Q4 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
- Marcello Kaminitz Barnes, Vice Chief Executive Officer - Development

Other Participants

- Enrico Trotta, Analyst
- Luis Stacchini, Analyst
- Nicole Inui, Analyst
- Renan Manda, Analyst
- Victor Tapia, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome everyone to Multiplan's Fourth Quarter 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.

Today's live webcast and presentation may be accessed through Multiplan website at ir.multiplan.com.br. We also inform you that participants will be in listen-only mode during the company's presentation. After Multiplan remarks, there will be a question-and-answer session. At that time, further instructions will be given.

Before proceeding, let me mention that forward-looking statements that may be made during this conference call related to the company's business outlook, projection and operating and financial goals are based on Multiplan management's assumptions and on information currently available to the company. Forward-looking statements are no guarantee of performance. 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 general economic conditions, industry conditions and other operating factors may affect the result of the company and cause results to differ materially from those expressed in such forward-looking statements. This conference call will last 60 minutes. After this time, the Investor Relations team will be available, if any questions have not been answered.

Now, I'll turn the conference over to Mr. José Isaac Peres, CEO who will begin the presentation. Mr. Peres, you may begin.

José Isaac Peres

Good morning, ladies and gentlemen and all of you who are listening to us now. Once again, we have the pleasure to share the financial and operating results achieved in 2018. Despite the challenges brought in the past by huge political uncertainty aggravated by economic growth way below expectations, our company positively surprised its shareholders with a highly satisfactory result.

Our net income amounted to BRL 472 million in 2018, 28% above the previous year. EBITDA is already close to BRL 1 billion, totally BRL 947 million to be more precise. With regards to indebtedness, the company closed the year with a net debt over EBITDA ratio of approximately 2 times. We are ready for new investments and excited with the political scenario which brings us solid hope.

I also highlight that for the first time in 50 years in our company's history, we have now a liberal government, a liberal administration geared towards market development and economy. In addition, the new administration is engaged in lowering the state costs which may be a burden to all of us.

It's also important to say that the former administration also made headway in the tax arena with reductions in indebtedness level and interest and inflation rates not achieved in the last 60 years, and this is also part of the current scenario in Brazil. We also highlight that over this time Multiplan lowered its vacancy rate to 2.5%. At the end of the year, our shopping center sales totaled BRL 15.5 billion, growing 5.5% year-over-year.

We were not passive during the crisis. The company focused in efforts to improve the quality of the mix and revitalized its shopping centers making them more attractive. We also worked relentlessly to deliver projects that have been in progress for many years. Therefore, the company is ready to embark on new projects. And now with the construction of Park Jacarepaguá in Western Rio de Janeiro, the company is just about to reach 1 million square meters of GLA, adding another 40,000 square meters to our portfolio. The shopping center is scheduled to open next year. In line with a positive move, we know that in the previous year our people flow and people who came to the shopping centers was close to 200 million (00:06:24), while we had 150 million people. That was the flow on an annual basis.

Another important fact was the amendment to the termination law and its positive impact on the real estate construction sector. We are very excited with this change which will give us more assurance and we will start this year the development of key projects to be integrated to our shopping centers. The land was already acquired some time ago and accounting purposes of favorable. And this will allow us in our new projects to have a relatively higher margin on sales compared to the usual levels found in the market.

At the end of 2018, we concluded the approval process of an important unique project in Porto Alegre. It's a very different unique project. The first step is scheduled to start in the second half of this year with the launch of its first phase. Altogether, it comprises total sales area of 250,000 square meters (00:07:48) in an upscale private condominium. It's a property of 180,000 square meters on the banks of the River Guaíba. Upon conclusion, 19 integrated buildings will be delivered. So in addition, the company is ready and capitalized enough to allow for possible acquisitions in the future.

We are convinced that Brazil is starting a new and important phase in its development. The trade opening to foreign countries is expected to reduce custom tariffs, allowing for the entry of new and important international retailers in Brazil's trade. There is no doubt this will favor our business. The economy has been gaining momentum in the first months of 2019 with tenants posting sales growth particularly in satellite stores. Our tenants' demand for new areas is stronger than in previous months, both in existing shopping centers and in new ones. This confirms the success of our decision towards continuous growth, continuous and sometimes faster or stronger expansion always there.

Last but not least, I thank you. I thank you for your trust and for being with us for almost 12 years since the moment the company went public. I also thank analysts and journalists who follow this call. And Multiplan's employees who undoubtedly help us deliver such important results. Once again, I thank you all.

And now, I give the floor to Armando d'Almeida. Armando is going to give you more detail on the financial aspects of the company. Thank you very much.

Armando d'Almeida Neto

Good morning, Dr. Peres. Good morning, ladies and gentlemen. Actually, this time, I'll be very, very brief so we can have more time for Q&A. The figures and facts were disclosed yesterday, so we have plenty of reports covering numbers. So, I'll not follow the slides. I'll just highlight a couple of points about years 2018 and 2019. Like Dr. Peres mentioned, over 2018, despite all the challenges faced, we delivered strong operating and financial results. This growth brought higher efficiency and helped us surpass many, many previous record levels.

We posted the highest EBITDA and NOI of our history. And also the highest margins ever. So, once again, we improved our business with efficiency. We also posted highest income and FFO levels with the highest margins over the last five years. We grew in area financial results, operations, sales performance, rent per square meters, absolute numbers and higher margins.

We were also more efficient without having to step on the brake or shrink the size of the company. We retained the technical development team and we were very successful in our opportunities to increase GLA. Not only did we maintain our teams, but we also invested particularly in Digital Innovation and Compliance areas. We didn't impair our land inventory just to reap results in the short-term. Land is as vital as oxygen for growth and these properties will give rise to new projects in the future.

Like I said, we expanded our Digital Innovation team; we increased the number of people and the scope of operation. This team and these initiatives that are beginning to materialize makes us really confident that we are on the right track, adding new possibilities and convenience to our shopping centers, therefore, improving customer experience. On top of that, we believe our interaction channel with our consumers will become even more relevant and this is extremely important to us.

Lastly, we are optimistic with the possibility to increase our area through new projects or expansions in existing assets and new acquisition opportunities. The area growth points to a particular aspect in our income statement in pre-operating and financial expenses. The development of new projects requires incurring expenses before the corresponding revenues are posted in our reports.

I find it appropriate to assess our performance by adjusting. For analysis purposes, these one-off expenses that occurred prior to the company's growth acceleration cycle. Like Dr. Peres said, we're very excited with the outlook and growth in the country.

So, I conclude my talk by thanking our shareholders, analysts, and journalists for their support over the year. Let us start the Q&A session now. I give the floor back to the operator.

Q&A

Operator

Thank you. The floor is now open for the Q&A for investors and analysts only. The first question is from Enrico Trotta from Itaú.

Q - Enrico Trotta {BIO 16742911 <GO>}

Good morning, Dr. Peres. Good morning, Armando. Thank you for the call and the presentation. I have two questions. The first question is about growth. You are very vocal about it. My first point I'd like to better understand, maybe Dr. Peres showed us briefly some points about a project in BarraShoppingSul Lake Projetct. Could you tell us more about the expectation for launch and if the project will be with expected results and faces? And also about growth, could you tell us more about Jacarepaguá and if the next step of growth, except for Jacarepaguá, if in the short-term, it will be more focused on expansion in assets, existing projects, or if you see in the short-term horizon, any new greenfields underway?

The second question, same-store rent is growing in real terms, right, for a while. If we check 2019, we'll have approximately 16% of GLA. So, we do have real growth expectation in these contracts and then, same-store rent growth over 2019. So, do you expect to see it speeding up considering the better macroeconomic scenario? So, these are my questions. Thank you.

A - José Isaac Peres

Good morning. José Isaac Peres speaking. Let me answer your question. Lake is a project (00:17:01) that started approximately 15 or 20 years ago upon the acquisition of an area that belonged to Porto Alegre Jockey Club. Upon that acquisition, we had a purchase option of a neighboring adjacent area of 180,000 square meters. We exercised the option, and it took us about 10 years to meet all the requirements. Naturally, the municipal authorities are very stringent.

It is a project on the banks of the Guaíba River which is a beautiful area. And last year, we finally managed to be there. So, we are ready, prepared and naturally capitalized to start up the project that we will be taking place in different phases, 19 buildings altogether.

And one of the buildings is an office tower. That is a statement to the Jockey Club and it will be a source of income to the Jockey Club. For 10 years, we paid a contribution – a significant contribution to the Jockey Club so we could continue to be there. But as we work on this project, we can also convert that area, heavily demanded area and naturally give some breath for the Jockey Club to enhance its activities.

As for Jacarepaguá, it's important to say that we made a decision to begin the construction works last year, and actually we did it. I don't remember precisely the date, but I believe it was mid last year (00:19:03) and it happened before all the crisis. At that time, nobody was considering building a shopping center. The scenario was not good at a store level. However, we were convinced that from the strategic viewpoint, having a strong position in Western Rio de Janeiro was something very important to us.

And actually, we started the construction work and more recently we were doing the launch. We have a very significant move and flow of tenants meeting the needs of a big area. Construction is pretty much underway. We expect to have it mid next year (00:19:49). This region was somehow forgotten in Rio de Janeiro with 500,000 people, people with good purchasing power. Jacarepaguá is one of the most or one of the oldest neighborhoods in Rio. It is before (00:20:07) and Barra da Tijuca. We didn't forget this area, and now, we're going to give a good response with access interventions to improve traffic, and we believe this will add more value to the region.

We have several projects underway. So, we're very excited. With the new administration, it makes us confident that it's worth trusting and betting on Brazil.

A - Operator

Perfect. So, just adding to the comments. In terms of same-store sales rent, answering your question about real growth. We have a history of posting real growth. Since the company went public, I couldn't know precisely the figures, but something around 2.5% real growth. Now, your question reminded me of that song Time Is On Our Side. We can see the economy improving. Tenants looking for more space and areas, and we have – we don't have a lot of space available for them. So, the speed of new areas with expansion or new shopping centers, this doesn't happen so fast.

But we think it may happen over time. What we have to take into account, and our indicator is IGP-DI and last year it accumulated a highest index, 7.1%. So you'll be passing this through in maturity in the coming months. So that's the main task, the main challenge with a higher historical scenario but we consider this very positive demand for space. And we believe we'll manage to deliver real rent as we've managed to do in the last 18 months. Since last year or slightly before that, we began to deliver real results.

Now, there is another point to highlight which is also helpful. It has to do with discounts, lower discounts but we still have a couple of them. So, this gradual discount reductions may help or have a positive pressure on real rent.

Q - Enrico Trotta {BIO 16742911 <GO>}

Okay, perfect. Thank you, Armando. Thank you, Dr. Peres.

A - Operator

Thank you.

The next question is from Luis Stacchini.

Q - Luis Stacchini {BIO 18717891 <GO>}

Good morning, Armando and Peres. Thank you for the presentation. I have two questions. About your growth plan, could you tell us more about your mindset? I'm not referring specifically about greenfields but the expansion there is more mature in the portfolio, 150,000 square meters as potential, but we know we also have possibly something that is more mature. I would like to understand in your mind if it makes sense to wait a little bit more to make sure the rent level will be more appealing or even more key money as sales improve and revenues have an impact on portfolio. So, could you give us a magnitude of what is GLA volume that you have at hand in the short-to-mid run?

My second question is about revitalization. It was an initiative of energy generation. Can you tell us more about this project more specifically with the ability to be scalable to other shopping malls perhaps? Do you have a cost reduction revenue in terms of energy? And what is the expected return on this kind of project to you?

A - José Isaac Peres

José Peres speaking. So, you have a question about growth expansion. So, let me try to summarize the data. We have a huge potential for expansion in advanced projects about BRL 150,000. Naturally, you cannot do everything at once. We will have to prioritize investments whose returns are faster. However, our growth capacity is big enough, but we don't want to impair our financial balance.

Therefore, we'll keep on growing, but not for this – not increasing our indebtedness, and that's something important to the company. On the other hand, I would like to say that during the crisis in Brazil, most of our companies in Brazil. They laid off many people. We are proud to say that we maintain our team despite the crisis because we understand our team is our greatest asset, our greatest value. We don't have a high turnover rate.

Now, there is a higher demand, and I assume that we are going to have – to make more efforts. I don't know the magnitude yet, but possibly in new quarters, we'll have a clear picture of how things will happen in the future. As for energy, it's plain and simple. We invest in energy, and we also invest in IT technology. The first source of energy generation is for high consumption, and to some extent, this will also bring benefits in terms of lowering energy costs in our shopping centers.

We always keep an eye on becoming even more efficient and given more of better conditions to tenants and improve our quality and constantly be generating activities that are valued by the population like more green areas, more entertainment, things that we've been doing for a while. So, we also want to deliver something unique and better. I hope I've answered your question.

A - Armando d'Almeida Neto

Dr. Peres just adding – Armando speaking now, Luis. Many of these projects involving energy that Dr. Peres mentioned particularly this one addressed this question. This is a clean energy project, solar panels, non-polluting energy with financial, economic benefits to our tenants, making our malls more attractive. And one of the means to support growth, answering Enrico's question again, is to be more efficient in the condominium over time. We've been dedicating ourselves for many years now with more attractive condominium costs, lower condominium costs vis-à-vis sales without affecting quality, without impairing the quality of service and the quality of our projects. I just wanted to highlight that.

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you. Good morning.

A - Operator

Thank you, Luis.

The next question is from Victor Tapia, Bradesco.

Q - Victor Tapia {BIO 20566083 <GO>}

Good morning, everyone. The first point that I would like to address has to do with revenues, non-recurring revenues owing to some marketing contracts. Could you give us more color on this? And I'd like to know if there is any forecast for 2019 and if there can be a positive impact on your revenues?

Now, could you also give some more color about BarraShoppingSul? We can see it is still suffering in terms of lease revenues, sales revenues. Could you give us more detail on that and also tell us more about expectations for the future or improvement and also about New York City Center? It seems to have an opposite trend. Sales are going down and rents are going up. Could you also give us more color on that? Thank you.

A - Armando d'Almeida Neto

Armando speaking. Thank you for your question. First, let me talk about non-recurring revenue. We try to split and break down for transparency purposes what we mean about management of project profitability, revenues from the commercial area or from lease or rent. And also what comes from campaigns or one-off events related to services.

Every year, we have this kind of effect, but we don't do any budget or projection for these non-recurring events, one-off events. So, it happened in 2019 and it may also happen in the levels of service and primarily for project management purposes.

As for BarraShoppingSul and New York City Center, let me answer one by one. BarraShoppingSul is going through a big restructuring in stores, space, area, revitalization. It turned 10 years last year. And we believe it has to be ready to the new cycle to this new consumer model. As a result, we changed many areas in the shopping center. We added new stores with a very high level and also some areas that were involved in the problems and had to be out of market. And this problem now of these stores that left the shopping center turned out to be a good opportunity.

Now, we have areas that are more in line with consumers' needs and now we're opening a new area for kids and also a park just outside the shopping center and also new restaurants. So, we have no doubt whatsoever. Like I said before – well, before you make an omelet, you have to break the eggs. First, we have to see you (00:32:40) our sales, the rent impact so we can improve the quality of the shopping centers in the long run in terms of people flow and sales.

Last year, we changed 34 stores in BarraShoppingSul just to show you some magnitude. And New York City Center is much smaller. It was a big operation and owing to economic models, if you go to the mall, you'll see that there are economic challenges and now we have bookstores. So New York City Center was affected in sales compared to the previous year.

Some people asked us very often about Fnac's exit. That's a big opportunity to us. It is a big opportunity. In the short-term, it seems to be a challenge but in the long run is a unique opportunity to have access to large areas in the shopping mall and turn this big area into an even better space.

Just to give an example, we had seven Fnac stores. Many of you called us yesterday to clarify this. But now we have 19 new operations. We had just one business segment and now we have many more. We have 11 business segments in these areas. And of all these areas a little bit more than 19,000 square meters of GLA, now we have more share that has not been completed yet, less than 15%. But all the rest is already in operation, bringing rents and making the shopping center even better.

So, this is an example. If you want to improve sometimes you need to face challenges like changing contracts, doing new construction work and going for innovation and new operations.

A - Marcello Kaminitz Barnes {BIO 15388510 <GO>}

Marcello speaking. Fnac in BarraShoppingSul and five new operations opened only in December, so six months, (00:35:02) several new operations. And we expect to see the results as of now.

Q - Victor Tapia {BIO 20566083 <GO>}

Perfect. Great comment, Marcello. Thank you.

Operator

The next question is from Nicole, Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Hello. Good morning. Thank you for taking my question. I have two brief questions. First question. Could you tell us more about the parking lot revenue line? It increased a lot this year. I understand there is an increase this year and last year. And when you think about 2019, do you see more opportunities to increase the fees at the shopping centers or do you think you have reached a limit already?

The second question is about the debt. Now, we have two-thirds CDI, one-third TR, how do you feel this unfolding? Do you think the split makes sense? Do you think there is opportunity to improve and increase for CDI and perhaps expand the debt? What are your thoughts about it? Thank you.

A - Armando d'Almeida Neto

Nicole, good morning. Thank you for your question. Armando speaking. As for the parking lot, what we have was a combination last year an increase in fees if I'm not mistaken in 15 of our projects early in the year. So until Q4, we had revenue. Now, we don't. And also, an increase in people flow. We saw an increase – a significant increase in flow generally speaking.

I also draw your attention to the fact that by the end of 2019, we opened ParkShopping Canoas. If I'm not mistaken, it has a little bit more than 2,000 or nearly 3,000 parking spaces added to the portfolio also bringing in a positive impact of the parking revenue over the year. For 2019, we don't have anything planned maybe something specific. We don't have new areas being opened this year. So, I don't see significant volatility unless we see an increase in people flow which is very difficult to predict right now.

As for net debt over EBITDA ratio – by the way, great question. If I may, I would like to go back in time. Let's go back three or four years ago when CDI was going up up to 14.25% (00:38:03). At that time, we had our share via TR which was higher and this helped us as an average gross that cost below CDI, when CDI was higher.

Since 2016 or mid-2016, we've changed our strategy. And now, we have new financing instruments back to CDI already for seeing a new interest cycle in which interest would be lower, and as a result, we have two-thirds of exposure in CDI, and one-third in TR. Until very recently when we launched, when we thought about TR launch, even though it wasn't obviously to see what was more expensive or inexpensive vis-à-vis the future interest curve, keeping an eye on future markets of the (00:39:03). They allowed me to have a longer debt term which makes sense considering the projects we have and the maturity of these projects.

And I'm very happy to see today that the local capital market is performing longer operations. We see many operations with a longer-term, sometimes equivalent to the duration you would see in TR financing. So, that's a great opportunity. The local market is working with longer duration.

Inflation, well this is not our option. So, local market with the ability to have a longer duration in CDI. So, I like to be exposed to CDI today and I hope that one day in Brazil we can see pre-fixed rates are no longer tagged (00:40:14) to another index. But like Dr. Peres said, inflation and interest rates in Brazil is very good right now and also with potential stability in the future.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you very much, Armando.

Operator

The next question is from Andres Martini (00:40:32) with Citibank.

Thank you for the call. My question is about G&A expense growing year-on-year. A lot of it comes from the stronger Digital Innovation team. What about the strategy? On the one hand, we have this multishopping.com.br, which is a domain soon to be launched. And I assume the strategy of the company would be more in-house. On the other hand, Delivery Center is an outside partner operating in BarraShopping (00:41:16). So, my question is about the strategy.

Is it going to be mostly in-house considering there is a lot of space in the company to do it in-house or are you going to have partners like Delivery Center?

Andres (00:41:34), good morning. Let me tell you something. This thing about Digital Innovation is something crazy. It's crazy to see how fast it works. We have to make fast decisions to be agile, right? Right. That's how it works. So, this is the real world and definitely, we have to interact with many opportunities. Nothing will be done 100% in-house. Naturally, we'll benefit and enjoy opportunities. The number of companies that are born with good ideas, start-up companies, are the companies that provide top-quality services. They bring amazing ideas, and they're very much in line with our thinking process and our strategy vis-à-vis Digital Innovation. We're just not limited to marketplace. It goes beyond that. Like we said, it has to do with how you communicate with consumers, your interaction, convenience, and also how efficient this can make the company in terms of cost reduction and so many other items.

We are working on many projects in-house, and there are many projects that we outsource. Delivery Center in (00:43:09) BarraShopping, for instance, is just one of these examples. We have many others. At the end of the day, what we want to do is not to lose our focus from consumers. We want to know how we can make the shopping center even more attractive, expand hours in terms of being at home, mobile, website, this is our focus. I don't know if you can hear me. Andres (00:43:52), do you hear me?

Yes. I can hear you, Dr. Peres, thank you. I apologize.

A - José Isaac Peres

We started it all six years ago. We have two goals in mind. First, give more power to our retailers. Our goal is not to have an additional gain in the business. What we want is to give our tenants more efficiency and better cater to our consumers' needs. And naturally, within our possibilities, provide more virtual stores. So this is our goal. We firmly believe IT is essential but our business always takes into account the real world all big IT companies to some extent, want to be in the key points of urban centers. Being in the periphery or taking two or three days to be reached is not in anyone's interest. So, if possible, we want to try and deliver everything within one hour. And this is time consuming, investment consuming, but our strategy is to better cater to our customers' needs and also our retailers or tenants' needs, give them better conditions and many of them already have their digital platforms anyway.

So, I just wanted to make it clear that this is not a business that we want just to profit from. If we make profit, it will be great so we can lower costs. But above all, we want to increase 10% to 15% our sales, 15% or 16% which would at the end of the day bring us another one or two shopping centers.

Q - Operator

Great. Thank you, Dr. Peres.

The next question is from Jorel (00:46:21) from Morgan Stanley.

Good morning, everyone. Adding to Martini's (00:46:27) question, my first question is about your long-term strategy. Is your focus to use marketplace as an attempt to bring more services to tenants as a service and you also invest in your Digital team. So, I'm curious to know more about it. Which other technologies or services are you working on in order to better meet your tenants' needs, facial recognition, heat maps, online, loyalty partnerships, what else?

Jorel (00:47:08), good morning. Thank you for your question. All the items you mentioned and many others, a huge number. Like I answered in the previous question, Andres' (00:47:19) question, there are so many start-up companies and new technologies coming up. We keep an eye on several of them, several new technologies. Maybe some of them - well, maybe it's not the right time to do it. It's too early to adopt them right now but others makes sense. Heat map, for instance, we already use it for Wi-Fi signal and to check where we have more access antenna to improve Wi-Fi access and to check people flow. And there are many others, (00:47:55) many other technologies which allow us to better interact with consumers.

Right. We are keeping an eye on many things. Just to give a recent example, if you visited some of our malls in December, you would see a little robot telling stories to children. It was an entertainment event for adults and children alike. Many adults would stop to look at the robot telling stories and answering questions. This is part of a bigger project in order to work on artificial intelligence, to lower expenses, make it easier for consumers. And there are many ways to do it via app, mobile, website. So this is just an example, just the tip of the iceberg. It was a little children show, a robot telling story, but it goes beyond that. Behind that, there is so much more. So the sky is the limit. You need a strategy to focus on with adequate costs allocated to these projects.

Another question, if I may. What about the economic model to these services? Would you charge it from condominium costs or would it be a separate service to tenants? Would you charge it from variable income? What are your thoughts about the financial aspect?

Multiple choices all the alternatives above. That's the right question. That's the right answer. If you think about the cost of the Digital Innovation team, there is an impact. There was a recent question about it by the way. Some things are expensive and it's up to the company to absorb these expenses just as we do with other growth areas. If you want to focus on development area growth or even shopping center revitalization, it's all part of the company's strategy as a whole at a larger scope.

Some costs are absolutely condominium costs. If you add technologies to make it easier to identify customers' Wi-Fi, naturally it has to do with condominium maintenance costs and other items like Dr. Peres mentioned marketplace and support to retailers and tenants. Part of it will be supported by users or beneficiaries of the system. So, we have a little bit of everything. We don't have just a recipe for everything. We have to go on a case-by-case basis, checking opportunities, checking our budget and what we consider to be important and possible as an expense in technology right now.

When we speak of Digital Innovation, we have to consider the company's infrastructure and backbone for growth, so the sky is the limit when it comes to opportunities to invest. Naturally, the company has heavily invested in technology for over 10 years now, nonstop. So, this is important to us. We'll keep on doing that. And it added a lot of efficiency to us over the years. We believe that when it comes to Digital Innovation, not only will we have efficiency, but also improve communication and make our consumers and tenants' lives easier.

Thank you.

The next question is from Renan with Santander.

Q - Renan Manda {BIO 16845063 <GO>}

Good morning, Armando. Good morning, José. My question is about Fnac again. What about negotiations of these areas? Fnac areas are large, and I believe in Q4 there's still be some vacant areas. Correct me, if I'm wrong. So, this vacancy tends to go down even more over the year owing to advance negotiations that you mentioned today. So, particularly, in Morumbi, ParkShopping, there was a higher vacancy rate this quarter. I believe it's owing to the Fnac effect. But rent revenue was slightly above the average from the growth portfolio. So, my question is what about fourth quarter, is there a residual impact from Fnac? So, depending on the case, we can have increasing additional revenue in the future in terms of satellite areas.

A - José Isaac Peres

Renan, José Isaac Peres speaking. Let me try to address your question. As you know, I've been in this sector for 45 years. Naturally, we follow the evolution of society, consumer habits. We follow up a number of things, and it's only natural to see this renovation in terms of habits and traditions (00:53:44), consumer habits. That's why we have stores opening up and others closing. It's something like a creative destruction. Some players are small but they grow, become stronger, following or responding to consumers' desires.

A shopping mall is like a physical body. It fits, it adapts. Think about BarraShopping. It used to have a Sears (00:54:21) store and (00:54:27) store, two big department stores which succumbed to the market evolution so they failed to adapt. We make an effort to always predict what's going to happen. When you think about the number of square meters and when you think about the rent and these stores no longer meet consumers' needs. If we stick to these stores, we lose consumers. So when we innovate, the shopping center grows as a whole. It is revitalized and will give a more positive response to consumers. So this will eventually happen and we have to know how to adapt. So life is like this, constantly going for adaptation. We are very comfortable in our vision of the world, the vision of Brazil. So we look at the forest, we don't focus on the tree alone. So more than 50 years to imagine when the earth will be too small vis-à-vis the universe. I don't know if I answered your question, but these are my comments.

Q - Renan Manda {BIO 16845063 <GO>}

Perfect, thank you.

Operator

The next question is from (00:56:09) with BTG Pactual.

Good morning, Peres. Good morning, Armando. My question is about satellite tenant same-store sales for apparel growth was good over the year. Could you give us more color about this number and what do you expect to see in the future? Thank you.

A - Armando d'Almeida Neto

Armando, speaking. Thank you for your question. First of all, the figures were good, that's it. I think this is the best answer to give. However, we also have a comparison base. If you think about previous years, 2018 for instance, the apparel sector was lagging behind others like food and services last year owing to the World Cup. Consumer electronics and home appliances also were affected.

So, I guess, this is the explanation. It's not a matter of allocating more stores. We're constantly changing, going for new brands, new trends. Dr. Peres told us about Fnac, right? It's an ongoing adaptation process. We have to think about consumer, predict what he will need in the future and not only the current needs and adapt shopping centers accordingly. (00:57:47) Shopping will turn 40 this year. Imagine if it were exactly the same as when it started. The shopping center keeps on growing and keeps on adapting more and more to the new trends.

Q - Operator

Okay. Thank you, Armando.

Thank you. There are no further questions. We'd like to give the floor back to Mr. José Isaac Peres for the final remarks. Mr. Peres, you may begin.

A - José Isaac Peres

I would like to thank you all for your patience to listen to us. I also thank the Multiplan's team for all the efforts in terms of helping us improve our performance despite the critical moments in Brazil. The thing is we evolve in a creative manner. To be honest with you, the income was very good, but I expected it to be higher. I hope next year will be even better. Thank you all.

Operator

Thank you. This concludes today's Multiplan fourth quarter 2018 earnings conference call. You may disconnect your lines at this time.