

Q2 2017 Earnings Call

Company Participants

- Ruy Kameyama, Chief Executive Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BRMALLS' Conference Call. Today with us, we have Mr. Ruy Kameyama, Frederico Villa, and Derek Tang. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After that, there will be a question-and-answer session for analysts and shareholders. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of BRMALLS management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of BRMALLS and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Ruy Kameyama, who will begin the presentation. Mr. Ruy Kameyama, you may begin your conference.

Ruy Kameyama {BIO 16672412 <GO>}

Good morning. Thank you for participating in our second quarter of 2017 conference call. Today we will start with the message from management, followed by a summary of our results. Throughout the presentation, I will refer to our earnings presentation available in our Investor Relations website.

Starting on slide number two, this quarter marks a turning point to a new phase for our company. We are going through important changes that will better prepare us to face the challenges imposed by the current macroeconomic scenario, along with putting us in a better position to seize the opportunities from the economic and retail recovery.

On slide number three, you will find our current quarter management composition. After the CEO succession process in May, BRMALLS went through important changes in its management team, looking to strengthen and recognize the performance of its

employees. The new Chief Officers of Development, Operations and Human Resources are all long time employees with a consistent track record.

The changes in our Board of Directors and management, the new Audit & Risk and Human Resources Committee, the new KPI's to measure our company's performance and our new long-term incentive plan through performance shares, increased employee engagement, strengthened our corporate governance and supported the best interests of our shareholders.

Moving on to slide number four, in May, we concluded a BRL1.7 billion equity offering. This is an important landmark of our company's new phase. Our net debt to last 12 month adjusted EBITDA reduced from 4.2 times last quarter to the current 2.5 times level. After the equity offering, we called our perpetual bonds, a US\$370 million debt that brought volatility to our balance sheet. Our new capital structure benefits our net margin and puts us in a more favorable position to assess new investment opportunities.

On slide number five, we have a summary of the main events of the quarter, along with the main goals going forward. Going forward, we still face a long road full of challenges. We still expect a challenging macroeconomic scenario over the next couple of months. Our vacancy levels keeps us alert. We are strengthening our leasing team in order to improve our relationship with the tenants, increase our occupancy rate and improve our tenant.

We will also focus on the delinquency levels. We expect that by the end of the year, we will have improved our collection and receivables possibly. We are moving forward with our redevelopment projects in order to strengthen our assets. During this quarter, we kickstarted architectural projects which will be executed next year. We will disclose further information about these projects over the next semester.

Our redevelopment plan will increase the long-term attractiveness and appeal of our portfolio to our tenants and consumers, as well as allowing the company to take better and comprehensive advantage of our portfolio's potential.

We will adjust our portfolio by focusing on larger and dominant malls on privileged locations. By shifting our focus to these assets, we expect to build a stronger portfolio in the long-term. We are optimistic with the gradual recovery of the retail factor and believe that the ongoing efforts and initiatives will strengthen the company in the long-term and generate more value to our shareholders, clients and employees.

Moving along with the slide six, we will go over a brief summary of our results. Excluding the effects of divested assets, the Company's total sales increased by 6% in the quarter, the 7.2% increase in sales per square meter is a result of tenant mix improvements. Same-store sales grew by 5.3% and same-store rent grew by 7.5%.

On slide number seven, net late payments had a decrease of 3.2%, compared to the second quarter of last year and 5.7%, compared to first quarter '17, reaching 1.6%. The

7.2% growth in sales per square meter and again when compared to our same-store sales is due to our tenant mix improvements.

On slide number seven we show some of the leasing highlights over the first half of the year. On slide number eight, we disclose our net revenues and adjusted EBITDA. After six consecutive quarters of decrease, we recorded a net revenue BRL324 million in second quarter '17, growth of 1.7% compared to the same period last year excluding the effect of asset sales.

Adjusted EBITDA reached BRL210 million in second quarter this year, a decrease of 8.4% over the result of the same period last year or a reduction of 2.1% when we adjust for the base of comparison due to provisions/reversion of contingencies and excluding the non-recurring effect of BRL8.8 million due to acceleration of expenses with the stock option program from the resignation of our former CEO. There will be no future expenses related to the former executive.

Adjusted EBITDA margin for the quarter was 65% or 68% excluding the non-recurring effects. Moving over to slide number nine, we disclosed an NOI and total sales of our top 15 assets. We highlight the strength and homogeneity of this group of malls, which represented 71% of the company's total NOI and 49% of the total sales.

NOI from 10 of the 15 shopping malls presented growth and 14 of them had an increase in sales. We also highlight the average occupancy rate of 96.6% of the top 15 assets in the portfolio.

On slide number 10, adjusted FFO reached BRL63 million, 7.4% lower than the BRL68.6 million recorded in second quarter last year, with a margin of 19.6%, adjusted for the same base of comparison due to provisions/reversions for contingencies, non-recurring expenses related to the repurchase of our perpetual bond and the acceleration of expenses with the stock options programs of the former CEO. Adjusted FFO was BRL109.6 million, 71% higher than second quarter '16, with a margin of 33.8%.

With this, we conclude our presentation. We will now be available to answer any questions you have.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) This concludes the question-and-answer session. At this time, I would like to turn the call back to Mr. Ruy Kameyama for any closing remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you all for participating in our second quarter of '17 conference call. If you have further questions, please contact (inaudible) at BRMALLS. Have a nice day and thank you.

Operator

Thank you. This does conclude today's presentation. You may disconnect your line at this time, and have a nice day.

FINAL

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