these barriers have to come down, such was the case of the Berlin Wall. So the custom's barriers have to be removed so that this country may become a good competitor.

It's very important to do away with these barriers, because besides hindering us (00:34:11) they collect a lot of taxes, so we are going towards a new order in new country maybe the first country in Latin America that has effectively fought corruption and continues to fight corruption such as we are doing. This was not easy, but thank God this company has no businesses with the government, does not depend on government and BNDES. We have just a very small funding from the BNDES.

And I would like to thank you for your trust, and I would like again to thank all my colleagues who work with me. Thank them for delivering a company that always improved the quality of life for our people and this is our motto Multiplan makes your life better. Thank you very much.

Armando d'Almeida Neto

Thank you, Mr. Peres, for your brief remarks. And I'm very happy for the fact that we delivered a strong performance in the first quarter even more so when we haven't mind (00:35:22) the strong operating results delivered in the previous year, so we are growing on top of a very strong base (00:35:28) the shopping center sales went up by 7.2%, this quarter as a result of the successful opening of new areas in the Same Area Sales growth 3.3% occupancy rate stable 97.3% and the change of stores slightly lower than last year 0.5% of the gross leasable area.

We're constantly seeking a better store mix. And over the year, we will have the opportunity to change a larger amount of area in our shopping centers. We are working with new mixes, new opportunities. And with a combination of higher sales, expense control and low inflation, the occupancy cost was also lowered, 13.6% or 39 points lower on a year-on-year comparison.

Net delinquency dropped slightly more now at 2.4%. Gross revenue went up by 3.8%, mainly due to the effect of the 5.3% increase in rental revenue and of 9.8% in parking revenue. Same Store Rent were 3.6% higher, with real growth of 2.5% being the highlight. And this is the first quarter in a row of increases above inflation and the forth in a row with real positive growth. Expenses reduction played an important role in this quarter. Headquarters expenses dropped by 4%, expenses with share-based compensation had a reversal vis-à-vis the same quarter last year and shopping center expenses dropped by 9.7% in spite of the increase by almost 49,000 square meters in our own area. The net financial result also brought about a major contribution to our results, 46.8% lower or about BRL 27.1 billion lower it interest due to the drop in the base interest rate and a higher exposure to the CDI that brought a more accelerated reduction and a slightly lower leverage than we had in the first quarter of 2016. The combination of higher revenues and lower expenses could only lead to strong results and better margins.

And talking about a few of the results, the net operating income NOI went up by 7.9%, with the highest margin that we delivered in the last five years 90.3%. In the first five quarters and not in the last five years exceeding 90% EBITDA went up 24.2%, margin 1.242%, reaching 79.6%. FFO, funds from operations went up 58.6% with a 50.3% margin also up by 1,505 points than last year, 1,705 points higher. And, lastly, net income was 80.8% higher reaching almost a BRL 100 million in one single quarter, BRL 98 million.

In summary, this quarter, we were able to exceed the high comparison base that I mentioned at the beginning with the first quarter of 2017. Our sales went up 7.2% once again. But on top of the 6.1% our sales increase delivered before, Same Store Rent went up by 3.6% over the 8.7% of last year. Shopping center expenses plummeted almost 10% over a drop of almost 4%, 3.6% in the first quarter of last year.

Among many other highlights, of course it was a successful quarter, but I would like to minimize the challenge that we will be facing over 2018. First the strong comparison base that Mr. Peres said, especially in the first quarters, but also in the second quarters and the third quarters that the company delivered a very relevant result. And growing on top of the result is a challenge in itself. And we have the World Cup that also has an impact on retail and the uncertainties brought about by the elections as well as the slow economic recovery.

So these are some of the stumbling blocks that we have this year, but you may be sure that we will continue to seek innovations, store mix improvements, the electronic platform and so many other things that we want to offer our consumers, the store (00:40:57) mixed improvements, efficiency and condominium cost, and we will continue to invest and to upgrade our projects tapping into the opportunities that arise from crisis, which is the flipside of this coin.

Thank you very much for your trust, dedication and interest in Multiplan. And now we would like to open for questions. Thank you

Q&A

Operator

Now, we will start the question-and-answer period for investors and analysts. Alex Ferraz from Itaú BBA. Mr. Ferraz.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Peres, Armando. Thank you for the presentation. I have two questions. The first one had to do with CapEx for the quarter. You showed there was an expansion of CapEx and BRL 114 million (00:42:39). Could you break it down a little bit further? Is most of this CapEx concentrated in Jacarepaguá?

And the second question has to do with Same Store Sales of the anchor stores focus on Services year-on-year, there was a drop of 6.5% and there is an impact from results coming from movie, theaters et cetera. So, can you identify any other impact that may justify this drop?

A - Armando d'Almeida Neto

Alex, Good morning. This is Armando. First about CapEx. We have two major expenses this quarter, the first one or the bigger one was Jacarepaguá. And because construction is going very quickly, and some other small investment that we have in other projects expansion processes that start, and of course we have expenses with these projects, there was a change in an aircraft of the company that was old enough to recommend and exchange. And other project, in innovation IT and that added up to this amount that was spent in the first quarter in relation to Services and Same Store Sales, the major impact were the movie theaters yes.

There was nothing relevant, besides that if you were to exclude movie theaters, we did this drill. This figure would grow, I don't remember whether 1% or 2% in Same Store Sales for Services. But this is just to give you the dimension of the weight of movie theatres in Same Store Sales in the Services segment. Thank you.

Operator

Luiz Mauricio from Bradesco.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good morning, everybody. Thank you for the question. I have two questions. The gradual rebound in spite of the challenges for the year that you've mentioned the World Cup, elections, et cetera, had already started giving (00:45:40) a removal of this content. I think this brings a little bit of pressure on gross delinquency, but it seems to be under control. But, vis-à-vis the scenario, I would like to know what do you see in terms of this removal of discounts? And could we expect any change in Same Store Rent? Will it be stronger, continue to be stronger? And also stronger Same Store Rent going up in the malls?

And about going abroad as Mr. Peres said, a few years ago there was an interview given by Peres, and I think you mentioned that at that time looking around Latin America more specifically. So, I would like to know whether this matter has been re-included in the agenda of the company and would you be considering other countries besides Latin America. Do we (00:46:50) have something concrete in this regard?

A - José Isaac Peres

Luiz, this is José Peres. We have been talking a lot with people from abroad, from Latin America namely, and we have not found yet a way to grow in Latin America, and that really makes us feel safe in terms of continuing with our philosophy, because there is a major international player in Latin America, and they intend to maybe carryout a merger and become a much bigger. But our concern is not having full control over what we believe has to be done. I believe that the whole of Latin America and we are pioneers, everybody comes here to learn from us. And going abroad, just for the sake of it, we don't see a reason for that. The possibility would be buying somebody in a country that has a good estimate for development. And you can see, for instance, Argentina now is a country that is going back on track with the administration – Macri administration, making the necessary adjustments. And Argentina has suffered for many, many years, because of administrative problem.

So what I can say is that, undoubtedly among our objectives, we have this of going beyond our borders. And with a more civilized interest rate here in Brazil already allows us to maybe take off and fly somewhere. And I remember when we were carrying out the project in Portugal, the owner of the (00:48:55) said, Peres, let's build more shopping centers in Portugal. And I said, well unfortunately I cannot do that for one reason, because my backyard is really on fire in Brazil. So, I have to go back. So Brazil has never given support to investments made by entrepreneurs abroad. Interest rate has always been exceedingly high and with a lot of red tape involved, and now the situation is better, but with a lot of room for improvement. However, this doesn't mean that we cannot go abroad. I think we have the necessary knowledge and experience in construction and in retail. And we have this in our radar screen. But on the discount side, because of the crisis that we're going through, of course we have to adapt ourselves to the crisis. So, we have to be more, we are not here to hinder any of the tenants and the retailers, and we sometimes have to renegotiate past dues and we renegotiate, and I think this is what we have to do. But normally banks work buying and selling money. And our currency is rent, we buy and sell space, we buy and rent spaces.

Sometimes you are able to work with a lower interest rate and have a higher profitability. And I believe that structurally speaking, what banks usually say is that, it is better to work in a more stable economy, and our sector has to grow. I don't know whether it's going to grow exactly according to the same metrics that we had in the past but it will surely grow and this is why I see that we have to carry out some important innovations and increase our gross leasable area, which is our currency. It is a real currency in fact. But GLA has been appreciating much more than any currency in the world. When I built the BH Shopping, the whole Shopping cost $12 million and if you were to think about how much it is worth today, it is about $450 million to $500 million. And it is almost 40 years, what it has already given back to investors was something really amazing, and what you have to know besides what you have already received, what you will continue to receive from these projects. So, it would be great, given the size of the company, it would be great to start carrying out projects abroad.

Well, I don't know whether I have answered this segment to Luis (00:52:25). The Same Store Rent increase, a more robust one that you asked about, I would like to make one remark. You always ask about Same Store Rent, but it doesn't really make a lot of sense as far as I'm concerned. I look at the company, the profits of the company whether the company is growing or not. If the company is growing with lower Same Store Rent, this is not relevant, what is important is to grow.

And of course we could not imagine that we could charge the same amount that we charge when we arrived in Brazil and they ask how can you receive (00:53:16) so much? Because there were no shopping centers in Brazil and now the situation is different because we have perfected our system. There is a lot that you can do in shopping centers. The shopping centers are similar to cattle. We only sell the (00:53:39) or the (00:53:40) for instance first. But I'm not going to get into details, but in a company that today has over 180 million people coming to the shopping centers. We have a huge potential to tap into areas that were not explored before.

It is important to keep a low indebtedness. It's important to have a good profitability. And now according - if you talk about Same Store Areas, Same Store Rent, I would say, that this is all very beautiful, but it doesn't work in practice because I can have Same Store Rent going up a lot but having one single shopping center so as a company I will not grow. So, we need to grow our profits and we have to pay more and more dividends, and we have been paying out dividends to all of you and as a shareholder I expect to receive more dividend. But adding to something that he asked you're asking about rent in the same shopping centers. And I like to look the NOI, Luis (00:55:12), because we are creating the efficiency. Because sometimes you cannot have the same speed that you would like to have because of market reasons. But you can be more efficient and reduce expenses if you look at the same shopping NOI, we will - you will see that we had a strong growth. And regarding the mix and because sometimes you change a store and you start with a lower rent and then it has to establish itself and then the rent goes up and you have to live with it different. And as you have to change the mix more and more and this is what we have been seeing the last few years, this could mean a bigger difference.

I do agree of course with Dr. Peres, Dr. Peres because you have to look at the macro because macro speaking, we have been delivering a strong and healthy growth. It's not just heavy, you have to have a high occupancy and low delinquency and we are being able to deliver this growth high occupancy and low delinquency. So this is a major challenge that you have, you have to reach a balance there.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Thank you.

Operator

Mr. Luis Stacchini from Credit Suisse.

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you for the question. I have two questions. The first has to do with Canoas. Could you talk about your shopping center. I would like to understand what we could expect in terms of increase in revenues during the first year you started with a lower rent base to have a healthy occupancy rate. But I believe you will become more aggressive as your contacts develop. So, what could we expect in terms of revenue increase during the second and third years. Could you talk about the maturation curve?

And the second question has to do with your strategy about energy generation for your own consumption. You talked about that a few months ago and what kind of benefits are you going to derive from that regarding the drop in condominium costs that would be great as well?

A - José Isaac Peres

Just a moment. This is Dr. Peres, Luis, Canoas in the overall company represents still a very small part in terms of participation of the company's cash flow. Canoas has a very conservative projection. I don't have the figures in front of me, but it's not so relevant. What I can say is relevant is that sales are higher than what we expected, and this makes it evident that our model is right. We have that tripod: nature, entertainment and shopping. This is a highly interactive project.

Recently in Morumbi, the Morumbi Shopping Center, which is older and very strong, we adopted - during the Doria administration in the city, we adopted something that was forgotten for many years and we did something that was so good that the Mayor of São Paulo I was there with him, and he was charmed because we did this kind of a square and he said that it was the most beautiful in São Paulo and he is known for having very good taste.

So if we do these things, it's because our businesses have to offer consumers something different and people love nature. And when you say, well, Canoas, Canoas had a huge investment made in the outskirts and nature, leisure, and in terms of the company's revenue overall revenue, it is very small. Sales are higher than expected, but I repeat just think of same-store rent and the questions that to asked. I apologize but I have to tell you something, it seemed as if you were always ready to criticize something, but the figures are here at your disposal regarding energy. We made a small investment in energy production, and we are getting a little bit more into this area of the company's costs in order to give more efficiency to our shopping centers.

The same as shopping centers, there are other things that can be explored. When people ask, well, why don't you have a consumer finance company, for instance, and we say, well, we are not bankers, we buy shares of Itaú, Bradesco, Santander, Banco do Brasil. And the banks that are only a handful here in Brazil nowadays, but I don't know whether I have answered your question or not.

We already have solar energy in two shopping centers, 20,000 square meters in Canoas. I think it's the only shopping center that has 20,000 meters. And in ParkShoppingCampoGrande, an additional 15,000 square meters. So the company has been trying to look for efficiency and one of the point of efficiency is energy production. Thank you.

Q - Operator

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

(01:02:30), Morgan Stanley. (01:02:34), I think your telephone is mute.

Yes. I'm sorry. Thank you for clarifying about Same Store Rent. But I still have a question about rents. Year-on-year growth of Same Store Rent for 3.6% but the growth of Same Area Rent was 0.5% lower than inflation. The spread between these two indicators were 300 basis points. If I make the same comparison between Same Store Rent and Same Area Rent for the first quarter of 2017, the difference was 140 basis points, so the spread doubled year-on-year, and also for the full year 2017 the difference between Same Store Rent and Same Area Rent was 130 basis points.

I would like to know why was there this increase in the spread between Same Store Rent and Same Area Rent? And second, what you see for Same Store Rent performance in 2018, do you think it's going to go up? Well, increase more than inflation or lower than inflation?

A - José Isaac Peres

So, this is José Isaac Peres. I will answer part of your question and Armando will answer all the details about same-store rent. I always look at forest and never an individual tree, so I go back to what I said before, the company is growing and delivering results. The way that there you see our indebtedness going up and profits going down or giving mediocre results, I would say that these are the fundamental points that should be analyzed. The company will be out of the market and let's say the project have a very low quality and they are unattractive, so I repeat myself. I see the company as a business overall, but not going into the nitty-gritty, because it's only natural that over the years with a higher competitiveness, the value of rental per area tends to go down such as was the case in many countries and we are far – very far from being what you see in the United States. The United States are ready overbooked in terms of shopping centers, and the problem that they have there is that, they have too many shopping centers and here we have too few shopping centers. Nevertheless, our shopping center model is not focused on retail sales only, they are focused on services, leisure entertainment and focusing on the well-being of our customers. So we will continue to be an attraction to our public.

And one thing important in our philosophy is people come to the shopping center. If they buy something, it is just a consequence. If the shopping center is not attractive and only useful in terms of you have to buy something there, of course it will be losing people flow, and this will make sales go down. So, our objective is to maintain a high people flow. And ever since the beginning, I always place the movie theaters inside the shopping centers, because 50 years ago people said that movie theaters occupy a lot of space and people go to the movie theaters and they don't go to the shopping centers, but this is exactly the opposite. And many people abroad have changed the model and put the movie theaters inside, following the tracks of what we did here in Brazil. But going back, Same Store Rent, Same Area Rent, this is not very important, what is really important is to grow our revenues, to grow your profits. Maybe the profitability of stores will not grow. But what is important is for the company to continue to generate more profit and more dividends.

But, Armando, will get into more details.

A - Armando d'Almeida Neto

(01:07:37) thank you for the question. This is Armando. I'm very happy with your question, because I love to discuss growth and not drop. If you think about the GDP of the country, that dropped over 7% in these last years and we're talking about growth here I'm really flattered by your question, and I would like to continue by explaining that, our focus here as Mr. Peres has already explained on and on is not quantity but quality. So, very often, when we replace a tenant during this difficult period in Brazil, you saw that we had a higher turnover.

If you compare, you can see that the turnover grew compared with the previous ones. Of course, our focus was not to fill in the shopping center with any operation whatsoever. We wanted to have the best operations coming on board, best-in-class, and this is what we seek, better quality in our mix and see this as an opportunity. But everything comes at a cost. So, bringing a better quality, a better tenant, if you have to waive an initial rent, for instance, that will make a difference between the Same-Store Rent and Same Area Rent. We will do this in order to have another renovation in the future, another rent in the future, percentage-wise, and another point that evidence is what I said is that historically this quarter – and this quarter was not different. You can see that Same Area Sales have been exceeding Same Store Sales and this is additional evidence of what I'm saying.

And another point to be even more technical answering your question is the following. When you look in this quarter more specifically, shopping centers that had an increase in their gross leasable areas were shopping centers that when we look at our portfolio have lower rent sold than the average (01:10:02) or had an increase in the gross leasable area. And although the rentals are high, when you look at the portfolio, it is not so high. So, when you have the Same Area Rent, in these cases, it's a little bit lower. I apologize for being so technical. I'm getting very tech – into very technical details. It's only natural that all new shopping centers have this situation. Shopping centers that have a higher value per square meter or the five first ones that we built 30 years ago.

So, it's only natural for the shopping centers to grow and to consolidate. But, of course, everything comes in the right time and if we believe that Same Store Rent will go up more than inflation, we had a real increase of 2.5% this quarter in a pre-crisis level. So, it is still a slow growth of the economy. So, our view is constructive. We are not in a hurry. We want to do the right thing with this lower interest rate and with the lower inflation rate. So, I hope I have answered your question. Thank you, (01:11:34).

Operator

Mr. Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good afternoon. I have two questions. The first one has to do with the multiuse project. Mr. Peres said, in 2019 regarding the recovery of the economy, we should see additional projects too, depending on the recovery. So do you have any – will they be more residential or commercial and what is the outlook for the EBITDA margin in the first quarter? There was a very strong EBITDA margin, and you talk about less provisions and you talk about the parking revenue, so the EBITDA margin already have adjusted by the Phantom option, Phantom share.

A - José Isaac Peres

Marcello, this is José Isaac Peres. I always forget to say Isaac, okay, so José Isaac Peres. Our potential to have 1 million square meters in land, today we have projects that have already approved, amounting to – oh I'm going to give you one figure and maybe Marcello can correct me, about 500,000 square meters. Of course, we are not going to do everything in one single year or at the same time. But these are projects with a very high added value. These are very valuable land and they have the potential of bringing about very major profits for the economy.

I have already worked a lot with the real estate metrics that are, oh, you have to have 15% over the (01:14:21). So, if you do that, it will be risk. If you have any change in the cost of project or any downturn in the market, you will be posting a loss. You have to think that there is no real estate industry. The real estate business is really a craft, each product is different. Land is the only scarce resource. I have already worked in the real estate sector. And when we are not losing, you are really stable, you're not winning anything. So, the profit margins are very good now, but there is an issue that is the termination of contract because you cannot just sell a whole building and at the end say, well, give me half of the buyers say well, give me my money back and you will have a big problem if you have taken or if you have borrowed money. And we – the cost of the land is already paid for. So, we only have the construction cost and, of course, the company is capitalizing on. It does not depend a lot on the financial system.

So, we have a very good potential and this could generate something around BRL 4 billion to BRL 5 billion in sales and if it leaves us a margin of about 20% to 25% in the worst case, this will not be done in one year, it will be over quite a few years, I would say five 5 years or 10 years. So, you cannot think about that in the short-run and Armando will be answering the other part of your question.

A - Armando d'Almeida Neto

And starting with the multiuse, when you talk about the EBITDA margin and you say that there is a real estate activity for sale that is higher, there will be an impact on the margin because of the different margins that we have, NOI 90%, 20%, 25% margin. We are talking here, and this would bring the EBITDA margin down as we have more projects, but this is very easy to exclude and having – and there is another metric that is different. In a company, you have to separate the real estate activity that will be developed by another company in order not to mix it up with a shopping center segment.

And also, the pace of the projects or the more new projects we launch and invest the more expenses where we have related to projects and related to future growth. So, you have expenses now and you only have an income stream later or revenue stream later, but this is part of the development cycle. So, the more projects, the more expenses in the short-run, and this will impact the margin.

And another thing that impacted the margin positively was the mark-to-market of the Phantom Stock Option, because they don't really translate the reality because there is a hedge for that that are the treasury stock and any devaluation does not affect the result. But the mark-to-market does affect the result. And this quarter there was a reversal of expenses that occurred last year. So, there was a positive contribution and if the share has a strong performance in terms of growth. As a consequence, it will impact the margin, but, once again, you can adjust it.

Now, regarding the activity of the core business of the company, shopping center, the 90% NOI margin, we expect to see the country resuming a more dynamic growth, which reached 3% GDP this year and this is what we expect to see, and this would give the necessary sustainability to our business. And as a consequence, that would impact our EBITDA margin. The 80% margin is extremely high and, of course, we always want to show more and more efficiency and be the most efficient, and we have been able to deliver that. But 80% and going beyond that is really a major challenge, okay.

Operator

Mr. Renan from Santander. Good afternoon.

Q - Renan Manda {BIO 16845063 <GO>}

Good afternoon, Armando and Peres. My question is about Jacarepaguá. I understand you will be inaugurating it in 2019. What about the rents for the anchors and the satellite stores? What is the current situation?

A - José Isaac Peres

Against all our expectations, this time we've started to build regardless of rental and you could say, well, isn't this a big risk. No, because we trust completely what we do.

On the other hand, the moment that Brazil is living creates uncertainties, because when you sell your areas and this has always been a rule for us, when if we show that we trust the products that we are making, well, you can be sure that the performance of Jacarepaguá will be excellent, because the purchasing power is very good, 500,000 inhabitants and this area, this neighborhood has no services whatsoever. So, what we will do that, we will do something very similar to what we did in Canoas, and this will be a project that will take Rio de Janeiro by surprise and such as Porto Alegre with Canoas.

In the (01:21:45), this region of Porto Alegre where the Canoas shopping is located, this area is all covered and this was the same in Porto Alegre when we launched the (01:22:00), so because we had a project there for a long time already. And if you don't start, the retailer, the tenant starts to doubt whether you are going to do this or not. And here, we started to build and we are receiving many proposals and this is very recent. It started last week, in fact, and our idea would be to inaugurate it by the end of 2019 and we believe this is what is going to happen.

What is important is that, this is on budget and according to our expectations, and I have been in this business 50 years already. So, am I going to make a mistake now that I'm old? No, I'm not that old, in fact. But anyway, well – thank you. Renan, okay. Thank you. Thank you very much.

Operator

Now the question-and-answer session is closed and we would like to give the floor back to the CEO of Multiplan, Mr. José Isaac Peres, for his closing remarks. Mr. Peres?

A - José Isaac Peres

Once again, I would like to thank you very much for your patience. Sometimes I'm a little bit irreverent and maybe this is a (01:23:46) and may I not very formal, but I speak from my heart, I speak and I say what I'm feeling, what I believe in. And I think I should mention to you that today the major problem of Brazil is not even the economy itself, because inflation is low and the government. In spite of all the stumbling blocks that were placed in their path was able to deliver something better, lower inflation rate and a fantastic Central Bank doing what it has to do and I hope the Central Bank is really or becomes really independent. It's very important for Brazil and the labor reform, which we didn't really believe could happen and Brazil only has one serious problem today. which is the legal insecurity which is much more because of the Federal Supreme Court than anywhere else.

The economy has the potential to grow and Brazilians want to grow and they are eager to improve their quality of life of country with 200 million inhabitants extremely rich in arable land, in minerals, everything you could wish for is here. And I think that the fundamental point that is happening in this country is a new perception by the Brazilian population that if we do not put an end to corruption, corruption will put an end to us. In the past a lot was said. And I remember when I was a kid, people said that either Brazil does away with a certain type of ant, or this ant will do away with Brazil. So, I think this kind of ant here, the corruption ant is a little bit more resistant, but we are really attacking it. And this new order will be better, the one that we arrive from these bit old order. We continue to place our trust in Brazil.

Operator

The first quarter of 2018 earnings conference call of Multiplan is closed. We thank you for participating and wish you all a very good day.