

## Q2 2019 Earnings Call

### Company Participants

- Armando d'Almeida Neto, Executive Vice President Financial and Investor Relations Officer
- Jose Isaac Peres, Chief Executive Office
- Unidentified Speaker

### Other Participants

- Alex Ferraz
- Analyst
- Andre Chaves Mazini
- Gustavo Cambauva
- Luis Stacchini
- Marcelo Motta
- Victor Tapia

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to Multiplan's Second Quarter of 2019 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and Investor Relations Officer; Mr. Marcello Barnes, CIO; Mr. Hans Melchers, IR and Planning Director; and Mr. Franco Carrion, Investor Relations Manager.

We would like to inform you that the presentation to be made today is available for download at [ir.multiplan.com.br](http://ir.multiplan.com.br). (Operator Instructions).

Before proceeding, we would like to mention that forward-looking statements that might be made during this call in relation to the Company's business perspectives, operating and financial targets and projections are beliefs and assumptions of Multiplan's management as well as information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks and uncertainties and assumptions as 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 future results of the Company and may lead to results that differ materially from those expressed in such forward-looking statements. This call will last 60 minutes. After that the Investor Relations area will be available should you still have any doubts.

Now we would like to turn the conference over to Mr. Jose Isaac Peres, CEO, who will start the presentation. Mr. Peres, good morning and you may proceed. Please.

## Jose Isaac Peres {BIO 15388489 <GO>}

Ladies and gentlemen, good morning. It's a great pleasure to be here with you once again during this quarterly conference to present the results of this last quarter. I will be making brief remarks about our operating results and the financial results will be mentioned by Armando. But I would like to mention those which I consider as the most relevant for the Company mainly when we look at the short-term. However, without focus on the long term.

As I said during our last call, my expectation. Where, we had an about acceleration of our sales for this year. And now after the end of the quarter this became a reality. This materialized and last quarter, we grew by 6.6% in our sales with an accelerator, which is very important in many other segments.

It's important to say as well that the newer shopping malls that were delivered between 2012 to 2013 are growing very quickly. And in this quarter the ParkShopping Canoas grew by 28.3%; VillageMall, 13.5%. And here we're talking about the luxury shopping -- Shoppe that we could not imagine that it would grow so fast in this crisis. And JundiaiShopping growing by 13.4% CampoGrande, and Rio de Janeiro in spite of the problems of the city growing by 10.3%. And also I would like to say that in Ribeirao Preto the SantaUrsula Shopping center and the Vila Olimpia shopping center grew. In Ribeirao, SantaUrsula, 15.4%, and VilaOlimpia, 13.2%.

And during this quarter, it is important to highlight the ParkShopping Canoas has grown by 28.3%. I would like to mention that more than sales, we also see an increase in traffic of vehicles which is highly relevant as well and increase in traffic was 6.8% and this is a strong indicator. And when we talk about Uber and the price of parking that you can see that the frequency is higher in spite of all that and this confirms our estimates. Same-store rentals in the quarter the highest in the last five years, a growth of 7.3%. And the NOI 7.3%. Same store rent the highest result achieved in the last five years, and the result as I said before. And I would like to make a parenthesis here and talk about the investment that we made during this quarter that reached BRL 429 million.

It's so far, we have already exceeded by 50% the whole amount invested during the whole of the last year. As I always repeat, first in the country and we continue to invest in even in moments of crisis. And evidence of that is the fact that Multi Plan did not stop investing and started Park Shopping Jacarepagua last year, and where -- during which there were high expectations regarding the political result of the elections. And we must make it very clear that Brazil has always lift crisis. And if you just sit down and cross your arms, if you wait for the crisis to go away nothing will happen. And this is what we have been doing in the last 45 years that is to say going ahead and between 2008 and 2012 appearance of strong crisis in the country when the GDP had an overall growth of 13.8%, we invested BRL3.9 billion.

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During this period and now NL from 2013 to now, a more critical period, and maybe the deeper recession ever lived in this country. In my 50 years of experience as an entrepreneur. I have never seen Brazil going down so deep. And in spite of all that we invested BRL 3.6 billion up to now.

And I would like to tell you a short story here I think it's very important so that you may understand the dynamics of the business in which you are investing. I would like to start with the oldest shopping mall in the Company, which was opened in 1979 the BH Shopping. At the time, the Company had a capital of about \$3 million or \$4 million. And the total cost of this project at the time was \$12 million and of course, we made this with loans that we raised, because we didn't have enough capital. And at the time, our stake was 50%. This was a joint venture, but which of the with (Technical Difficulty) but of course after all the crisis that we had after 1979 culminating with the drop of the GDP of 3% in 1984 and many other stumbling blocks on our path, and the exchange rate, and so on and so forth and changes and transitions, we were forced to sell our stake in order to reduce our borrowings and then we kept 35% and we saw the remainder to a pension fund. And for the first time ever pension funds were starting to invest in shopping-center project.

I'm very proud to say that we were pioneers in this area as well they helped us a lot, to build what we have been able to build. But this explain the trajectory of the Company, I will tell you what happened after that, 40 years later in 2019, we see that BH Shopping is celebrating 40 years of age on September 12th.

Now we have a 100% stake in a shopping center. And what happened with the mall? It cost \$12 million, as I said and today it is \$480 million. That is to say it is 40 times higher. And of course, it also comes from expansions. But like to say that what we have received in terms of income from the shopping center its much more than the investment that we made in expansions.

And now celebrating 40 years, we are totally refurbishing the shopping center to be a new shopping center. So to say with the higher potential, and I would like to say that we confirmed this, because we acquired the remaining 20% that were in the hands of Usiminas an excellent partner of ours, for about 30 some years. So we acquired their stake in Usiminas. And \$480 million that is to say BRL1.8 million. I'm making this comparison the US dollars, because Brazil during all these years had so many different currencies and if we do not have to stick to the dollar then we will get lost in time. So 40 times more than the cost of the shopping. Usiminas had announced their results. And but due to the current policy the pension funds were that's were obliged to sell part of their stake. And these of course as you can understand the first five shopping center that we built BH, Ribeirao Preto, Barra Shopping, Morumbi in Sao Paulo; and Park Shopping in Brasilia. Then - I'm going to talk about our stake only in these five shopping centers it represent BRL 11 billion.

These first five shopping centers. It represents BRL11 billion. These first five shopping centers. So we have been basing our business in the long run on the long run. This is what we have been doing. And we try to invest and innovate more. And more this is very important information to convey to you because this happened in all the five shopping

centers I believe that you do have an evaluation of around BRL 11 billion, BRL 12 billion. And our stake represents about 75% in these malls.

We continue to invest. We're mainly preparing the company for the future. And I would like to mention to you something important because next year, we will be opening, Park Jacarepagua next year. And this mall, as we did in Canoas in Rio Grande do Sul, this is an even more modern than that one that was built one year ago, because we have to adapt to the needs and the consumption habits and on an ongoing basis. And this is rather a strategical Park Shopping Canoas and Park Jacarepagua will be even better. It won an award as the best project in Latin America, in the -- by the International Association of Shopping Centers. And this shows that we are on the right track. We are including nature and a lot of entertainment and commerce.

As this is a new perspective. And it's important to mention the Park Shopping Barigui with a fantastic growth rate. It is located in Curitiba either state of Parana and it will undergo the greatest expansion ever now. And when you join the BRL1 billion club that is to say selling over BRL1 billion and when it was opened it. So BRL200 million and 150 million and 10-12 years later it has already joined the over BRL1 billion club. These are focuses of our attention. And this is when we make advancements, because this shows a demand for services and for shopping, for leisure and for everything that we offer and the return is faster. Another important information and that I consider of the utmost importance that is that we are innovating always consistently innovating. And I would like to mention one investment that we made and bringing a lot of benefit to Village Mall.

We invested in a photovoltaic plant that now produces a 100% of all the energy consumed by the Village Mall and belong to the same company. And the cost of energy for us is much lower. And with that we are able to reduce by 40% the cost of energy to all our tenants, we continue to invest and we expect to continue doing this for all the other modes in order to bring down our operating costs and besides making our malls more environment friendly and now with all the energy is generated on a renewable basis. We continue to believe in the physical or traditional retail and people usually say well you continue to grow in spite of e-commerce, and this is going to put an end to the brick-and-mortar retail. Well this is really our job because our traffic is increasing our sales are going up. And I would like to say that we're going to use technology as a driver to be more efficient for our clients and I will explain what we have been doing in this area in the last five years.

But let us go back a little bit. Technology brought a lot of power into the hands of mankind. But the more power you give men the more they isolate themselves. And right now, or in the last few years, and depression and anxiety are becoming prominent in the last few years because people just stick to their mobile phones and they use their mobile phones a 100% of the time and they drive while using their mobile phones and they talk to their friends via mobile phone and people become more and more isolated.

And on the other hand society is getting older, people are getting lonely and youngsters are getting married later and later in life and this increases loneliness, but technology gives us the impression that we are powerful.

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However, the well men are gregarious I'm talking about Aristotle shared that he said 3,000 years ago. And I'm repeating this we are individuals, we are people. And our highest expectation or the big plus of our business is not the stores or the properties or the real estate. It is the people the people are our biggest assets. Of course, it would be totally useless if we were not able to share all this with people even if you are very wealthy. I usually say that loneliness is very bad, because maybe you have billions and billions, but you'll not share with anybody and this is the way we are, because the shopping malls are meeting point. And this is where families and friends get together. And I'm not going to talk about safety, because this should not be a selling argument, but it is it is one.

Since 1973 when I made this Ibirapuera shopping center and the biggest company was called Veplan. We made a survey in Sao Paulo as Ibirapuera was our first experiment in this regard in 1973. And I commissioned a survey in on Augusta Street that was a very big shopping street to know don't know the level of safety that the tenant had. And I was flabbergasted with the results of the survey because all the stores had already been robbed in 1973 in some of these stores more than once.

So, in fact, the shopping malls are really oasis in their towns in the cities where you find shopping entertainment service leisure. And the most important point is that people go there and they talk and they meet. So we are investing quite a lot in technology and undoubtedly it's going to give the country, as continue to invest in technology and looking abroad as well we'll be giving it a new degree of development of more efficient one.

And I would like to add the following. Taking all this in consideration recently we made an acquisition a stake in the delivery center that already starts to increase sales in Barra Shopping and Morumbi Shopping Vila Olimpia and we expect this service to be rolled out very soon to all to our malls. And no less important there is the Multi super app an extremely new one integrating shopping several services information bringing convenience to our consumers and expanding the showcase, because our objective here when I started to talk about that about six years ago was to put the shopping center in your home. And we will be able to do this and technology advantages and you will be able to go around the shopping center, the same way you would be as you would be there physically. But so far our Multi-app is limited to what the e-commerce has been doing. But it's important to know that very soon in the Multi-app, you will have 20 shopping centers in order for you to buy from the stores or make searches or buy from home and having to delivery guaranteed in one hour time. So it's an additional comfort that we will be giving our consumers. And I remember when we open Barra Shopping.

This was a region that had 40,000 inhabitants. And now I'm going back to 1981 -- no 1979, when we started, we had opened BH but we made five new shopping in five years. It was crazy at the time and everybody said that I was totally bonkers, because we bought regions around the mall. And people said well, what are these guys doing. But anyway the shopping malls that were peripheral so to say they became urban centers since what's happened in Barra Da Tijuca with 500,000 inhabitants we have two moments before then BH building the old BR3 highway and that there is a song about the Br3, either you live or you die in BR3. This is an odd song. But it links Rio de to Belo Horizonte. But we made this mall in this region that was very empty and around the shopping center. You

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see the biggest urban development in the whole of Belo Horizon. And I would like to say that we also generate development Urban development. We employ 80,000 people directly and I'm not talking about the indirect jobs. And we create this in the malls and we and around the malls in Brasilia as well as Park shopping Brasilia which is a major Shopping Center. And what else, okay.

What I would like to say is that for instance, in Jundiai, we urbanized the whole region around the two kilometers of highway and creating a new perspective in Jundiai such as we did in Cannos recently. And now around that there are many real estate projects. By that, I mean that today we receive about 200 million consumers. And the company had not yet have into the whole potential that these 200 million people bring to us. And our net income would have been higher if it were not for the non-cash effect, and you will be able to see the adjustments. But anyway this exceeded the same last quarter last year in spite of everything. And I would like to say that I'm passionate about Brazil.

My country has my confidence. And I have already built in the United States. In Portugal, we built the first shopping center ever in Portugal opened 30 years ago by Minister Mario Soares. He was President at the time in fact. And many of our malls were opened by President ParkShopping by President at with the time. And I would like to say that the importance of this kind of improvement is vital to improve traffic for the cities and removing cars that before parked on the street. And I am not going to mention figures. We made an evaluation considering the market discount rate. And our shopping altogether are mean BRL28 billion they evaluated it. If it were not the huge amount of taxes that we paid our net income would be better. And I believe that the Bolsonaro administration will be bringing down the size of the state. And it is going in the right direction regardless of all the criticism about this administration, because here we judge people by what they do and not by what they say. We had brilliant politicians saying wonderful words, but they were disastrous in their actions.

In Brazil is going towards the new Brazil for the first time ever with a totally liberal trend because freedom is the main element that we have on our lives. Without freedom nothing can exist. Even if you are very wealthy or even if you have everything that you wanted to have in your life. If you don't have freedom this doesn't mean anything. And in the breadth of all this is exactly the same.

So, in Brazil in order to create a company for a small investor waste 5, 6 months sometimes to open a store and a shopping center, the red tape, the bureaucracy at all the levels, municipal, state federal. Sometimes it takes four or five months and this degree of inefficiencies is going to go down with this new Administration Brazil opening itself up to the remainder of the world. And thank you very much and I apologize for my long presentation.

## **Armando d'Almeida Neto**

Thank you, Mr.Peres. Good morning. And I would like to make a few remarks and then open for questions.

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First give you a higher degree of transparency regarding the BRL 7.5 billion that were mentioned by Mr.Peres, was differentiated from 2008, and 2012 are higher new project new shopping centers. And from 2013 on in spite, of the fact that we had new shopping centers Jacarepagua, Canoas, over BRL1 billion, BRL1.1 billion invested. In minority stakes and expansions and this was predominant. And this differentiates the spirit up to 2012 and from the period from 2013 on and continued with the strategy of investing and growing. And we were able to do this and paying interest on equity. For instance in this quarter.

We bought our stake at BH shopping. We paid a BRL129.6 million in interest on equity. And our leverage is 2.52 times. There are well balanced and leaving room for us to continue to invest and grow and tapping into all the opportunities that Mr.Peres has already mentioned.

Another point that is important is the liquidity of MULT3 , which is our share. It have an average financial volume of almost BRL80 million. And last year in July, we split our shares and we tripled the number of trades practically. And the which is relevant in this market. And this important to highlight the appreciation of our share BRL18.7 million in this quarter. And with this appreciation there was an increase in the market cap of the Company of about BRL 2.6 billion.

And of course, as Mr.Peres mentioned vis-a-vis or mark-to-market and the investments and the stock options the best way to see the quarter look at the quarter was to look at the adjusted results, excluding last year. And this year the stock based compensation for comparison purposes only. And my last point is the following Multi-Multiplan is available in the Android, and iOS I would like to make a short commercial here of our super app, and thank you very much for your support. Well, it was launched yesterday.

Okay. Now we would like to open for questions, during which period you will be able to ask questions that clarify any doubt that you might have.

(Question And Answer)

## Operator

The first question is from Mr.Gustavo Cambauva from BTG PACTUAL. You may proceed.

## Gustavo Cambauva {BIO 17329406 <GO>}

Good morning. I have two questions. The first one based on what Mr.Peres said that sales grew more in the more recently opened shopping centers, many of them with two digit growth in sales. And my question is the following, we have been talking about the reduction in discounts for quite a while now. And I believe that most of the discounts were concentrated in these shopping centers that are delivering a better performance, so I would like to hear from you, what is your outlook for the reduction of discount in these shopping centers? And that I believe had higher discount and are performing better. And maybe during this year or next year, maybe we will be seeing a real growth, a stronger real growth in your rental revenue because of your reduction in discount.

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Okay, so my second question has to do with the initiative -- the digital initiative, the Superapp. I know it's too soon to talk about sales expectations. However, could you talk on the tenant side what is their acceptance of this initiative? Many people coming on board with promotions and participating in the app one way or another placing their inventory available in this platform.

And could you talk about the roll-out of this initiative to the other malls or do you have a deadline for that? When will this be rolled out to all -- to your home shopping portfolio? Okay. Thank you.

## Armando d'Almeida Neto

Gustavo, this is Armando. Good morning. What we have been seeing is that the shopping centers that were opened from 2012-2013 on and the ones delivered during this period, the fiscal period and Canoas in 2017 for instance, they took a while more to consolidate. And this is the reason why they delivered the stronger sales performance Jundial, CompoGrande have been delivering good results in some quarters already. And you are correct, because they concentrate most of the discount. And these discounts still exist. Sometimes you can get one reduction here or there, but they still exist. And with this good scenario of sales growth, and it seems well that it will remain -- we're very encouraged with the increase in the market, and of course our sales. So then we will have a way to reduce our discount. Our growth was 2.2% real, which is already very strong at this quarter in spite of the discount that you referred to in this environment of coming prosperity.

And regarding the super app, I would like to take the advantage of the presence of Danielle here. He's in charge of our digital operation. And it led -- very well accepted by tenants. The app as a whole, we established an architecture with a very light integration model and not a lot of efforts needed on their part the heavier integration chain and in which we have total visibility of inventories and other attributes. And regarding the architecture, we already dozens of tenants in the Barra Shopping. And at the same time, all the tenants in the click and collect modules by chat, by WhatsApp. You can say what you want from which store. And then somebody goes to the stores and picks up the product for you. This is an non-moving process. We only know when it start, but we never know when it ends. This is an ongoing improvement method.

Because, you have to do everything at the same time. You negotiate with the tenant and the product -- and this is a two-dimension roll out. Because we open new malls and new features in the app and then we overflow this from one shopping to the other. And some in Bara Shopping, 100 tenants. And with the net overlapping of the stores in this mix from one to another. We have the same tenants some time. And there is a lot of work. And we -- this is the way we grow in the relations as the rollout. We started in Sao Paulo with deliveries and the physical part of the operations, where the deliveries enter. And this is of course natural to shatter the operation.

And at the same time, we are starting the operation. So by the end of next year, we expect most of our malls already working with the app and increasing reverse logistics that has a lot of value to tenants. And the app which you to get it [ph], the app is already



made available to all the Multiplant, shopping centers. But not the market place. The market place has been independent. So at the same time it is available for all shopping centers already. As it expands, we open the market based feature to the shopping centers via app.

**Gustavo Cambauva** {BIO 17329406 <GO>}

Great answer. I still have one more. I know it's very recent however, do you have the number of downloads that you expect? Or are you going to have any stronger marketing initiatives so that people may mobilize themselves and be encourage you download the app? or is it going to be more inside the stores?

**Armando d'Almeida Neto**

We already have a campaign planned and everything will be happening over time?

**Jose Isaac Peres** {BIO 15388489 <GO>}

For the estimates. So we cannot say anything about numbers yet.

We started long ago with 60 points achieved today we have 40 points achieved. But Gustavo, I'm sure that some people would like to -- to ask this. Our target, audience is not somebody that is down slightly place of where we have shopping centers. Our target are the clients that already come to the shopping centers. We already have 200 million people coming in into our shopping centers and we want to increase convenience offered to them, increasing direction increasing convenience and giving a better service to our tenants as well. So this is our target audience. So inside the shopping mall it's even easier to communicate this.

**Gustavo Cambauva** {BIO 17329406 <GO>}

Thank you very much. Perfect.

**Operator**

Mr.Andre Mazini, Citibank.

**Andre Chaves Mazini** {BIO 20818108 <GO>}

Good morning, Mrs.Peres, Eduardo[ph] and the whole bunch of plenty [ph]. I would like to know about the Greenfield. Some previous Greenfield some content[ph] what is -- for example that opened had a growth of course, the 15% in an operation that it can always just 25%. Looking at Jacarepagua well the economy is not as good as it was in 2010-2011 but not as bad as late 2017 which was when Canoas opened. So your strategy for Jacarepagua is it the lower in this regard to having a reasonable increase in your NOI as it matures such as is happening in Canoas or a little bit higher such as Sao Caetano? Maybe you could give us some figures regarding this.

## Jose Isaac Peres {BIO 15388489 <GO>}

Andre, here're Jose Peres. There's something I would like to explain to you. The crisis is not linear, it is not equal in all the places in Brazil. For instance, a region, let's say a region -- a region that is already very well developed and even in a very well developed country if there is a surplus so to say of competition among shopping centers. I would say that in spite of the high development of the country, the shopping centers suffer a lot and you have cannibalization.

Now turning our eyes to Brazil. The per capita income of Brazil is low, okay. But this is not quite so, because when we consider an investment be it in a country or in a city in the location of that specific city, we take into account the fact that the population is consistent, it is expressive [ph], it has a good purchasing power. And if the services that we will be offering there are a lot of people competing with us. In Jacarepagua it has nothing to do with the crisis of Rio. It has about 600,000 inhabitants in Jacarepagua and there is nothing whatsoever. It's like selling a glass of water in the desert. What is the value of that? It's value -- It is worth a lot. And the problem with Jacarepagua is that it is one of the oldest areas or neighborhoods in Rio.. And it was totally forgotten. People forgot about the population of Jacarepagua. However, the people who live in Jacarepagua, they love to live there. So we have a people with very good purchasing power in Jacarepagua, and we will be bringing to this region a new energy so to say. It's like a transformation that we will be carrying out, because the region was stagnant in its development for some time. And then it grew a lot in the last few years.

However, it lacks services. And we are giving them the best shopping center for Jacarepagua. And those who live in Jacarepagua, come a lot to Barra shopping. And you may ask are you going to cannibalize your own shopping center? No, it's not going to happen, such as happened in other cities. And when you compete with yourself, it is easier to do something about it than doing something about your competitors.

So we can coordinate everything here. What is important is that, Multiplan with the package of Jacarepagua -- well, it becomes dominant in the whole West region of Rio, the most populated region in Rio and with the fastest growth rate. And the project is extremely good, and this is why we are so sure about it. Our expectation is to have a new cost higher than Canoas.

Canoas is totally different in terms of interest rates with 13% and now it's half and maybe even lower, so 3.6% GDP in 2016. And this is very different. It does not have the same offerings that Rio De Janerio has for instance. So our expectation is higher.

## Operator

Mr.Tapia from Bradesco BBI.

## Victor Tapia {BIO 20566083 <GO>}

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Good morning, everybody. The first point that I would like to mention regarding Greenfield is the following. We saw that the shopping malls that were opened as of 2012 had a higher acceleration, but when we look at the figures with the consolidated companies, we don't really see this improvement already reflected. And may be the catch-up is lower. So I would like to know the trade-off between Greenfields, Vis-A-Vis stake acquisitions or expansions of already existing shopping centers such as Morumbi, as you mentioned. And another point that I would like to understand, if you can tell us the level of investment in your solar panels and a savings of BRL5 million almost BRL6 million in the first year. What about the pay back of that? And this investment was for a village mall a 100% supply of energy to village mall. But what will be the reduction in the cost of these 40% or a potential increase as the cost of rent? Maybe Multiplan could tap into this investment.

## Unidentified Speaker

Good morning. Let me answer. The only shopping center where we had problems was not really ours. And to Santa Ursula, it was really down the drain and we decided to acquire this, it was very tough work, it is improving quite a lot consistently and it was not a major investment. It was a relatively small investment, but we ended up with two shopping centers in Ribeirao. The Ribeirao Shopping is dominant in this region. And it's not only Ribeirao Preto. We are talking about the neighboring towns and cities, because 2,600,000 million inhabitants in a radius of approximately a 100 kilometers. And the other shopping centers of the company, they all developed quite well. But they were modeled by the company. They were made by the company from scratch. And we believe more in what we create than in acquisitions. And the company is not a big buyer of shopping centers, we are big makers of shopping centers. We have the expertise that dates back from our real estate activities when we made commercial centers or office centers many years ago. And we want to deliver to society what they expect.

But please understand that the first shopping centers that we created, if you look at the growth of the net operating income that comes from them its not exactly what you think, but Armando can offer you the figures because I do not have them by heart. I don't know whether I have answered your question.

As we live the situations to inception, we know how difficult it was to bring to fruition [ph] shopping centers such as Morumbi and Ribeirao and they are very well consolidated. And I see many of your analysis and about acquisitions vis-a-vis development and when you shift the focus to the longer term, the gains opportunities is very good. And that is just told you some examples in shopping center that cost \$12 million and we bought a stake and the valuation is \$480 million.

And you may ask wasn't it too expensive? No, it was not too expensive. It was very good because it's going to sell much more. Because we always keep a long-term view. If you think about the short-term, you don't do anything. You -- we want to have a dominant shopping center in all the regions where we have a footprint, and this makes a very big difference whether your focus is on 1 year, 5 years, 30 years, 40 years such as our case and regarding value creation. So of course, you have to tap into the opportunity of

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acquisitions if they are good, because they are very simple, they do not involve major cost. You already have the structure, you have the physical structure.

And will you asked about the investments in energy if this is inbuilt in the condominium cost. And I would like to answer this saying that this represents already a 25% decrease in the cost of the condominium, the cost of energy, we mean. For the total cost of condominiums, it was not only this action. There were many actions put in place, and we were able to reduce by 25% overall. And our investments was BRL32 million. And we are not talking about the return. This will depend on the policy that we want to put in place, whether we want to keep our discount. Because our focus is to make the shopping center have a better and better performance and the tenant having a better performance, which is a very tough job in this period of transition, in something that you said about the performance of new shopping centers. Well, first things first. First you have to consolidate. And how do you consolidate yourself? And then the rent is a consequence and this comes with time. Okay? Victor, so have I answered your questions, Titos?

**Victor Tapia** {BIO 20566083 <GO>}

Thank you very much.

**Unidentified Speaker**

Thank you.

**Operator**

Mr.Luis Stacchini from Credit Suisse.

**Luis Stacchini** {BIO 18717891 <GO>}

Good morning, ladies and gentlemen, I have two questions. How do you see the appetite on the part of tenants with this change in the Brazilian macro-economic scenario? Do you have more franchisees or are they still getting a better rental conditions? And how do you see it issue a bargaining power on the part of operators? How do you see this shift?

And the second question, I believe you barely talked about that, even with the same store rent growing more than more than same-store sales, the occupancy rate went down. So could you explain the dynamics involved in that, in promotion, budgets? Because in my opinion this initiative on the part of village mall isn't really bearing fruit yet, but have you had any other initiatives that have had already a relevant impact.

**Unidentified Speaker**

Louise, with the advancement of the Social Security Reform, well not concluded yet, we see a better environment and very clearly you see more people, you see a higher flow of people, growth in sale. They are feeling more secured, mainly with a focus of income that we have in our shopping centers. The bargaining power -- I'm not going to answer it

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indirectly, but we have 97.6% rate and the ceiling is very short or low. When you get to [ph] an additional 0.5 point, you no longer have space because you will always have vacancies. And then you have pressure on rents and also in bringing new areas. But bringing new areas is not something that you can do overnight. It takes time in order to plan, to build, to change.

So, I believe that with the improvement in the climate so to say or the environment you have a positive change in terms of the rent. And the occupancy costs that you asked about. For many years, we have been seeking efficiency in our condominium cost and revising the structure and automating whatever is possible, and infrastructure improvement in to the shopping centers. And because of that over time, we have been able to reduce expenses in these areas allowing us to charge a higher rent. So this is the answer.

Because of a higher same store rent then the same-store sales in this quarter. And in spite of that having a drop of 20 basis points in occupancy.

I would like to add to that. Still about BH Shopping. When we opened BH Shopping, our expectation was a return in four years. And inflation at the time was gigantic [ph]. I don't remember, but it was something like 200%. And for the first time ever, I have never met asset and liabilities, but there was abundant financing in Brazil and the cash. Well, nobody had money, Brazil was going to a very deep crisis, and we had to take a loan from Citibank.

And this was the first time ever Citi made a loan to a shopping center. And many U.S. consultants came to Brazil and we were able to convince them based on many factors. If we were to rent over 60% of the shopping center, then it would pay for the financing. And ultimately, it was a 100% leased. But the crisis on the door [ph] was very big because on that year we had two maxi devaluations. One was 30% under the Finet [ph], and the other one 30% six months later. So our financial cost went up to 60%.

And with this kind of scenario, it was a very adverse scenario in the economy. And it had an impact on sales. And it was a peripheral [ph] shopping center, it was located on a highway, and not inside the city. So our expectation that was to have 25% return, BRL3 million on top of BRL12 million dropped to less than half of that. But it went up consistently with adaptations and expansions [ph]. And today and for many years, it has been a highly profitable shopping center. And Usiminas, our last partner in this shopping center. It stayed with us for over 30 years. And foundations have a very important role to play in the development of shopping centers.

And but that was very expensive at the time. So we preferred to sell part of our stake in order to bring down our debt in order to survive. So I want to give you an example. Our focus at the time was that. But as time went by, we started to understand how to play this game in this business. And it was fundamental to make tenant sale and bring satisfaction to customers, so this policy made the shopping grow. Although there were some disadvantages vis-a-vis region in the city and we ultimately transformed the shopping centers as generators of new city around them. So, this is a business in which if you think

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about retiring -- and with the change in the Social Security Reform, and where private received one tenth. We paid the taxes and we received one tenth of what the public sector received. So it seemed that this privilege will come to an end we hope and the forms and the combinations of long-term investment.

Of course, the safest thing is for you to invest your savings in a shopping center. Because center because in prior 30 years' time or 40 years' time, it will be 100 times more. But this is gradual because there are good managers and improving and adapting and improving today is much bigger than it was at the inception. And we are reinventing from the income-generating by the shopping center itself.

Today it's a big payer of rents. And please understand that our focus is not on income. What is important is for the tenants to sell like I mentioned, in Jacarepagua, because income is a consequence of sales. If they sell a lot, we are going to be very profitable. And we are partners, we have a partnership with tenants. If they have -- they are successful, we are successful, and the opposite is true as well. I don't know well, if I have answered your question, but I want to say that I have total confidence on Jacarepagua shopping centers. And we are making urban interventions as well in order -- because traffic in Jacarepagua is chaos and we are going to improve the traffic of Jacarepagua. Not the city administration, this is not a obligation. We are doing much more than we need to do, and we are -- we know that one of the main issues regarding shopping centers is access. And we are located at 1 kilometer of Freguesia, which is the biggest neighborhood in Jacarepagua. A 100,000 inhabitants, so you can walk to the shopping center, okay? This is why we are so confident about the place where there is nothing.

**Luis Stacchini** {BIO 18717891 <GO>}

Thank you very much for your answers.

**Unidentified Speaker**

Thank you.

Thank you.

**Operator**

Mr.Alex Ferraz from ITAU.

**Unidentified Speaker**

Alex, good morning.

**Alex Ferraz** {BIO 19294308 <GO>}

Good morning. I have two questions. The first one has to do what you think about leverage. For quite some time the strategy of the company has been very comfortable

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and always lower than three times in spite of covenants. So structural changes with the Social Security Reform and lower interest rates, would the company be more willing to increase your leverage in the new cycle of Invest, maybe acquiring stakes in shopping centers and financing? -- And you have Golden Lake coming on board, coming on stream. And what could change in this new scenario with this outlook of lower interest rate?

And the second question has to do, when you look at the EBITDA margin of the company, there was some pressure from shopping center costs. And you could increase in delinquency because of the exit of bookstores. Of course, we knew about it. But when -- but we see this growth that is linked to the reinforcement to [ph] mainly in IT. So looking to the next couple of years, do you believe it's going to be 8% to 10% a year rolling out Multi? Or are you going to reach a stability level?

### **Jose Isaac Peres** {BIO 15388489 <GO>}

Good morning. This is Jose Peres. Of course, we are going to take loans when interest rates are quite inviting so to say. And then they are already and we are going to be very happy if they go further down. Of course, we're not just going to buy for the sake of buying a stake. If you take a third-party shopping center and you transform it and make it profitable whatever [ph], of course this requires time. But there are opportunities of shopping centers that already give it a very good income and they are already mature and they are on our radar screen.

We had these first months of the new administration and we see that this administration is on the right track, and doing what must be done regardless of what is said about the President. You have to judge people by what they do and not what by what they say. But we are 100% aligned with what Minister Paulo Guedes has been saying, and it's really music to our ears. And we are very happy about it, and we will be even happier and more encouraged in the future. And tenants are already returning. We already see renewals and we already have demands from abroad, from -- and the market is already better, and it's going to be even better.

Regarding the EBITDA margin, you are correct. We had some one-off effect that we already expected, that we already knew about. As you said, and we also had expenses with Greenfield project. For instance, Jacarepagua, we had a very big TV campaign being aired and many other costs regarding projects and other expansions and other ventures. So we have already talked about that in our fourth quarter call. We said that we were going to accelerate our investment, therefore have a higher investment, higher expenses and of course, there is a bigger impact where you have a Greenfield.

And the more project we have the worse the margin becomes, of course, because they are expenses that are not associated to current revenues. And I would say that you have recurrent and non-recurrent expenses. And in terms of recurrent expenses, we already have a scale regarding this digital renovation so to say. We don't know how much the Superapp will be representing in terms of sales [ph]. Maybe we'll have a big surprise and maybe sales will be much higher and we then would be more people. Maybe, this is one case. But today, the projects are -- well, the Superapp is one of the projects and we have numberless of others in numerous others. So I cannot really see a big change, I cannot do

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the math regarding non-recurrent. Because when you look at some deals, I always say well, there is no silver bullet here. You spend money here and there and sometimes nothing comes. You only have expenses impacting -- and I cannot really foresee anything regarding this.

Alex, we could have a much higher income whenever we wanted, because we have assets that we have never sold. So only in land we have billions and we have millions of square meters around our shopping centers and that are worth 10 times what we paid for them. So, what I mean is that we will reach a moment when we will have additional income. Because in the past we were developers of real estate project. And when inflation rate was very high, we were exchanging 6 by half a dozen in terms of our restructuring of real estate or development. And real estate companies went into debt and at a certain point of time we decided to invest in income, because the asset continues to appreciate. So there is no depreciation and shopping centers and hotels with extremely good locations.

Out of that, all the other real estate depreciates. They have a depreciation rate. However, they depreciate as well. If we consider about 5% of what we have and therefore, you sell them, it's going to be a huge income stream. And we have to look at the fiscal side of that, and there is no restatement of the asset. And the government is now considering the possibility of enacting a law that may allow you to pay something additional and restating the value of your assets. And then you will be able to sell an asset for a much higher than the amount that is in your books.

Today, we have about let's say, BRL6 billion. And it should be BRL16 billion - BRL 17 billion and the shopping is much more than the company, because it doesn't have the charges or the burdens [ph]. So we have room. We have leeway to increase our income anytime. But we don't want to do that, when the difference between the book value and the selling price is much bigger. Because otherwise, we will pay a lot of taxes and this wouldn't be convenient. However, the company has its strategy in place, that is to say to have more and more income, and therefore selling more than the growth of our income.

In the last few years we have not sold anything. We invest in the crisis and of course, this has an impact. But crisis has a good side to it because in prices, the old competitors just cut too hard. Prices is good, because the others just are paralyzed by the crisis. And then you're all by yourself in the market. There is no competition in Rio, nobody is launching anything, nobody is doing anything as well as in many other cities and this is how things happened.

Nevertheless, we are continue doing. I would say that this company will grow much more than we could ever imagine. And the confidence at the economy which is fundamental, and also confidence of the administration. I think all the entrepreneurs are thinking in the same way. And we're going to have a very big leap and our leap at Multiplan will be even bigger than the leap in Brazil.

**Alex Ferraz** {BIO 19294308 <GO>}

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Thank you very much for the answer.

## Operator

Marcelo from JP Morgan.

## Unidentified Speaker

Marcelo, good morning.

## Marcelo Motta {BIO 16438725 <GO>}

Good morning, a very quick question. Take advantage of men present, how do you see conflict of interest between the Delivery Center and the Multi as both have a market place? So how are you thinking about this? How do you see this in the comfort? Company Because now, you have two assets that play the role of a marketplace?

## Unidentified Speaker

That's all?

## Marcelo Motta {BIO 16438725 <GO>}

Yes. Just this question.

## Unidentified Speaker

You have done a lot of by the non-physical shopping centers. If you talk about Barra, you have VillageMall in New York and in the Jacarepagua there will be one. And in fact, they are very similar because they are shopping centers. Because the audiences are different at Jacarepagua, is different from Barra, and so on and go forth.

In moody, we'll have its audience around the shopping center. And the focus is on the location. And around the shopping center the clients have already come to the shopping center. They interact. And the Delivery center app has a focus on its marketplace, it is more encompassing, it's more multi-regional. So it's very valuable for us to have two different channels selling and distributing products from our shopping center.

This is an open platform and it facilitates the integrator, which is in Delivery Center and the fact that it is the open platform and the integrator it has a take rate based on different slices of the pie. That's the logistics, the payments, attenuation the order. And the take rate is based on its participation on the online buying process. The take rates different according to the where it generated but the market was conceived, so that you can have your revenue share based on your participation in the shopping process -- in the buying process.

**Marcelo Motta** {BIO 16438725 <GO>}

Thank you. Very clear.

This is Rhode Island from Morgan Stanley.

## Analyst

Good morning, I have two quick questions. The leasing spreads for new contract and the renovations in the quarter, 9.6% growth in the same-store rents. Is it similar to that? In the report you talk about renewals -- no renovations in Barra Shopping, Barra Shopping Sul. Which other shopping centers you see ready for it being refurbished? And what would be your time line for investment?

## Armando d'Almeida Neto

Good afternoon. This is Armando. You know that the leasing spread is one of the indicators that we do not adopt in the company, because of the diversity that exist in the industry. So each one calculates this differently and we would be talking about very different things at the end of the day. So we do not publish it. What we see is a recovery environment, but not same store rent as high as we had in this quarter. So answer to your question, we do not see new contract with this growth such as the same-store rent, no. In relation to refurbishes, our list is long. Right now, when looking ahead and not this moment.

## Unidentified Speaker

Yes, Mr. Peres said, investments will happen in the brick and mortar and the digital areas. We have to adapt our shopping centers to new realities in consumption and all the things regarding open areas et cetera. So this is all being changed in the list of priorities. Brasilia for instance, already has a more modern project and Park Shopping Barigui could achieve. I could mention each one of them, if you take Barra Shopping after 30 years with the same facade, we are changing this and giving it a modern facade and bringing more visibility.

There is a very positive indirect impact, and we have to please and also surprise our consumers. In our first five shopping centers, the same five best in each one of the cities and each one of the states. Morumbi many times recognized as the best shopping center in Sao Paulo. But this year or BH the best in Belo Horizonte, Ribeirao as the best in the and the Park shopping in the best [ph] in Brasilia. So you must understand that our maintenance policy and the refurbishing of shopping centers -- you cannot think about it like a cow where you just milk the cow, and that's it. No you have to feed the cow and you have to treat it well.

And it's the same making this analogy, and this is live. If you don't treat things or people well, they will not treat you well. So if you don't treat well your equipment so you're not going to have a good return. It's not all about money. You have the subjective side. And sometimes the subjective side is much bigger than the money. We look at people, their

feelings, their behaviors and how to please them. And very often that will bring those income or profit. We made a -- in Canoas we knew that integration with the Green -- the park means expenses, and they're not profit. But this is a new product, because this is what society wanted. They don't want just concrete. They want to have the interaction and integration with nature.

Thank you.

## Operator

And there are no more questions. We would like to turn the floor over back to Mrs. Jose Isaac Peres -- (call ends abruptly).

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