FINAL

Bloomberg Transcript

Q1 2022 Earnings Call

Company Participants

- Cristina Anne Betts, Chief Executive Officer
- Guido Barbosa de Oliveira, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andre Mazini, Analyst
- Bruno Mendonca, Analyst
- Fanny Oreng, Analyst
- Gustavo Cambauva, Analyst
- Marcelo Motta, Analyst
- Unidentified Participant
- Ygor Altero, Analyst

Presentation

Operator

Welcome you to the Iguatemi SA conference call for the First Quarter 2022 Results. With us here today we have Ms. Christina Betts, the company's CEO; and Mr. Guido Oliveira, the CFO and Investor Relations Officer. We would like to inform you that this event is being recorded and has translation into English. All participants will be in listen only mode.

During the company's presentation and showing the company's remarks there will be a question and answer session for participants. This event is also being broadcast live via webcast and may be accessed through Iguatemi's investor relations website at www.ri.iguatemi.com.br where this slide presentation is also available for download, participants may view the slides of their convenience.

Please bear in mind that forward looking statements made here in are based on the beliefs and assumptions of Iguatemi's management and on information currently available to the company. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Iguatemi and cause results to differ materially from those expressed in such forward-looking statements.

We would now like to turn the floor over to Ms. Cristina Betts, who will begin the presentation. You may proceed, ma'am.

Cristina Anne Betts {BIO 16203383 <GO>}

Good morning to all of you and thank you for participating in our first quarter 2022 meeting. I'm going to speak about the year. We began the year with an incredible growth in our portfolio and we had a solid recovery of sales vis-a-vis the period of 2019. We had a strong resumption in terms of the retail market and we are confident that this will be a continuation that we have observed in the first quarter, a recovery and the resumption to normality, the quality of our assets was fundamental for this resumption. And we began the year with Omicron, as I remind you, and we had a very strong impact at the beginning of the year.

We had already reported the results of January and February based on the total sales compared to 2019 and here we're reporting the month of March with a growth of 23% compared to the first quarter of 2019. In April, we have had a further enhancement that March of 2021, the strongest month, of course, is May where we have Mother's Day. This is an excellent ramp up for the beginning of the year and we're quite enthusiastic in terms of 2022 as a whole.

Of course, we tend to say that sales are the crux of our sector and they represent everything that is possible in the company. We had excellent performance of our tenants and they are reflected in our results and in the release that we presented this quarter positively impacted by that increase in sales. Now the growth that we had during the pandemic enabled us to now harvest the results of this resumption. We have observed this resumption and the pickup in sales and almost all of the portfolio categories.

During the pandemic, we spoke about some sectors, for example, luxury, domestic brands and others, but we now look upon the portfolio as a whole, shoes, health, beauty, footwear, all categories performing extremely well when compared to the year 2019. We have a confidence in the retail market in this resumption.

Now, every quarter we have been increasing our occupancy rate, of course, we have ups and downs. But in general, the results has been positive. And the second semester, where we have more exits than people coming in, we will be increasing our occupancy rate compared to the fourth quarter of 2021. What really gives us enthusiasm is our omnichannel strategy, which has proven to be very positive. We're quite enthusiastic with the development of Iguatemi ONE and others.

In March, we acquired 23% of Etiqueta Unica, it is a company that intermediates sale of used luxury items in the country. Now this will enhance our omnichannel strategy, will have a very strong link with Iguatemi 365. And if we think of the journey of our end consumer now going from firsthand to secondhand enables them access for the first time to luxury and access to this luxury market. And in the coming quarters, we will be disseminating how we're going to unfold this partnership in Iguatemi 365. We have a 27% increase of traffic in the first quarter compared to '21. And we maintain the pace of the fourth quarter '21, which is also positive, it has been stronger than the general retail and is important for e-commerce Black Friday and Christmas. We're going to maintain the same GMV levels.

It's important to speak about Iguatemi 365, almost 50% of our gross merchandise volume is outside of the regions where we have the mall. We're bringing in new customers in a recurrent fashion for our new base and for the Iguatemi portfolio. Now, this is important, of course, to sell very significant brands and this will increase traffic and the accessibility of our site. As I mentioned, Iguatemi ONE has had significant growth this year. We have some activities that will be fostering the adherence to our program also connected to Iguatemi 365. We're going to integrate this program and we have some very relevant activities that are taking place in this realm.

In terms of the company reorganization, we concluded the reorganization in November. We do have some pending issues that we will resolve throughout this year. We have ended the last conversion window for the shares. We had a free float shares that were older and they had not been altered yet. We did achieve a significant conversion of shares of IGTI3 [ph] for the Iguatemi Group and ensuing this, we worked with the resumption of our unit liquidity, and we're practically returning to normalcy. Okay.

Another thing that I would like to underscore for the quarter. We have been focusing on having a very important ESG journey. Part of this was done with the company restructuring, and because of the commitments that we have in our new bylaws, and the commitments that we have already installed during this first quarter. We held the first meeting already and we're thinking of carrying out a diagnosis and a more precise treatment to be able to know what to do with the information, know how we stand on each of the pillars and to comply with our commitment as a whole.

Now all of this is a true reason of pride for all of this. We are optimistic with the resumption of the economy. We're fully complying with our commitments and. of course, with the enhancement of our portfolio. We're very enthusiastic with the semester and with the other quarters that will come during the year.

I will now turn to the presentation to refer to some figures. Now, we begin on slide three of the presentation. And this is a slide that we came up with during the pandemic to show you the capacity utilization that we were using because of the schedule restriction. Of course, this is something that is in the past at present. Now, we see that the capacity has increased and reached to 100%. But we do see a sequence of growth in sales that is significant when compared to 2019.

In the second quarter, we will have a significant opening, which of course gives us motivation to continue on. To speak about the results of the second quarter, we had an increase of 77% vis-a-vis 2021 and 14% when compared to 2019. In same-store sales, once again a growth when compared to the first quarter of 2019. Same-store rents growth of 48.7% and same-area rents 34.8%. And in March, we had a record. And once again and a scale up in terms of our sales same-store rent increase of 54.9% vis-a-vis 2019.

This is the quarter when we began to remove the hindrances limiting our capacity in GMV. Gross revenue reached BRL275 million, an increase of 40% over first quarter '21 and 39.3% over the first quarter '19. Net revenue reaching BRL228.4 million and 31.6% over the first quarter of '19. Consolidated EBITDA was BRL147.8 million in the quarter, up by 19.7%, and margin obtaining 64.7%. When we exclude the straight line event that we have spoken about broadly, the consolidated EBITDA stands at BRL148.5 million, up by 107.5% vis-a-vis the first quarter '21 net loss reached BRL16.4 million. We will be speaking about this in greater detail, a drop of 141% versus the first quarter of '21 and 134% vis-a-vis the first quarter of '19. If we exclude the effect of Infracommerce's share price variation, that is part of our cash net income was BRL40.9 million in the first quarter '22, 3% above the first quarter '21.

Funds from operations reached BRL22.3 million, down 71% over the first quarter of '21 and minus 71.9% versus the first quarter of '19. Excluding the Infracommerce, FFO reached BRL79.6 billion. Now the effect is a non-cash effect. And if we look at the cash generation of the company, we should be able to improve the leverage, the Iguatemi stands at 2.76 times net debt over EBITDA, while we speak about Iguatemi, we're speaking of the consolidated company. When we look only at Iguatemi without the part or stake of Jereissati, our leverage reached 2.46 times net debt EBITDA, a drop of 0.14% compared to the first quarter '21.

I have already spoken about the acquisition of Etiqueta Unica, we're quite motivated by this acquisition. And we have ended the second window of the conversion. And last week, the assembly approved the payment of BRL90 million as dividends.

Subsequent events, as I mentioned previously and in terms of our governance. As part of the commitments we took on when we underwent a reconversion, we set up an audit and financial and capital allocation committees that were installed. And in this first quarter of 2022, in April, we have already held the first meeting with both committees regarding the close of the first quarter.

Now to refer to the projects in progress. We have one of organic construction, which is our tower in front of the Galleria Shopping Mall in Campinas. And in truth the first photo is a rendering. The second picture is a partial view and we should inaugurate the works and we will be delivering the building to the new tenant beginning in June.

With this, I would like to give the floor to Guido to speak about the financial results for the company.

Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Hey, good morning, to all of you. We now go on to slide number 10 to speak about the highlights of our main operational indicators and we look at the figures of 2022 compared to '21 and 2019. Now, we show you a reduction of total GLA because of the Florianopolis shopping that was sold in 2019. But in terms of own GLA, the percentage is the same slightly higher vis-a-vis '21 for Esplanada and Iguatemi.

Now, we have a drop of 18, 19 to 16, and we maintain the number of malls. Total sales if we look at the 2019, as we said in the highlights, we reached 15% above 2019. For total sales, our same-store sales stand at 14.6%, same-area sales 14.7% for the quarter. And in March, once again we went beyond the IGPM, that was a crude for the figure we went beyond 3% and 35% for same area rentals compared to 2019. In 2022, everything is above 70%.

Our occupancy cost, if we look at the close of the first quarter stands at 13.8%, somewhat above the first quarter 2019. Thanks to the recovery in terms of rentals and the beginning of the withdrawal of sponsors as we mentioned. And nowadays, we see a recovery of sales, which has enabled us to close this gap even further. In April, we reached 31% on the 22nd April. So the month of April will be much higher than what you see here. This is just a preview. And this is not the main sale of the month.

We're extremely enthusiastic with the sales of May, because of the activations and most of our tenants, of course, are looking forward to the activities of this month and what we deem to be the end of the pandemic. So we're sure that this occupancy cost will return to the average company costs. Already in the second quarter of 2022, our occupancy rate at 92.71 percentage point be below that of 2019. Now this was our floor in terms of occupancy rate. We have had an increase of 2.4 percentage points in occupancy rate. And this is the eighth consecutive month where we have an increase in occupancy rate, but we did have the impact of some tenants leaving immediately after the Christmas holidays. And we believe that this figure will grow the net delinquency rate as mentioned in the previous quarter is somewhat higher because of the seasonal effect of the shopping mall industry where we have four leases instead of three, because of the double rentals paid in December. But once again, we're quite comfortable with this net delinquency rate. And we see that the sales are taking place quite strongly and the trend is for this delinquency rate to continue to drop. Once again, we are quite comfortable with the figures with which we close month after month.

We now go on to slide number 11 to look at the Iguatemi consolidated figures. We end -- once again the comparison is to 2019 and 2021. Net revenue with a growth of 32%, when you compare to 2019-2021. Costs and expenses with a growth of 22%. Now we're going to separate the shopping mall operations from the Iguatemi 365, which is our retail operation. And once again, we do have a drop vis-a-vis 2021, once again because of the retail operation.

If we look only at the shopping mall, we did have a drop in costs and expenses and the trend is for this to drop throughout the year, when compared to 2021 and 2019, EBITDA a 52% over 2019 and 53% compared to 2021. Our EBITDA BRL147 million, once again with changes compared to the first quarter of 2019 and the first quarter of '21. Net income with a drop of 141% when compared to the first quarter of 21% and 134% when compared to 2019. But this is due to the mark-to-market of the investment that we made and we have reached BRL80 million in terms of profit above the first quarter 2021. And the quarter -- the first quarter 2019 where the interest rates tended to be much lower than they are at present, despite the negative impact for the retail part.

In slide number 12, when we look at the conciliation of P&L with and without the straight line effect, we have EBITDA of BRL147 million, once again in comparison to 2019 and 2021, 20.27% when compared to 2019. Adjusted EBITDA compared to BRL23 million [ph] in '21, BRL48 million for 2019. And our FFO of BRL80 million consolidated if we consider the effects of the consolidated figures.

We go on to slide 13 and show you the impact of our financial results, the results of Infracommerce. Now, there is an increase, because of the evolution of Selic, our cash is approximately BRL1.9 billion that was applied at a rate of CDI and all of this comes from the correct application and an increase in the interest rate. And we had a change in the Selic rate as you can observe on the chart.

Now financial expenses as we showed you previously, the average cost of our debt is 19% of CDI. A very comfortable cost when we compare this to our rating, which is a AAA. And this is the cost of the debt on our gross indebtedness for the period. We also show you the effect of the growth in Infracommerce with an impact of BRL86 million. Now had this not happened, we would be negative at BRL39 million.

Let's look at the i-Retail and Iguatemi 365 figures separately on slide number 14. You can see the gross revenue growing 234%, and if we compare this to 2019, well, Iguatemi 365 did not exist, we had a growth of 234%. Net revenue with a growth of 230% There is an enhancement in all of the figures compared to the first quarter of '21, the negative margin of this quarter should improve throughout the year. And we also have a seasonal effect in retail. The sales of BRL1 billion in retail and Iguatemi 365 give us a very good take rate over the sales because of our brands. So there is a drop of margin and a greater growth of revenue compared to margin. And now, this is what we have done in this retail unit.

Now we go on to slide number 15. Iguatemi S.A. Malls, what is important here is the EBITDA margin. And EBITDA margin of 74% compared to the first quarter of '21 and the first quarter of '19 with a 72.5% EBITDA margin. Costs and expenses with the drop of minus 77.6% vis-a-vis the first quarter of '21 and practically 0% compared to the first quarter 19. And if we take into account inflation in the IPCA, we have had a drop that is above 10%. Very good results once again in terms of net revenue with a change of 50% compared to the first quarter '21 and the growth of 27% compared to the first quarter '19.

When we look at our gross revenue for shopping malls compared to the year 2019, because in 2020 we had a lockdown beginning in March, the changes 42.8 percentage points compared to the first quarter '19, management fees 15.3%, parking 1% below last year and parking in general is slightly below what happened in 2019. What is important to show you nevertheless is the increase in parking of 120% above the first quarter 2021.

When we break down the rental revenue and compare this to 2019, the minimum growth for rentals was 44.4% percentage revenues shows you the strength of the sale of our portfolio. As we have mentioned, we have sales that are attaining a record month after month. Thanks to the evolution of the vaccines of the fourth quarter and the sales of April higher than 31%. And of course, in May, we're expecting an even more considerable increase. The other great star of the year is the temporary rentals, that is to say media, kiosks and events are resuming very strongly now. All of the events have returned and the shopping mall is being used broadly for this reason.

If we take a look at our costs. The cost of repairs to shopping malls, rentals and service, when we compare this to the first quarter '21, there is a slight increase when compared to 2019. Now, this drop in the cost comes from the savings that we carried out throughout the year in terms of the shopping mall. We mainly have the savings in terms of the vacant areas and the shopping mall. This of course leads to a decrease in cost and you can observe this in the line item of others, an increase in the parking and personnel costs. We still have the shopping mall closed. So everybody took advantage of the program are to being offered by the government. And this was a cost increase that was welcome for the operation, because this is how the operation worked last year.

Now if we look at our administrative expenses, a drop when compared to the year 2019 and '21 practically in all of the line items, the only one that increases is the share-based compensation. Last year, we added the last tranche of three and beginning in 2022, we will carry out very similar actions. We have three tranches that have been accumulated and we will have costs that are very similar to what you see here in the coming years. So there has been a growth when compared to 2019 and 2021. And this cost will tend to drop.

We are now working with consolidated Iguatemi figures now. In the past, we had a hedge account, which no longer exists. So, because of this, these costs should drop throughout the coming semesters.

We go to our balance and our debt profile. We're showing this in two different ways, Iguatemi S.A. and the shopping malls. Now the shopping malls, the shares were incorporated and now it has become Iguatemi S.A. We show you these two different graphs. Now, when the shopping mall was incorporated into Iguatemi S.A., it was delivered with net results. And we are now at BRL1,443 million [ph] in terms of net debt for Jereissati Participacoes. And we show you that the indebtedness is 2.40 and then the consolidated Iguatemi 2.43. Now, why do we have this difference because the EBITDA of the last 12 months stands at BRL522 million [ph] and otherwise, it is BRL590 million [ph], this difference of almost BRL70 million comes from the hedge count, a cost that existed previously at Jereissati Participacoes until the fuller corporation in 2021.

So here we have three months of non-recurrent quarters. What will happen until the end of the year is that we will have a net debt of BRL1,443 million and EBITDA growing beyond the BRL598 million [ph]. So net debt over EBITDA without the non-recurring expenses for IGTI will be below 2.4 times and you will observe this evolution going up and the EBITDA of IGTI and cash of Iguatemi and shopping malls of IGT ending up very similarly. We have BRL1.6 billion in cash and a very comfortable amortization. In 2023, we have BRL855 million, which will allow us access to the market.

Obviously, we will be going to market for opportunistic acquisitions, based on the average debt of the company. If we look at our debt profile, we end the first quarter with a percentage point above CDI. CDI plus one for our debt and we have 87% of our debt pegged to the CDI. And we're all hoping for a drop in interest rate for the second semester and this should help us to reduce this financial expense part of our debt is (inaudible) represent 13% of our debt, which presently is 6% pre-fixed. Once again a very comfortable debt. Now our remuneration risks are below the CTI and we have the debentures.

Now, with this, I would like to conclude the presentation and open the floor for questions. The entire team is here at your disposal for your questions.

Questions And Answers

Operator

Thank you. We will now go on to the question-and-answer session. (Operator Instructions) The first question comes from Gustavo Cambauva from BTG. You may proceed, Mr. Cambauva. Mr. Cambauva, you may proceed with your question.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

I would like to pose a question. Good morning. And once again we have two questions on our side. The first question refers to the M&A articles that came out with Brookfield that you have given up on acquiring this asset. We would like to know if you can speak more extensively about this, if you have truly given up on this, if you're undergoing some sort of negotiation and what lies behind all of this process.

My second question refers to the results. When we looked at the results released, there is a gap. I would like to understand this further, obviously, it is due to the issue of vacancy. But know if there's something relevant in terms of the lease for new tenants, or the impact of mix or the type of shopping malls, where you are changing your tenants more, once again, same-store rent and same-area rent. Thank you very much.

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Hello, Cambauva, I'll answer the first question. Now to speak about M&A activities. Before we speak about Brookfield or anybody else, it is important to underscore that we have always, always since the beginning and since before the IPO, we have always been -- always open and careful with the capital allocation where company restructuring has allowed us to be prepared to carry out M&As consolidate the market when the time is the right one. Now, this means to have a good economic situation, good interest rate and proper assets. Now, this moment is not like that. We're constantly assessing the market possibilities. And obviously, within the context that I just explained. Now with the context has become exacerbated and it has since the beginning of the year, we have to become ever more conservative. It doesn't mean that the asset that was part of our pipeline is no longer interesting. This is not the right time to make a decision on a balance, stretch or changes in leveraging and everything will depend on the prices that are set forth. Well, Brookfield has already stated that they're withdrawing their offer from the market. But these are difficult moments. We're still interested in working on M&As, but when this entire scenario improves

Cambauva to go to your second question. Yes, we do have a gap of 14 points and it's easy to explain this gap because of the difference of occupancy from 93 points, and for same-area rent and same-store rent. And of course, what we tend to prefer is a positive stretch and the constant lease of our stores we don't lease just for the sake of leasing. Now, we look at our square meters, we measure our portfolios and we have carried out some work in terms of scaling. Now, you will observe catch up in the figures with some of our tenants, the figures should come ever closer and we hope that this will happen during the year.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Well, thank you very much. So same area rent means that you're basing yourselves on the initial lease, not the average lease, if you were to base yourself on the average lease there would be much closer?

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Yes, we do base ourselves on the initial lease and then there is a scale up. This gets closer and closer to the same area rent. And if you look further ahead during the year, you will see that this gap has been closed. Thank you.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you very much and have a good day.

Operator

Our next question is from Pedro (inaudible) from Credit Suisse. You may proceed.

Q - Unidentified Participant

Hey, good morning to all of you. Thank you for taking my question. We do have some questions. If you could give us more color in terms of your lease dynamic, so that you can obtain for occupancy rates until the end of the year? The second question refers to your leverage, because of the more conservative mindset of the company, I would like to know if the levels of leverage that we observe at present are the ones you will maintain and what would be your ideal leverage? And which is the stance of the company in terms of capital allocation?

A - Cristina Anne Betts {BIO 16203383 <GO>}

I will speak about the spread and occupancy. Yes, we're quite motivated and I do believe we have the right stance throughout the last quarter. As Guido mentioned in the last answer, we never filled in vacancies simply out of despair. We have always had that stance of doing the right thing and being cautious.

And the second question of 2021, we had a significant resumption a search for space. And I recall that at that time in the call, we mentioned that, despite the greater demand for space we were still in a very difficult moment for negotiation. We were just coming out of the lockdown, we would begin to negotiate that we were still in the pandemic, the prices were no longer acceptable. So we held back some of our space so that we could have the right price and the right tenants. And this strategy was extremely assertive as we have shown you the sales have been increasing month after month, every month we are faced with a positive result because of the sales. And I believe tenants can also observe is, last year we had a group of people that were desperate that wanted to sign contracts.

We continue to see significant search for space and this dynamic for us is positive. Why? We do make some concessions and same area rent a scale up. But once again, this is something temporary so that we can obtain the right price. As time goes by, we come closer to the price that will perhaps be above our price list. So this doesn't change our commitment of closing the vacant spaces. We're doing what we have always said we would do of having the right mix for each of their shopping malls at the right price. And we continue on our pace for ending the vacant spaces. This is one of the commitments that we have. We have some very interesting tenants coming in.

What is interesting is that we see all types of tenants, fields and categories coming to our negotiation table. And of course, this makes new brands come in, people interested in bringing new brands into Brazil. We had already spoken about this international luxury tenants, we're attempting to expand the assortment and marketing and all of this motivates us because of the pace of sales happening at the shopping malls.

So to respond to your question, the coming months should be very interesting. And once again, we're returning to normalcy after five years of recession and two years of a pandemic, everybody is ready for a completely different period with positive results very well. Guido will speak about the leverage.

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

Now, Pedro, regarding the leverage, we're quite comfortable. We have already invested and we carried out two investments in Infracommerce. One, when we began and another during the IPO and our average price is very good. Our average price is our cost price. And as this is a mark-to-market effect, we see that we're having results. We're making much more than the CDI in this application. And for those who work on our projections, of course, if there is a change in the Infracommerce and all of the cash applications, if something happens with the interest rate, we will have to change those scenarios. But we're quite comfortable with what is happening.

We would never be able to access the market at this price. And the impact of Infracommerce on our figures will have an impact on leverage. If you look at the EBITDA for Iguatemi, it carries with it the previous quarter. So you will see a growth and stabilization. And we're going to get very close to the leverage that we have shown you of 2.4 times. So we're quite comfortable with this present. Thank you. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Bruno Mendonca [ph] for Bradesco BBI. Mr. Mendonca, you may proceed with your question.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Good morning. Have a good day once again. Can you hear me?

A - Cristina Anne Betts {BIO 16203383 <GO>}

Mr. Mendoza, you may proceed with your question if you wish.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Can you hear me? I have opened my microphone.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Yes, we can hear you now, Bruno. You may proceed. Once again, Mr. Mendoza, you may continue on with your question. Don't touch anything, we can hear you.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Well, it's a problem with the operator here. Two questions. First, in terms of your occupancy cost 13.8%. And leases have grown above what was expected. Now, we already saw the consolidated figures above the pre-pandemic historical cause. How have you worked on this and if the higher cost will have a relevant effect? Because the tenant will end up paying more. Now what would be a higher sustainable level higher than the historical level? This is the first question.

The second question about Etiqueta Unica. If you have a strategy to scale up this business line, if there's a way of automating this analysis that catalog your inventory, if because you're working in a more artisanal way. Can we expect there for that the second half business will become something relevant for the company. And if you could speak about your operating strategies to make this happen.

A - Guido Barbosa de Oliveira {BIO 22401686 <GO>}

I will answer the first question to speak about the occupancy cost. Well, we were withdrawing some of the points of the annual reassessment the IGPM, we were doing this by quarter, we began in January, February. And all of this depended on the sale of our tenants. We had already observed very strong sales in the fourth quarter, and we had an average occupancy. If we look at the figures of 2019, were somewhat above 2019, but we're quite comfortable as I mentioned. We see that this figure is returning to the pre-pandemic levels in the coming quarters. The sales are presently above 31%. And these sales were up to April 22, and they should increase further, especially beginning on May 5th. Today, we have the global close of our sales and we do believe the month of May will be much stronger than the past months. And of course, this includes inflation and the transfer of inflation. Unfortunately, we do have higher inflation.

Now, we have looked at all of these costs with occupancy and we're quite calm, most of our tenants are at levels that are lower than 2019. We're going to continue to follow up on this. And we should have a decrease in inflation quarter-after-quarter and we will return to our average price, which is 11%. This while the average sales continue to increase. And we know that the IPCA and others will have a drop throughout the semester. So this accrued transfer will also tend to drop. We're not only speaking about the lease, we have the condominium that has been working for many years in terms of level zero, we try not to transfer the cost of inflation. So imagine a condominium account that has remained at the same level for over five years. So this is herculean work, gigantic work that we will have to carry out to maintain our condominium costs below inflation and not have to transfer them. And of course, transfers have to be done within the levels of legality. And we have done all of this based on an improvement in automation, based on an enhancement in efficiency and much more. And we have not had an increase in our condominium costs. And this enables us to look forward to a very healthy situation for the coming quarters.

We're afraid we're not able to hear what you were saying. Unfortunately, we're going to go on to the answer of the second question by Cristina. And then perhaps if you could send us your question by text, we cannot hear what you were saying. Okay.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Bruna, I'm going to answer the question, I hope you can hear us in Etiqueta Unica well, we're highly motivated. We have a great deal of synergy in terms of our operations. And this week is one of the weeks where we're going to speak about synergy opportunities between the two businesses. But even if we leave synergy aside, this company is advancing on its own energy, for example, the authentication of the products. We have a team that is working not on automating but on accelerating the process. There are people who do this outside of Brazil as well to speed up the entry of some of these products. We do play an important role in Etiqueta Unica, the Iguatemi ecosystem has a great deal of synergy. One end at the end of having new products coming in, people who come to Iguatemi who purchase luxury items and want to recycle what they have in their wardrobes and their closets. These are significant suppliers for Etiqueta Unica. And we also have customers that look at the secondhand market as an opportunity to take part in the luxury market in a more active fashion. And of course, this is cultural in other countries. There are a step ahead vis-a-vis Brazil.

Questions that we hear now and that we heard five years ago, would you buy a used Chanel bag? And the positive response has been impressive. So I believe that the audience at large would -- will add here importantly to the secondhand products, and this is very important. And it's important to have all of this going through the shopping mall when we plugged in Iguatemi 365, ONE retail when we deliver products within our shopping mall, when we create some brick and mortar stores in some places, there's so much we can do. So we're extremely stimulated by all of this. Etiqueta Unica is quite vibrant in terms of our partnership as well. And the sky is the limit here in terms of we can -- what we can do. This is a business that is very close to ours. And we look positively upon the growth of secondhand items, and it's a way of participating in the circular economy. And it will make a huge difference for us to participate in this market. It's a market that we're very fond of and we deeply understand.

Q - Bruno Mendonca {BIO 16313094 <GO>}

Wonderful. Thank you. Thank you and I do apologize for the technical problems.

A - Cristina Anne Betts {BIO 16203383 <GO>}

No worry.

Operator

Our next question comes from Ygor Altero from XP. You may proceed with your question. Mr. Altero, you may proceed with your question.

Q - Ygor Altero {BIO 21419045 <GO>}

Yeah. Good morning. Is everything okay? Can you hear me?

A - Cristina Anne Betts {BIO 16203383 <GO>}

Yes.

Q - Ygor Altero {BIO 21419045 <GO>}

Well, thank you for the presentation. We have two questions on our part. First, regarding the sales dynamic that has been very strong in the quarter and will continue to speed up. I would like to know if this will continue to help you in this collective performance of sales because of the more challenging macro environment that we live in.

The dynamic, of course, to reduce costs and expenses where you did a very good job with efficiency gains during this quarter. So which is your vision in terms of efficiency gains throughout the rest of the year? And which are the initiatives that you have up your sleeve?

A - Cristina Anne Betts {BIO 16203383 <GO>}

I'm going to refer to the sales and Guido will complement the part of efficiency. In terms of sales what is more evident, of course, is the part referring to luxury. We had a change of consumption habits in this market in Brazil. Those who divided their share of wallet between purchasing abroad and purchasing in Brazil, have realized that in Brazil, you can buy the same product at the same price paid in 10 installments with incredibly better prices. Now, this is an incredible change for us. And that is why all of the luxury brands are coming to Brazil to see how they can increase the products in stores and how they can enhance their margins to create loyalty as a day-to-day job. It's not something you do twice a year, if somebody goes to New York twice a year, they will not have loyalty to the brand. This comes from repeated purchases.

So we have begun a new absorption share of wallet process. Now, perhaps what is more thrilling in the part of sales is that we see this behavior of improvement in all categories, and in all shopping malls. The shopping malls for babies or teens, for example, point to a very significant sales, significant results at present. And we have the example of (inaudible) where we began to charge for parking in January. And we did this along with the Omicron variant. But we did not have a reduction in terms of parking flow nor in sales. We even had an increase in sales in those shopping malls.

And to respond to a previous question, a significant movement and consolidation, novelties entering the shopping mall. So what we see is a resumption. Thanks to the elimination of the masks in this quarter. Perhaps this is psychological but the feeling is that the pandemic is over. Of course, we still have COVID problems circulating but simply removing the use of masks and not taking temperature leads to a feeling of informality that is important.

Beginning in April and throughout the year, we're going to see this resumption. This return to normalcy. And it's not only in the luxury market, I think it is somewhat more generalized. We see that all categories are performing very well even those that were suffering have had a significant resumption. This weekend, we're celebrating the figures from Cinema. Now Cinema was one of the sectors deeply impacted by the pandemic. Film producers held back their films. But beginning in the second quarter, we have several blockbuster budgets and this is something that is going to return the same rate, first to hair salons to gyms. And we see that everybody at a slower or faster pace are moving towards a more positive scenario.

When you speak about efficiency, are you referring to the condominium efficiency or is this a different question. I'm speaking about this generally, specifically, for condominiums. Now the work that we carry out includes changes in our chillers and air-conditioning, for example, we have improved the ratio of energy and water and air conditioners, which has allowed our utility account to improve significantly in the last years.

Our utility account compared to what we transfer in terms of inflation and compare to what we transfer to the condominium is quite low and I will explain to you why, because we have had a drop of consumption, due to the change to LED lamps and increase in efficiency. The new air conditioning equipment and with the purchase of wholesale energy in the free market, which allows us to have a very comfortable electrical energy price vis-a-vis what we see in the market.

And we're focusing on renewable energy. We work with hydroelectric plants and we end up not working with the direct cost of energy to consumers. We're working with the free market energy costs. So, last year we had a surplus in terms of our energy purchase and we were able to sell this energy to other condos. We have also had an enhancement in machine efficiency, which means that our expense costs have not increased. We're using digital cameras to enhance our security, keeping down the cost. We also hold reverse auctions for the purchase of products that supply our condominiums and service renders in security, maintenance and cleaning have also undergone these cost per tailing.

So annually, we have been able to reduce the cost of our contracts. For five years, we have not transferred the cost of inflation to our tenants. In the condominium, which enables us to be highly competitive. Now this is the work that we have doing in terms of water treatment. 65% of the water used does not come out of our shopping malls that is water that is re-utilized. Our sewage accounts is also very low. And we have worked strongly on this and in-house. We're fully concentrated on our back office, which allows us to have significant efficiency gains in terms of accounts payable, the procurement area, and of course this offers us significant gains. We're quite calm when it comes to costs and evidently, we are the leaders and negotiations as a shopping mall. In this field, these are all of the factors that we keep into account to maintain our efficiency and not go beyond what we would like to spend.

Operator

Our next question comes from Mr. Andre Mazini from Citibank. Mr. Mazini, you may proceed.

Q - Andre Mazini {BIO 20377100 <GO>}

Can you hear me? Good morning. Cris and Guido, good morning. This is a question that has already been made in the call referring to M&As. Those who sell assets such as Brookfield that others have become more sensitive to these requests for M&A. There has been a slight increase in the assets that have been sold not only in Brazil and abroad. Of course, would it make sense to expect to find lower cost assets or not? This is the first part of the question.

My second question refers to the app that you will launch very soon. And what do you expect to have with is a greater recurrency on your platform data intelligence? Are you going to create a data lake? What is going to improve? Thanks to your app. GMV, and much more. Thank you very much.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Andre, to refer to your first question about M&A and the interest rate. The fact that nothing has happened in the present day scenario is a very clear indication that nobody has reached an agreement. And I think that this is natural at this point in time with very high volatility. Referring to the base scenario at some point in time, we should have greater clarity about the future, and we will be able to think more rationally about the future, about projections, about cap. And we also have our stance, as I mentioned before of having a more conservative look upon the scenario. And those who have good assets are also thinking how difficult it is to allocate a price for their assets.

I think it's not a matter of price, what is happening is in a scenario of uncertainty. And what we should do is wait. It's not a poor ill. We have the players with their stances on what we're lacking perhaps is greater visibility when it comes to the app. Yes, we are somewhat delayed in terms of the app because of technical difficulties during the launch. We're working to ensure that we have a launch this quarter and the app is important for us because it will facilitate the recurrency of purchases.

It will speed up, accelerate the order, the closing of the card will enable us to have a more direct communication with those who have downloaded the app. And in this loyalty churning of repeat purchases, the app, obviously, will be more efficient than working with the website. Now, all of this has to work properly, If it does not work properly, it will cause greater inefficiency.

We want to make sure that all of the kinks have been resolved before we launch the app and we're working on that. Once again, it's all about increasing loyalty and the recurrence of purchases and the efficiency of purchases. We have worked a great deal, we have absorbed some of those things of the website, not all of them, the customer experience, while navigating and this has been enhanced through time, of course. But once again, we're working towards this and we hope to launch this in the second quarter. We're going to begin this new approach with our consumers.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you very much, Cris.

Operator

Our next question comes from Marcelo Motta from J.P. Morgan. You may proceed, Mr. Mota with your question.

Q - Marcelo Motta {BIO 16438725 <GO>}

Hey, good morning to all of you. Can you hear me?

A - Cristina Anne Betts {BIO 16203383 <GO>}

Yes.

Q - Marcelo Motta {BIO 16438725 <GO>}

Two questions on our side. First about discounts. If you still need to reduces this as sales are speeding up, we can imagine that the leases will increase at the same pace. And the second question is about new projects and investments with M&A being postponed perhaps and the situation is much more comfortable than it was a year ago. So we saw the case of Etiqueta Unica and other minor businesses Campinas, for example. Now, where would you like to destine your resources as your leverage falls perhaps you would like to invest more in technology, speed up the Iguatemi 365. I don't know if this will be virtual investments or brick-and-mortar investments.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Good morning, Motta. I will answer the first question on referring to discounts, there has been a significant drop when we compare this with the first quarter of 2021. And if we look at the figures of 2019, we still have the taxes included were somewhat above this. But we still have some discounts that we granted to the new leases due to work or due to grace periods. And we're analyzing all of this. And in a very detailed fashion comparing this with previous occupations before 2019 before the pandemic to see which is the true situation of the tenants. In April we followed up on sales, they were very strong. In March, we aggressively withdrew some of the discounts we had offered in January. And because of the billing that we observe, we have withdrawn even more discounts. So we're looking everywhere and basing ourselves on the recovery a segment that we aided and abetted a great deal was food and nutrition and services, all of these depend on the flow of people coming from the surrounding offices.

And the impact on traffic, we have been decreasing the discount of these categories that were more impacted during the pandemic. Cinema for example and gyms. They took some time in resuming their work. We helped them a great deal, but they have had a recovery this quarter. And at the beginning of the quarter, we had the impact due to

Omicron and people were kept away from their jobs, so the sales in January were lower than that of December. There was a recovery and an improvement up to March. So we will see a withdrawal of discounts and we will return to the discounts that are very similar to what we had with leases. With percentages that existed in the pre-pandemic years, our lease has had a growth of 50%. So the percentage discount will be aligned with what we had in previous years, but nominally it will be higher than in 2019. And nominally it is aligned and this is what we will be migrating to in the coming quarters. We showed you our EBITDA margin in the first quarter and we're going to return to those levels.

Motta, to speak about capital allocation. It's still too early to speak about new projects and much more. We have always said and this continues to be true that we think Greenfield investments are still quite remote. There is something in the pipeline as well as for Brownfield. We have a great deal of efficiency when it comes to working on portfolio before we truly carry out this movement.

Now, when it comes to mixed use, it doesn't consume our capital because we tend to do this through partnerships. We sell fractions of land and we want to continue this way, as there is significant demand in the hinterland Esplanada, Campinas and other shopping malls. It doesn't consume capital, doesn't burn our capital. So our pace of CapEx consumption in terms of technology is quite controlled. As you know, we carry out few developments in house, we tend to purchase what is already made. And we go through the OpEx that we have in P&L and very little is taken from our CapEx. Now in terms of CapEx, we would work on the stores that we have Iguatemi, the Pop-up store that we have in Sao Paulo and other locations. We should be holding a Pop-up store in Brasilia for example. And a brick-and-mortar store of 365 would be very interesting. But we are referring to minor amounts.

In a scenario and I'm thinking of the previous question, we're going to be more conservative in terms of this. We're going to make sure that our leverage decreases because you have seen the weight of a higher leverage for the company. So I think this is time -- a time to be more conservative. And this is precisely what we're doing.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you. Thank you very much.

A - Cristina Anne Betts {BIO 16203383 <GO>}

You're welcome, Motta.

Operator

Our next question comes from Fanny Oreng from Santander Bank. You may proceed, ma'am.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Good morning, Fanny

Operator

You may proceed with your question.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Good morning, Fanny.

Q - Fanny Oreng {BIO 21102709 <GO>}

I do apologize, Cris. Let's continue. We have two questions on our side. The revitalizing of assets if you're planning this and could this take up some capital allocation, would it make sense? 15 [ph] million of shares of the GPA that so far have not been converted. Is there any way of activating this of carrying out the conversion to IGIT? These are my questions. And the performance of Iguatemi Campinas and the Galleria Shopping Mall, and the leases there charging and if there is any reason for this? Thank you very much.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Hello, Fanny, I'm going to speak about the revitalizing. I tend to say to foreign investors when they come and see our shopping malls live and in colors that, well, shopping malls don't get any disease, they don't get any bugs. The shopping mall is so clean that it is incredible, the status of our assets. Well, we always allow them to be up to standards. There is -- we can't say that there is nothing to improve in our assets, we have a clinical vision on this. Every time we carryout budgets, there's not a single budget in the shopping malls that doesn't want to revitalize the bathrooms. Of course, everybody wants to do this. We do have this very critical view of our assets and what to do with them.

So we constantly include these budgets, not necessarily for revitalizing, I would call this more maintenance. Revitalizing means the asset is breaking apart. What we truly do is maintenance and we allow our assets to be permanently updated and this is something we do constantly. It is always part of our budgeting. When we have surpluses, we can do something additional, but there is no extreme makeover in the shopping mall. We do have projects, but they are less frequent extreme makeovers for example.

Now this year, we do have scheduled maintenance, there is room to do something important but nothing that will be extreme. For example, when we created a new wing in the Iguatemi Sao Paulo and additional activities, I would call this extreme makeover because we changed the central square, we changed the corridor, it was a large work.

Now I'm going to respond to the Galleria and Campinas, and we did not hear your question very clearly. Campinas and Galleria, I think that Galleria began with greater suffering, Fanny, and that is why the percentage increase was greater. I don't know if you recall, but somewhat before the pandemic. We had, as I joke a minor hurricane that went through Galleria Shopping, it destroyed some of the stores as this is an open shopping mall. At that time, several people stopped paying, they have to leave. There was a significant change in the Galleria and presently we're recovering this mall. To speak about this the Galleria Shopping is in a very good position.

We're going to inaugurate several new centers in Galleria. That will be very important for the shopping mall.

Now the difference is the comparison base. The Campinas Shopping mall will inaugurate summer-sale [ph] tomorrow. Now this is a quality supermarket. We will have a great deal of festivities surrounding this. The Campinas Shopping mall is at a very important moment, some luxury stores will inaugurate in the second semester. So we see considerable and relevant movement in Campinas.

Now the difference as I mentioned before was the base of comparison. Simply to reinforce this, Galleria also had the entrance of Oba Supermarket at the beginning of 2019. And this became a very significant attraction for the shopping mall. When it comes to the conversion simply to remind you the IG3 shares were incorporated and the minority shareholders when they approved the incorporation were converted. And it was a voluntary conversion, those who did not undergo the conversion. Those who were not evolved our JPS. We have IGTI3 and they could convert or not. We carried out a survey at that time and the compliance with the conversion was above 80%. Now in the first round those who adhere to the conversion were 80%. We maintained this period over until January 30 with an additional 10% of conversion, which means that 90% of the former company JPS has already been converted.

Now, the conversion of IGIT3 represents a BRL100 million, 10% of what was left from JPS. We are serving new conversion periods, we will have to open up a new window of conversion and carryout that work of small ads, once again, work with those who did not want to convert. I imagine that those who remained in IGTI3 because of the loss of liquidity will all be quite willing to undergo the conversion and any new window that will be opened.

We saw this in IG111 a growth of liquidity during the year. All the problems that we saw at the end of the year, I don't know what the share is. And in the last two weeks of the window, we reached more than BRL80 million the figures. Before the restructuring were BRL80 million. We're returning to that figure. And I think we have to work properly to show, which is the right share. And I think the market has learned a lesson.

Q - Fanny Oreng {BIO 21102709 <GO>}

Thank you. Thank you very much. Thank you, Cris, and congratulations for the results.

Operator

Thank you, ladies and gentlemen. As we have no further questions, we will return the floor to Ms. Cristina Betts for the closing remarks. You may proceed, ma'am.

A - Cristina Anne Betts {BIO 16203383 <GO>}

Thank you all for your participation in our results call. As always we are at your entire disposal. Should you have additional doubts and comments are always welcome. The IR team is always at your disposal, as well as myself and Guido. And let's move on to the second quarter that will be very positive. Thank you all. Have a good day.

Operator

The Iguatemi S.A. conference call ends here. We would like to thank all of you for your participation. Have a good day.